

MSDC 4: Note to the Mid Sussex District Plan Examination: Affordability, Calculating Affordable Housing Requirements and Unmet Needs.

January 5th 2017

Introduction and Overview

1. This note summarises the Council's final response on OANs, including the totality of the evidence submitted by the Mid Sussex Developer's Forum. The latter has been mostly concerned with the issue of whether any adjustment to OANs would likely to contribute to improvements in affordability in line with NPPG paragraph 20, and if so the level of adjustment that would be appropriate. It presents the results of the Council's analysis of the likely effect of the affordability uplifts suggested by the Forum and a review of the recent evidence, building on comments made in the earlier submission MSDC3.
2. The Council's overall position on each of these issues is set out below.

Affordability (Annex A)

- **In line with guidance in NPPF paragraph 47 and NPPG paragraph 20 the Council suggests that affordability issues should be addressed at Housing Market Area level.**
- **MCD3 shows that there is no reasonable evidence-based distinction between the market signals analysis in Horsham and Crawley, and that in Mid Sussex. The Council is not able to accept any rational basis for treating like cases in an unlike manner, contrary to normal principles.**
- **The Reading University work (RD20) says that "*it may be difficult or impossible, to achieve affordability targets at sub regional levels*". The Council does not therefore believe that a substantial increase in overall supply in Mid Sussex alone within the HMA is a sound or reasonable way to improve affordability.**
- **The Council suggests that an improvement to affordability would best be achieved through more targeted measures related to issues such as requirements for affordable housing, the type and location of housing supply and density.**

Review of the NLP Affordability Submission (Annex B)

- **None of the approaches suggested by the Developers Forum to justify its preferred 25% uplift to reflect market signals withstands scrutiny.** The Forum has failed to demonstrate a link between increases in supply and improvements to affordability at a local level. It is also inconsistent with the sensible advice in NPPG para 20 which suggests that: *“plan makers should not attempt to estimate the precise impact of an increase in housing supply. Rather they should increase planned supply by an amount that, on reasonable assumptions and consistent with principles of sustainable development, could be expected to improve affordability”*. To assist the Inspector a review of the NLP evidence is contained in Annex B of this note.

The practical reality is that Mid Sussex is a small part of a much wider housing market and prices in the district will be determined by the balance between the supply of and demand for housing in the South East as whole.

Calculation of Affordable Housing Need (Annex C)

- The Council accepts the logic and general principle behind the Forum’s approach to calculating affordable housing need as an alternative method of calculating need. However, it notes that the approach used by the Council is fully compliant with NPPG and has passed examination elsewhere in its HMA at Horsham and Crawley. Currently the Council’s method, using a gross household formation range of 1,055 to 1,218 households per annum, suggests a need of 617-860 dpa while the Forum in their briefing note dated 14th December suggest 1,007 dpa.
- However, if the Forum’s approach is accepted, the Council does not agree with the 10 year’ period of assessment proposed by the Forum and suggests that the calculation should relate to the whole Plan period (whilst still allowing 10 years to clear the housing register (backlog) of housing need. Using the Forum’s approach, but taking the whole plan period for assessment (17 years) produces a need of 846 dpa.
- The Council shares the Forum’s concerns that affordable housing needs should be adequately met. Thus, if the Inspector is minded to accept that the Forum’s method produces a more sound measure of need, the Council is likely to consider addressing this through an appropriate increase in the affordable housing requirement, beyond the 30% proposed in the Submission Plan. This is because in the Submitted Plan a requirement for 30% was judged sufficient to meet need. The Council has evidence (in EP43 to support the viability of up to 40% with the provision of Starter Homes) but has also commissioned its

viability advisers to revisit the issue to ensure that this provision is also valid without the provision of Starter Homes. The Council may therefore propose a minor modification to the affordable housing policy in the light of the Inspectors interim conclusions on OANs.

- In the light of this approach an increase in OAN to reflect affordable housing requirements is not justified.
- In the light of any increases to OANs the Council may also wish to make minor modifications to policies for density and housing mix to maximise the sustainable use of land.

Unmet Need (Annex D and Annex E)

- In relation to review mechanisms the Council suggest that the issues of need in the sub region and in particular the unmet needs of Brighton and Hove can only be met through a proper sub regional planning exercise, which could also consider the role of any long term strategic allocations, it follows that any review of the Plan should follow and reflect this sub regional exercise.
- The Council can only progress such a sub-regional exercise with the support of other authorities in the sub region. The District Council is already working on this as part of the established Coastal West Sussex and Greater Brighton partnership. This is the most fully formed, realistic and viable mechanism for a partnership approach that endeavours to address the unmet housing need of Brighton by investigating and considering options to accommodate this unmet housing need across the sub-region. This is a credible group of Local Planning Authorities that is making rapid progress. The work being prepared by Coastal West Sussex and Greater Brighton aims to provide a clear vision and a robust evidence base, which is delivered through a shared, coherent spatial and investment framework. (See Annex D to this note for further details). The first stage of this work is almost complete and clearly suggests limited links between Mid Sussex and Brighton in terms of the housing market areas.
- The level at which the Council is able to satisfy the unmet needs of neighbours relates to the availability of sustainable short term housing capacity in the form of available and acceptable sites. This is because the obvious supply of such sites is limited to the 800 dpa suggested by the submitted plan (see MSDC 6).
- In reviewing unmet needs, the Council also noted that it is making a substantial allocation at Burgess Hill (which is clearly the area of Mid Sussex most accessible to Brighton) and which may be delivered at a faster rate to meet any pressing needs from Brighton and Hove. However, it notes that developers have recently reduced the delivery trajectory on market – related grounds. (see MSDC2).

Relationship between Unmet Need and DCLG Household Projections (Annex F)

- **Market signals, unmet need and any other adjustments based on current trends are related and part of the same market processes. By definition, an analysis of market signals must refer to what is happening across a defined market (the HMA) and must include a mix of quantitative and qualitative aspects of supply as well as trends in prices and affordability.**
- **At a simple level, rising prices are symptoms are caused by unmet needs in a wider housing market area where demand clearly exceeds supply and other HMA authorities have failed to meet needs. Rising prices may also reflect the state of the wider economy, local growth and rising incomes. Over 75%¹ of Mid Sussex's growth is from in migration into the District.**

¹ EP21 HEDNA Update para 8.13, in the SNPP 2014 migration rises over the plan period so that almost all growth is from migrants by the end of the Plan Period.

Annex A: The Council's Position on Affordability

3. Mid Sussex should be treated consistently with Horsham district given its position in the same HMA. Mid Sussex's own affordability position is better or similar to Horsham's on many indicators as set out in full in MSDC 3. There is no basis on which to distinguish between the two districts.
4. The Council also judges that there is a strong logic to the Horsham Inspector's conclusions. It believes that this logic should be grappled with in the context of this examination.
5. Specifically paragraph 19 of the NPPG says:

"The housing need number suggested by household projections (the starting point) 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. Prices or rents rising faster than the national/local average may well indicate particular market undersupply relative to demand".

6. Paragraph 20 of the NPPG then goes on:

Appropriate comparisons of indicators should be made. This includes comparison with longer term trends (both in absolute levels and rates of change) in the: housing market area; similar demographic and economic areas; and nationally. A worsening trend in any of these indicators will require upward adjustment to planned housing numbers compared to ones based solely on household projections. Volatility in some indicators requires care to be taken: in these cases rolling average comparisons may be helpful to identify persistent changes and trends.

In areas where an upward adjustment is required, plan makers should set this adjustment at a level that is reasonable. The more significant the affordability constraints (as reflected in rising prices and rents, and worsening affordability ratio) and the stronger other indicators of high demand (e.g. the differential between land prices), the larger the improvement in affordability needed and, therefore, the larger the additional supply response should be.

Market signals are affected by a number of economic factors, and plan makers should not attempt to estimate the precise impact of an increase in housing supply. Rather they should increase planned supply by an amount that, on reasonable assumptions and consistent with principles of sustainable development, could be expected to improve affordability, and monitor the response of the market over the plan period.

7. It is both the Council's (and indeed many other Plan Inspectors') view that the reference to 'prices or rents rising faster than the national/local average' is important. Thinking generally, higher prices than in other areas may not necessarily indicate a particular problem but may simply reflect the mix of housing in an area or particular features which are thought desirable such as proximity to transport links, attractive countryside etc. For example, prices in central London are always going to be higher than elsewhere given the value those renting or buying homes attach to a central location – advantages that are inevitably limited to a finite number of properties no matter how adequate the supply of homes is in London as a whole. Similarly both the North West Sussex and Coastal West Sussex housing markets offer similar characteristics, particularly given their access to stations on the Brighton Mainline and other local factors that make Mid Sussex a very desirable place to live.
8. It is accepted that prices rising faster than other areas may indicate a supply problem, but this is not borne out by comparison with neighbouring districts. This is reinforced by the Planning Advisory Service's (PAS) recent technical advice note on Objectively Assessed Needs and Housing Targets²⁵ which advises at paragraph 5.38 that, "*Proportional price change is generally a better indicator than absolute price,....*"
9. The Horsham Inspector appears to have correctly had paragraph 19 of the NPPG in mind when he concluded at paragraph 36 of his report:

"The relative position of house prices in Horsham compared with the HMA and regional and national trends is unchanged; over the period from 1998 to 2007 they have increased by similar percentages in all areas. Since 2007, Horsham house prices have again followed regional and national trends, showing notable price falls to 2009 and relatively flat indicators since. Sales volumes show a similar picture in recent years, with dramatic falls in 2008, from which they have just recovered, somewhat faster than the national average. Price/income ratios in Horsham remain just below the peak levels found in 2007 and until the last 18 months have been little changed. Absolute rises are similar to those in Mid Sussex, although affordability issues in Crawley are not so severe."

"Since 2006/07 completions data in Horsham and across the HMA fell well short of the former South East Plan target, although there has been a marked pick up over the last two years, again reflecting improved market conditions. The initial slow pace of development on major development sites west of Crawley during the recession clearly had a significant impact on these figures. The Council have included a modest upwards adjustment in their OAN figure of 22 dpa to account for affordability pressure in the 25-34 age group, evidenced by substantial growth in private rented sector accommodation and the number of persons in HMOs, even though these indicators are again in line with HMA and national trends. I consider there is no strong case for a significant uplift to account for market signals in Horsham district, which are very

similar to those elsewhere across virtually all of the south east. The Council's modest increase appears appropriate therefore."

10. It is important to note that the analysis should focus on relative, not absolute, under-supply. As discussed above, it is not unusual for planning to under-supply housing demand in particular places; in much of the country and for much of the post-war past planning constraints in particular places have been the norm rather than the exception. But the analytical methods set out in the guidance (see quote from para 19 of the NPPG above) suggests that the demographic projections should be adjusted upwards only if in the base period the constraint was unusually tight compared to other times, to other places, or both.
11. Proportional price change is almost always a better indicator than absolute price, because a comparatively high price may indicate either comparatively high demand (an attractive area, better housing stock) or low supply (possibly due to planning). But if prices in an area are rising faster than elsewhere, this suggests that supply is tightening compared with other places – unless for some reason the market area or parts of the area are becoming more desirable relative to others over time.
12. Although the Council continues to dispute that affordability has significantly worsened and strongly doubts the soundness of relying on limited evidence of an upturn in the last few years (in line with National Trends) the Council has accepted a precautionary need for a modest adjustment in line with the approach at Horsham (to target particular groups).
13. The Council has also taken account of experience elsewhere beyond its immediate HMA. For example, it notes that the Inspector for the Eastleigh Plan concluded in his report of 2015 at paras 40 and 41²:

"Overall, market signals do justify an upward adjustment above the housing need derived from demographic projections only.

It is very difficult to judge the appropriate scale of such an uplift. I consider a cautious approach is reasonable bearing in mind that any practical benefit is likely to be very limited because Eastleigh is only a part of a much larger HMA. Exploration of an uplift of, say, 10% would be compatible with the "modest" pressure of market signals recognised in the SHMA itself."

² Report to Eastleigh Borough Council by Simon Emerson BSc Dip TP MRTPI, 11 February 2015

14. Overall the evidence and principle of treating like cases alike mean that the Council's approach remains correct, and there is no substantive, as opposed to a rhetorical, basis for an uplift beyond the modest one proposed.

Existing Evidence on Market Signals Submitted by the Council

15. The Council has already submitted its own evidence on the affordability issues based on analysis at a local level (including adjacent and nearby authorities) including those within the same Housing Market Area; the position of the respective authorities within it; and the experience of other plans which have been tested within the HMA area. These are set out in successive versions of the HEDNA (refs EP20, EP21 and EP22) which have been produced to match iterations of the Plan or in response to new evidence. These clearly show that in terms of demography, geographic location and scale, the greatest similarities can be found with Horsham district. This evidence is demonstrated in MSDC3 and not repeated here.
16. In its response letter to the Inspector's initial letter of 29 September, (MSDC1), the Council also stated that "*There is also little evidence to suggest that significant increase in housing will improve affordability*". In reaching this conclusion it cited an exercise undertaken by Reading University and published in 2011 (submitted as RD20 in the Examination Library) in the light of the Barker Review of Housing Supply, published back in 2004. The Council's letter also notes the significant increases in supply that would be required even on the most optimistic assumptions as to the effect of any coordinated increase in regional supply. However, if the Reading work is considered in full, it suggests that the position is considerably more challenging and complex. If such evidence is going to be used to justify significant uplifts in housing requirements, then it is important that it is interpreted accurately and in full.
17. Overall, the Reading University paper worked entitled: a long-run model of housing affordability (RD20) importantly concludes on Page 17:

*"A final point to note is that balanced increases in housing supply, i.e. across all regions or groups of regions, are capable of producing an increase in affordability. Although modest unless increases are large and long lasting. **Nevertheless, it may be difficult or impossible, to achieve affordability targets at sub regional levels. This because local authorities may be close substitutes in terms of location for many households, so that increasing construction in a small number of areas generates strong population inflows, offsetting any improvement in affordability. Simulations were conducted in ODPM (2005) where increases in supply in two authorities – Reading and Knowsley were considered. In the former – a wealthy southern town – little improvement in affordability occurred due to migration, whereas deprived, Northern Knowsley experienced few population***

inflows” .

18. Overall the Reading University work does not therefore in any way support a local level uplift to improve affordability.
19. The final Barker report of 2004 proposed the setting of national and regional affordability targets so that the planning system could become more responsive to market signals, generating higher levels of housing supply and reducing price pressures.
20. In practice the targets suggested by Barker have never been imposed and the National Housing and Planning Advice unit set up with a view to the development of such an approach was disbanded in June 2010 by the Coalition Government. The NPPF states at paragraph 17 that Planning should:

“proactively drive and support sustainable economic development to deliver the homes, business and industrial units, infrastructure and thriving local places that the country needs. Every effort should be made objectively to identify and then meet the housing, business and other development needs of an area, and respond positively to wider opportunities for growth. Plans should take account of market signals, such as land prices and housing affordability, and set out a clear strategy for allocating sufficient land which is suitable for development in their area, taking account of the needs of the residential and business communities;”

21. And the NPPG at paragraph 20 states that

“Market signals are affected by a number of economic factors, and plan makers should not attempt to estimate the precise impact of an increase in housing supply. Rather they should increase planned supply by an amount that, on reasonable assumptions and consistent with principles of sustainable development, could be expected to improve affordability, and monitor the response of the market over the plan period”.

22. The work by the University of Reading (RD20), published in 2011, is an attempt to investigate further relationships between supply and prices as well as household formation, inter-regional migration and labour market analysis in the long run at a regional scale. These relationships are undoubtedly complex, as house prices, supply and affordability are affected by a range of ‘exogenous’ factors, certainly beyond the scope of planning including international migration, interest rates and the availability of finance. Furthermore, these relationships cannot easily be observed by experience or normal empirical techniques, since to date, policy of affordability targets has never been attempted and no empirical experience exists. In practice the adjustment process associated with change in any single variable is rather complex. As Reading University (RD20), page 5 puts it:

“In practice the presence of lags, the conjunction of linear, logarithmic and probit [Binary] estimation mean that solutions cannot be derived analytically and have to be obtained by simulation.”

23. The main findings of the exercise in terms of the impact of housing supply on affordability are summarised in section 4.1 (page 15) of the paper (RD20). The critical section is included below in full.

*The model was originally developed to consider the required levels of housing production, necessary to meet **regional** affordability targets. Therefore, the effect of increases in production on affordability is the most basic question for the model. Figure 1a shows the impact of a permanent 50 per cent increase in private housing starts, relative to the baseline. In the base scenario, total starts are approximately 180,000 per annum, so a 50 per cent increase is large and implies a level of net housing additions slightly higher than the previous Labour government’s housing supply target of 240,000 units. For England as a whole, the model implies that affordability might improve by approximately 1.3 points by the final year (compared with a price/earnings ratio of 10.5 in the base).*

*Therefore, arguably, large increases in construction produce modest improvements in affordability and, as suggested in the Introduction, even larger increases are required to bring real price growth to the European average. It should be noted, however, that in contrast to demand shocks where changes to affordability can be large, but temporary, these are permanent changes to affordability. **Nevertheless, construction increases are required to be long-lasting and cannot be used for short-run market stabilisation. These conclusions arise from equation (5), where it is shown that the stock of dwellings rather than the flow of new housing supply is the key determinant. Although the elasticity of prices with respect to the stock is high (-2.0 in most regions), new construction is a small annual contributor to the stock.** Figure 1a also finds that common percentage changes to construction produce differential effects between the regions.*

The improvement to affordability is greater in the southern regions, where supply shortages are greater. Figure 1b repeats the simulation, but limits the increase to 10 years. In this case, the maximum improvement for England as a whole is less than 1 percentage point and the improvement falls away as more household formation is induced.

The regional dispersion of the effects from supply increases are highlighted further in Figure 2. The first frame shows the change in affordability arising from a 50 per cent permanent increase in construction in the southern regions alone. For England as a whole, affordability improves by 0.8 points by the final year. The improvement for the southern regions is approximately 1.2 points, but there is still an improvement in the regions where no increase in construction took place (by 0.5 points). The increase in southern supply induces migration inflows to the south and outflows from the remaining regions, which improves affordability in the

latter. By contrast the second frame shows the same 50 per cent change in the Northern and Midlands regions. In this case, affordability in England improves by a more modest 0.5 points, but by 0.6 points in the Midlands/North and a modest 0.2 points in the South.

A final point to note is that balanced increases in housing supply, i.e. across all regions or groups of regions, are capable to producing an increase in affordability, although modest unless increases are large and long-lasting. **Nevertheless, it may be difficult, or impossible, to achieve affordability targets at sub-regional levels. This is because local authorities, for example, may be close substitutes in terms of location for many households, so that increasing construction in a small number of areas generates strong population inflows, offsetting any improvement in affordability.** Simulations were conducted in ODPM (2005), where increases in supply in two local authorities – Reading and Knowsley were considered. In the former – a wealthy southern town – little improvement in affordability occurred due to migration, whereas deprived, Northern Knowsley experienced few population inflows.

Annex B: Review of the NLP Work of December 2016 submitted 8th December 2016

24. In MSDC3 the Council expressed initial concern about the unprecedented local use of new affordability analysis derived from a combination of work undertaken by the University of Reading, the Barker Review and the Office for Budget Responsibility. Fundamental to this concern was the suggestion that an abstracted simulation model could be used to predict with any accuracy the effects of a change in supply in a local area.

25. The NLP report suggests 7 analyses to seek to justify the Forum's preferred position of an uplift of around 25% for market signals. In the Council's view that the second of these is the only real attempt to demonstrate how supply affects affordability, and that the other approaches rely on more deceptive, or insubstantial explanation or description, based largely on the manipulation of numbers, or historic national analysis of limited relevance to the local scale. In summary the seven approaches (*labelled by the Council as Approaches 1-7*) include:

- **Approach 1:** A claimed MSDC position based on MSDC 1 (NB this is a misrepresentation of the Council's position);
- **Approach 2:** OBR house price forecast plus University of Reading
- **Approach 3:** Barker Review increase
- **Approach 4:** Weighted apportionment of National Needs
- **Approach 5:** Benchmarking stock increases
- **Approach 6:** Benchmarking market signals uplifts
- **Approach 7:** Rate of development (backlog) 'comparators'

26. Common to all the approaches is the use of an *ex ante* estimation or simulation technique model, all of which are inappropriate for short run or local scale analysis and as such cannot be judged to be 'sound' evidence. These are orientated towards retrospectively and rather "conveniently" used to justifying the Forum's Members preference for an OANs of 1000 dpa and the resulting need for a 25% uplift on the base position for this to be achieved (or alternative adjustments such as employment or affordable housing). There is in particular:

- No evidence of original work which led to the Forum's request for 1000 dpa, beyond selective comparisons with other unrelated areas, several of which have not been examined.
- No *ex post* evidence that an increase on this scale or any other colossal increase in single local authority has ever led to improvements in affordability.

- There is no theoretical or empirical basis for Mid Sussex 'going it alone' in addressing a regional scale affordability issue, let alone addressing the issue of sustainability suggested by paragraph 20 of the NPPG.
- In several cases it is not clear why 25% would be effective as the NLP analysis claims a much higher figure may be required to improve affordability. There is no evidence that such a 'gesture', if that is what is suggested, would have any effect in terms of the objective of reducing affordability.

27. Fundamental to all of the latest NLP analyses is the assumption that an increase in housing supply will provide a reduction in house prices in the context of a local area that is only part of larger functional housing market within which neighbouring authorities have significant constraints to meeting housing needs to the extent to which there are potential unmet needs totalling over 37,000 homes over the plan period. The precedent for this is assumed by NLP to be a combination of other mostly National and Regional analysis. These are based on a series of simulation models, none of which provides real evidence in terms of a justified reason to believe, even on a balance of probabilities that small increases in the supply will decrease values in Mid Sussex. In particular:

- The simulations are just that; there is no empirical evidence to show that changes in supply at this scale have led to increases in affordability. Indeed, increases in supply (measured by housing completions) in the past few years have been significantly higher than the long-term average or proposed by the Forum, yet affordability has not obviously improved.
- The analysis is untested and without precedent at this local scale, this Council is not aware of any other use of such an approach, nor is it supported by the NPPG.
- The models are extremely sensitive to input assumptions, it is therefore unreasonable that only a single scenario has been presented and no sensitivity analysis has been undertaken.

28. Additionally an overall weakness of all the approaches is that they assume a responsive market adjustment. That is to say that if overall supply of land for housing is increased through planning mechanisms then land owners and housebuilders will react by acting competitively in terms of increasing housing supply. In practice the structure of the market, the rigidities of the land market and the value expectations of land owners are as likely or more likely to mean that the response is more limited. This is why studies such as Reading and Barker suggest the need for broad regional or national policy changes and suggest that such changes will only occur in the long run. As is well known in economic analysis the 'long run' is not defined as a specific period of time rather it is a time period in which all costs can be varied and in which the market can reach a new equilibrium state. This will take time because of the imperfect competition and oligopolistic tendencies of the housebuilder sector. In housing markets any serious adjustment is likely to require new entrants, the renegotiation of existing land deals and

options and new market entrants. Added to this is the fact that it is changes to the stock of housing that will influence values and annual supply can have only limited effect.

29. However, the main point is that these problems of adjustment will become much more challenging at local level, because, as identified by the Reading study, the scope for market substitution effects is so large. Even if NLP are correct in stating that such increases in supply have got to start somewhere, the context of Mid Sussex, as a small part of a larger and more widely constrained housing market with so much unmet need in its wider area, means that any marginal adjustments within this limited area will have limited or even negligible effect. The use of *ceteris paribus* assumptions or 'all else remaining equal' in all the simulation exercises is a reflection of these complexities in reality. It is also it is acknowledged that the prediction, although usually accurate or logical in expected conditions, can fail or the relation can be abolished by intervening factors. This type of analysis may therefore be acceptable for a national level exercise such as the Barker Review or Reading study, but can never be a reliable a basis for a 'go it alone' small area approach.

30. Overall, the Forum has not proved its case for a 25% uplift to improve affordability through any of the NLP analysis. The Council remains committed to an uplift in line with the approach adopted in Horsham district.

31. Each of the NLP analyses are further reviewed below.

APPROACH 1: Claimed MSDC position

32. The Council has already submitted its own evidence on the affordability issues based on analysis at HMA area, the position of the respective authorities within it, and the experience of other plans which have been tested within the HMA area, especially Horsham which has the greatest similarities. For convenience of presentation this has already been reiterated at Appendix B of MSDC 3. It also notes the findings of the Horsham Inspector in relation to affordability at paragraphs 36 and 37 of his report.

33. The Council also submitted the University of Reading study on affordability, the findings of which are reiterated in Annex A above.

34. MSDC1 makes clear that the 50% increase refers to the South East and not to Mid Sussex acting alone.

APPROACH 2: OBR House Price Forecast and University of Reading approach

35. This represents the most sophisticated and bold attempt to demonstrate the effect of increasing housing supply at a local level. However, once again the issue of scale is also at the heart of one of the most fundamental methodological errors of the NLP approach even within its own logic which is to apply a regional elasticity of -2 from the Reading

Study to a district scale area. If the multiplier has been estimated as regional multiplier, then it must be applied at this scale.

36. Basic economics suggests that the likely multiplier will be lower at smaller scale both reflecting and suggesting that the effects of any increase in supply at a local scale must necessarily be much more limited effect on affordability, if any. This is because it is most likely to be the quantum of additional housing stock within a functional housing market that is most likely to generate any affordability, not the percentage change within a district sub market. The basis of the -2 is that a 2% increase in housing stock will induce a 1% reduction in prices per annum in the long term, (*ceteris paribus* 'all else remaining equal') at regional level. Therefore with approximately 3.7 million households in the South East Region, an increase of 74,000 dwellings per annum would be required to induce a 1% decline in real prices all other factor remaining equal. This may be compared with a national annual completions rate of currently around 140,000 dwellings per annum in England as a whole.
37. Some attempt has been made by others to estimate a local scale multiplier. Regeneris Consulting³ (albeit on a considerably less than satisfactory empirical basis) conclude that:
- "The results support the hypothesis that, other things being equal, increases in the supply of housing are associated with a decrease in house prices at a local level and therefore an improvement in affordability. The results also justify carrying out the analysis at local authority level, given that the resulting elasticity of around -1 is significant and significantly different from the regional elasticity of -2 implied by the analysis carried out by Reading University".*
38. This would imply a lower elasticity than used as a core assumption by NLP (it suggests that a 1% increase in stock might lead to a 1% decrease in house prices, all else remaining equal), although this work and the associated assumptions are acknowledged by NLP, they are not adopted by NLP because the analysis is on a claimed 'cautious' basis.
39. In practice and beyond the ideal conditions of an un-evidenced simulation model, real market behaviour and responses will vary between different kinds of area, or between different phases or states of the market or the extent of in migration that may be induced. In general as Mid Sussex is surrounded by authorities which have been judged to have constraints through Local Plan Examinations and with large unmet needs, the level of substitution is likely to be very high. In simple terms as Mid Sussex increases its housing supply it is judged more likely that the effect will be to induce substantial in-migration, to

³ Why supply matters: the elasticity of house prices at a local level. A Report by Regeneris Consulting, January 2016

the extent that this will offset any price benefits, thus the elasticity is actually considered, on an objective basis, to be extremely low.

40. Given the HMA context of Mid Sussex, a lower elasticity of significantly less than 1 and possibly close to 0 would be more appropriate, given the constraints of surrounding districts and the unprecedented scale of unmet need. As the effect reduces the scope for intervening factors, such as market rigidities wipe out the claimed simulated change.
41. Having reassembled the NLP model, the Council also notes the sensitivities to different reasonable input assumptions. Box A below illustrates the effects of using more local assumptions derived from the recent Oxford Economics forecasts (EP36a) for the District. It suggests that a much lower level of growth in housing could have a more significant effect – potentially 800-854dpa would improve affordability compared to 2014 levels. This is considered to show the weaknesses of the model rather than provide a realistic scenario.
42. Overall the Council's position is that it doubts that any increases in overall supply would be likely to induce any overall effect on affordability. Supply is a blunt tool in such a small area which sits within a larger wider HMA and Regional Housing Market. The Council considers that to address affordability concerns expressed by the Forum, it may be better to review the proportion of affordable housing that is required (the house price scenario suggested by NLP suggests that this may be viable), or strengthening policy to require a higher proportion of more affordable smaller housing units, or increasing densities and encouraging more flatted units to meet local rather than in commuter needs. However, it will also consider this in the light of the Government's starter homes policy.
43. In spite of the courageous efforts made by NLP to support the Forum's position, the use of results from the NLP methodology as constituted cannot be justified. The current approach is plainly not grounded in up to date or adequate evidence required by para. 158 of the NPPF.
44. As with the recent errors made by the Bank of England in anticipating the effects of the BREXIT vote, markets are much more placid and less sensitive than economic simulation models often suggest. Typically it is only major exogenous shocks such as the sub prime mortgage and banking crisis which will engender real house price change. In the short term with inflation on the horizon, increases in interest rates are most likely to dampen any recent price increases and areas such as Central London area already showing the beginnings of a downturn.

45. Even if a proper model of affordability could be devised and appropriate assumptions could be determined, the unique nature of the analysis at this scale, the approach at the very least needs proper validation and peer review before it can be accepted as sound evidence in any way.

BOX A: SENSITIVITY ANALYSIS OF THE NLP AFFORDABILITY MODEL

Overview of NLP Affordability Model

- I. The 'NLP Affordability Model' is presented in ED8 (page 17).
- II. NLP argue that, in order to show that affordability has improved, the affordability ratio (lower quartile house prices to earnings) for the end year of the plan should be at least equal to the ratio at the beginning of the plan period. Their model is based on the period 2015-2031.
- III. The model uses national level predicted growth rates in house prices and earnings, based on OBR national level forecasts (2014-based).
- IV. The model provided aims to predict future affordability ratios using the above data, accounting for any increase in supply above baseline. It uses an elasticity ratio to predict how an increase in wages will affect house prices.

Assumptions

- V. For the purposes of this sensitivity exercise, it is assumed that the model produced by NLP is an accurate tool for predicting affordability ratios into the future. This is itself questioned as set out above in Annex B of MSDC 4, however on the basis that the approach is sound, there are further questions regarding the validity of the inputs used by NLP.
- VI. NLP make assumptions using the OBR report, produced at a national level. They also use the Reading study to justify an elasticity rate of -2 (i.e. a 1% increase in supply leads to a 2% fall in house prices).
- VII. NLP's interpretation of the OBR modelling presents the base case of 2.2% income growth and housing supply at 1% per annum equalling a 3.3% house price growth. As the model includes an inherent 1% growth in housing supply, it is argued by NLP that only additional housing in excess of the 1% growth already accounted for in the model will contribute towards any reduction in this house price growth.
- VIII. In other words, the OBR model already assumes 661dpa (1% growth per annum) as part of the house price forecast, and therefore only additional growth in housing above this will affect the affordability ratio further.
- IX. The OBR data, of course, is at a national level only and therefore is not directly applicable to Mid Sussex. However, the Oxford Economics data (EP36a) within the evidence base also includes forecasts for earnings and house prices at a Mid Sussex level. It is therefore felt that this provides more realistic local inputs to the model. Future growth in earnings is predicted to be (on average) 2.7%pa, with future house price growth predicted to be 4.3%pa. These are within a similar ballpark to the NLP (OBR) figures.
- X. However, the Oxford Economics data does not have the same 'inherent growth' in housing supply that would affect the figures. Instead, Oxford Economics base their assumptions on population growth. For the plan period, there is an average annual increase of 0.5%pa in population – it is therefore this figure that is 'inherent' in the model. As this point is not clear in the Oxford methodology, a further model excluding the 'inherent growth' has been run to assess the impact.
- XI. Although an elasticity rate of -2 is questionable, and it is likely to be closer to 0 (which is less helpful to the Council within the scope of this model but does mean affordability will never be solved by housebuilding...) it has been held constant at this value for the purposes of this model and its conclusions.

XII. Differing assumptions between the two parties can be summarised as:

Input	NLP		Mid Sussex	
	Source	Input	Source	Input
Earnings Rate of Increase	OBR 2014 Forecast (1)	2.2%	Oxford Economics Forecast (Nov 2016) (3), (4)	2.7%
	OBR 2016 Forecast (2)	3.5%		
Housing Price Rate of Increase	OBR 2014 Forecast (1)	3.3%	Oxford Economics Forecast (Nov 2016) (3), (4)	4.3%
	OBR 2016 Forecast (2)	4.4%		
Impact Inherent in Model (Implicit Growth)	OBR 2014 Forecast (1)	1%	Oxford Economics Forecast (Nov 2016) (3)	0.5%
	OBR 2016 Forecast (2)	1%		
Elasticity Rate	University of Reading Study	-2	University of Reading Study	-2

Results

	Inputs	DPA	% Uplift on 730	2015 Ratio	2031 Ratio	Affordability Change
NLP	(1) OBR2014	800	9.6%	12.59	14.08	-1.149
	(2) OBR2016	1,070	46%	12.59	12.59	0
	(1) OBR2014	800	9.6%	12.59	12.85	0.26
	(2) OBR2016	918	26%	12.59	12.59	0
MSDC	(3) Oxford Economics	800	9.6%	12.59	12.88	0.29
	(3) Oxford Economics	854	16.9%	12.59	12.59	0
	(4) Oxford Economics	800	9.6%	12.59	11.01	1.58

The Sensitivity Analysis Suggests that using the NLP affordability model, but localised inputs from the Oxford Economic forecasts as opposed to the OBR national forecasts, a housing provision of 854dpa will improve affordability.

APPROACH 3: Barker Review Approach

46. This approach by NLP applies the national assumptions from the Barker Review about the scale of additional houses needed in England to Mid Sussex alone.
47. The now rather historic Barker Review published in 2004 did set out scenarios for the level of housebuilding required at **a macro level** in order to reduce the long term real price trend from 2.4% per annum to various alternative levels. The key suggested findings from the modelling included:
- Every year 70,000 additional private sector houses were required in England to reduce the trend in real house prices to 1.8% and 120,000 a year would be required to reduce this level to 1.1% pa (the EU average).
 - Overall 200,000 pa extra houses would have then been required for real house price growth to be zero.
48. The Barker findings were never empirically tested as no macro level policy measure was introduced which would enable such significant levels of housing growth, nor has it been since.
49. The intention of the Barker findings were that the proportions of uplift they would have been applied nationally. Current policy does not recommend such an approach. The Barker analysis does not suggest that such measures can be introduced by a single authority adopting such an approach. The approach is also not grounded in up to date or adequate evidence (as is required by para. 158 of the NPPF)

APPROACH 4: Weighted apportionment of national needs

50. This is similar to the Barker approach above. It is essentially an attempt by NLP to reintroduce a localised version of the Regional Spatial Strategy target type approach advocated by the former National Housing and Planning Advice Unit (NHPAU), which was established in 2007 and abolished in 2010. It relies in part on an agreed national need. For example, NHPAU suggested that England needed to build 240,000 homes a year and these numbers were promoted through Regional Spatial Strategy. Housebuilding levels generally fell under this regime with just 123,000 homes completed

nationally in NHPAU's final year of operation.

51. Once again, current policy does not recommend such an approach. The approach is also not grounded in up to date or adequate evidence (as is required by para. 158 of the NPPF)

APPROACH 5: Benchmarking Stock Increases

52. This rather contextual approach relies on averages derived from a highly selective range of areas, many of which are simply not relevant or comparable:

- Several are former areas designated for growth and this is reflected in recent trends, Mid Sussex was not (although has increasingly received overspill from surrounding authorities see Annex D and E)
- Several received substantial new infrastructures Mid Sussex did not.

53. The analysis conveniently avoids other authorities particularly in the same region and Housing Market Area (Arun, Crawley, Chichester, Horsham in particular).

54. There is no proper analysis of the relevance of these areas or why such benchmarking is relevant. All are also ex ante – there is no evidence that any of these changes has led to improvements in affordability. Such benchmarking is considered by the Council to be of limited relevance beyond the HMA.

APPROACH 6: Benchmarking Market Signals

55. The Forum (and representations made by others) also provide examples of percentage uplifts applied elsewhere in the country to address market signals. These generally range between 10-25% dependant on the perceived levels of affordability pressure. Notably those areas with low or zero uplift for market signals are excluded from this assessment, many which have the benefit of being found 'sound' through examination.

56. Direct comparisons between Mid Sussex and the '10-25%' authorities cannot be made as there are too many factors affecting affordability which may not be similar; or by virtue of their location and authority size comparisons would not be on an equal basis. However, It is the Councils view that direct comparisons can be made with three authority areas:

- Crawley, as an immediate neighbour within the same Housing Market Area;
- Horsham, as an immediate neighbour within the same Housing Market Area, similar in spatial and demographic scale: and

- Arun, within the South-East region and using the same methodology as Mid Sussex.

57. All three authorities additionally share an identical methodology with respect to market signals. Both Horsham and Crawley have been found sound and are now adopted, and Arun has been examined with the Inspector's initial conclusions on Objectively Assessed Need published. A full summary analysis of these valid comparators is provided in Appendix B to MSDC3.

APPROACH 7: Rate of Development (Backlog) Comparators

58. This approach is not really about affordability, rather about delivery relative to the former South East Plan, although as a general principle the implied conflation of any unmet needs with market signals is probably correct.

59. In addition to sharing many of the issues of other approaches, the weakness of this approach is set out in the answer to the Inspectors question 7 of MSDC 2. This sets out our concerns about the use of measurements against a plan figure that was not based on a similar need basis and reflected a rather crude attempt to redistribute strategic growth from elsewhere in the South East. As set out in MSDC 2 the South East Plan numbers were also based on assumptions about the level of growth that was possible in East Grinstead that were never realised or possible.

60. Fundamentally evidence that past delivery was or was not in line in line with local targets derived from a strategic redistribution exercise does not demonstrate that in that past that demand or need in the housing market area was not or was met.

61. Once again the approach is also not grounded in up to date or adequate evidence (as is required by para. 158 of the NPPF).

Annex C: Calculation of Affordable Housing Need

62. The Council accepts the logic and general principle behind the Forum's approach to calculating affordable housing need as an alternative method of calculating need. However, it notes that the approach used by the Council is fully compliant with NPPG and has passed examination elsewhere in its HMA at Horsham and Crawley. Currently the Council's method, using a gross household formation range of 1,055 to 1,218 households per annum, suggests a need of 617-860 dpa while the Forum in their briefing note dated 14th December suggest 1,007 dpa.
63. However, if the Forum's approach is accepted, the Council does not agree with the 10 year' period of assessment proposed by the Forum and suggests that the calculation should relate to the whole Plan period (whilst still allowing 10 years to clear the housing register (backlog) of housing need. Using the Forum's approach, but taking the whole plan period for assessment (17 years) produces a need of 846 dpa. (Table 3 below)
64. The Council shares the Forum's concerns that affordable housing needs should be adequately met. Thus, if the Inspector is minded to accept that the Forum's method produces a sounder measure of need, the Council is likely to wish to address this through an appropriate increase in the affordable housing requirement, beyond the 30% proposed in the Submission Plan. This is because in the Submitted Plan a requirement for 30% was judged sufficient to meet need. The Council has evidence (in EP43 to support the viability of up to 40% with the provision of Starter Homes) but has also commissioned its viability advisers to revisit the issue to ensure that this assessment is valid without the provision of Starter Homes. The Council may therefore propose a minor modification to the affordable housing policy in the light of the Inspectors interim conclusions on OANs. Table 3 shows the effect of a 35% approach based on a 17 year plan period assessment.
65. In the light of this approach an increase in OAN to reflect affordable housing requirements is not considered justified.
66. In the light of any increases to OANs the Council may also wish to make minor modifications to policies related to density and housing mix to maximise the sustainable use of land.
67. Tables from the NLP submission are reproduced below, with additional columns showing the Council's position in Table 3.

Table 1: Arriving at a net affordable housing need figure.

Component	Description / Calculation	Number (10yr Total)	Number (dpa)
Stage 1: Current Housing Need			
Total <u>current</u> affordable housing need	Existing households currently on the waiting list and in a 'Reasonable Preference Group'	330	33
Stage 2: Future Affordable Housing Need			
Newly arising ('future') affordable housing need	Newly forming households (gross) of 1,055p.a. of which 44.2% cannot afford to buy or rent on the open market. (1,055 x 0.442 = 446p.a.) plus Existing households falling into need each year (105p.a.) equals Newly arising ('future') affordable housing need: 571dpa	5,710	571
Stage 3: Affordable Housing Supply			
Total re-supply from existing affordable homes	Annual estimate of net social re-lets from existing stock (252p.a.) plus Annual estimate of net re-supply from existing intermediate housing stock (26p.a.) equals Total re-supply from existing affordable homes: 278dpa.	2,780	278
Committed supply of future new affordable homes	Affordable homes with planning permission, but yet to be built (i.e. in the development supply pipeline)	1,405	141
Net affordable housing need (Stage 1 plus Stage 2 minus Stage 3)			
Net affordable housing need (i.e. the 'still to find' affordable housing supply)	Total current affordable housing need (33dpa) plus (+) Newly arising ('future') affordable housing need (571dpa) minus (-) Total re-supply from existing affordable homes (278pda) minus (-) Committed supply of future new affordable homes (141dpa) equals (=) Net Affordable Housing Need (185dpa)	1,850	185
Housing required to deliver net affordable housing need	Assuming 30% of all housing is delivered as affordable, to achieve 185dpa net affordable need, would necessitate delivery of 617dpa homes (185 ÷ 0.3 = 617dpa)	6,170	617

68. Table 2: What the Council had done originally

Component	Comparison of <u>net</u> affordable housing need against <u>total</u> planned requirement (i.e. all housing to be delivered over period)	Number (10yr Total)	Number (dpa)
<u>Total</u> affordable housing delivered by 800dpa	800dpa planned requirement is more than 617dpa (it is 130% of 617dpa) and therefore <u>net</u> affordable housing needs can be met by <u>total</u> housing supply. Council concluded it could meet all of its 'core need' as 800dpa would deliver 240 affordable houses dpa (which is above 185dpa)	2,400	240

69. Table 3: Using the Developer Forum Method: the Council's position is represented by the final two columns. The final column models an increase in requirements to 35% and a plan period assessment period. This shows how this could allow higher estimates of need could be met.

Component	Comparison of <u>net</u> affordable housing need against <u>net</u> planned requirement (i.e. the still to find total housing supply). The 185p.a. net affordable housing need cannot be set against housing commitments as they are already accounted for.	Number (10yr Total)	Number (dpa)	Number (17yr Total) – 30%	Number (17yr Total) – 35%
Total housing delivered by 800dpa	8,000 dwellings over ten years	8,000	800	13,600	13,600
Of which already committed housing supply	c.3,900 dwellings with planning permission	3,900	390	229 (3,900/17)	229
Of which (already committed housing supply) is already committed <u>affordable</u> housing supply	The c.3,900 dwellings commitments ('pipeline supply') is what produces the 1,405 committed affordable housing supply included in the 'need' calculation.	1,405	141	83 (1,405/17)	83
Net housing available to deliver the <u>net</u> affordable housing need (i.e. residual housing supply once commitments are netted off)	8,000 total delivery minus 3,900 commitments equals only 4,100 units left (over a ten-year period) to provide for the 185dpa affordable housing net need. 185dpa net AH need x 10 years = 1,850 which is 45% of 4,100 remaining available (well in excess of 30% likely delivery, which means the 8,000 total would not be sufficient to meet it all).	4,100	410	570 (13,600 – 3,900 /17)	570
Total housing required to deliver the 185dpa <u>net</u> affordable housing need	Net housing required to deliver <u>net</u> affordable housing need per annum (617dpa) plus Committed housing required to deliver <u>committed</u> affordable housing (390p.a.) equals Total housing required to deliver <u>total</u> affordable housing needs = 1,007dpa In concluding on FOAN, an uplift to the current 800dpa would be required to address this need.	10,070	1,007	846 (185x3.33 3 +229)	757 (185x2.85 7 + 229)

Annex C: Addressing Unmet Need and the Coastal West Sussex and Greater Brighton Strategic Planning Board (SPB)

Overview

70. In relation to review mechanisms the Council suggest that the issues of the sub region and in particular the unmet needs of Brighton and Hove can only be met through a proper sub regional planning exercise, which could also consider the role of any long term strategic allocations. It follows that any review of the Plan should reflect this sub regional exercise.

71. The Council's approach is influenced by the conclusions of the Horsham Inspector who concluded in his report at paragraph 534:

“A joint approach involving all the relevant Councils is required on a co-operative basis to fully address the OANs of at the very least the three Council areas in one overall SHMA and possibly to include consideration of other updated needs outside the SHMA, including those of the coastal area authorities and possibly London. It is appropriate for this Plan to proceed on that basis, provided that there is a firm commitment from the Council to play its part in addressing the needs of the wider area as part of an early review of the HDPF, as required by MM2” .

72. The Council can only progress such a sub-regional exercise with the support of other authorities in the sub region. The District Council, therefore, will propose that this is taken forward in the work of established Coastal West Sussex and Greater Brighton partnership. This is the most fully formed, realistic and viable mechanism for a partnership approach that endeavours to address the unmet housing need of Brighton by investigating and considering options to accommodate this unmet housing need across the sub-region.

Introduction

73. The District Council together with nine other neighbouring authorities comprise the Coastal West Sussex and Greater Brighton Strategic Planning Board. The Board has been in existence since 2012. The key purpose of the Board is to consider the appropriate vehicle to consider a range of strategic planning issues including housing delivery and unmet need.

74. The Board comprises the elected members holding the planning portfolios from Adur, Arun, Chichester, West Sussex, Worthing, South Downs National Park Authority, Brighton and Hove, Lewes, Mid Sussex and Horsham Councils. The Board is supported by an officer group and specialist consultancy advice.

75. It is the District Council's view that this is the appropriate body to undertake the sub regional strategic planning framework necessary to robustly address the complex issues

of unmet housing need, housing and employment markets, constraints and capacity. It is a well-established group of Local Planning Authorities that have committed to work together in partnership on strategic planning and development issues across the sub-region.

Background

76. In October 2012, the Local Planning Authorities in Coastal West Sussex (Adur District Council, Arun District Council, Chichester District Council, West Sussex County Council, Worthing Borough Council, and the South Downs National Park Authority) along with Brighton & Hove City Council and Lewes District Council, together forming Coastal West Sussex and Greater Brighton, agreed to set up a new Strategic Planning Board (SPB) to address duty to co-operate matters and to facilitate joint working on strategic planning priorities. The SPB is responsible for:

- identifying and managing spatial planning issues that impact on more than one local planning area within Coastal West Sussex and Greater Brighton; and
- supporting better integration and alignment of strategic spatial and investment priorities in Coastal West Sussex and Greater Brighton, ensuring that there is a clear and defined route through the statutory local planning process, where necessary.

77. The SPB comprises Planning Portfolio holders from the Local Planning Authorities supported by Planning Officers from each of the constituent Authorities and consultants. The Local Strategic Statement (LSS) set out the collective strategic objectives and spatial priorities for the Board and was the initial vehicle for taking forward the SPB's work on behalf of the Local Planning Authorities. It aimed to address key strategic planning issues in an integrated and deliverable way. It covered the period to 2031 with short and medium term objectives to support the provision of homes and jobs, regeneration and protecting the environment. It provides a high level planning framework for the area.

78. A Memorandum of Understanding (MOU) between the consistent authorities underpins the SPB. The broad objectives of the MOU are:

- To help secure a broad but consistent approach to strategic planning and development issues across the Coastal West Sussex and Greater Brighton area.
- To identify and manage spatial planning issues that impact on more than one local planning area within Coastal West Sussex and the Greater Brighton area.
- To ensure that the local planning and development policies prepared by each Local Planning Authority are where appropriate informed by the views of other Local Planning Authorities across the Coastal West Sussex and Greater Brighton area.
- To ensure that decisions on major applications, that are larger than local planning applications are informed by the views of other Local Planning Authorities across the Coastal West Sussex and Greater Brighton area.

- To support better integration and alignment of strategic spatial and investment priorities in the Coastal West Sussex and Greater Brighton area, ensuring that there is a clear and defined route, where necessary, through the statutory local planning process.

79. In 2015, Mid Sussex District Council and Horsham District Council became members of the SPB, and consequently LSS1 was updated. LSS2 is being agreed by the Strategic Planning Board in January 2016.

Current work

80. The Planning Board is actively working on a comprehensive revision of its LSS2. This sub regional planning framework will seek to address the continuing gap between objectively assessed housing needs and housing delivery in the sub-region and the challenges around supporting sustainable economic growth and infrastructure investment.

81. LSS3 will provide the strategic evidence base for developing a strategic framework and involve stakeholder and public engagement. The main evidence studies will be:

- Strategic housing market assessment (SHMA)
- Strategic Employment Market Assessment
- Housing/employment land availability (SHLAA)
- Key settlements characteristics and potential
- Constraints and capacity analysis
- Strategic infrastructure assessment

82. The first stages of this work have already been commissioned and a draft report is Members for comment. It explores the complexities of the functional geography of the area in order to better understanding of housing and economic needs across the area. The work being undertaken by GL Hearn will define the HMA and the Functional Economic Market Area (FEMA) operating within and across the constituent Local Planning Authorities. This work will also define the boundary of the area that should be covered by LSS3. The work will assist with identifying the level of housing required and its proposed distribution across the sub-region. Interim findings will be presented to the SPB in January 2017. The work by GL Hearn is the starting point for further analysis of the sub-region to inform strategic planning priorities and outcomes.

83. The Planning Board has provided an effective basis for member authorities to “engage constructively, actively and on an ongoing basis” on sub regional planning matters. LSS3 will tackle the issue of the housing required across the sub region, its distribution and delivery.

84. In summary, it is the District Council’s view that an appropriate body already exists to take forward strategic planning matters across the sub-region, including consideration of the unmet housing needs of Brighton and how these can be accommodated across the sub-region. This is a credible group of Local Planning Authorities that is making rapid progress despite inevitable delays. The work being prepared by Coastal West Sussex

and Greater Brighton aims to provide a clear vision and a robust evidence base, which is delivered through a shared, coherent spatial and investment framework.

Annex D: Background to Unmet Need in the Sub Region

85. Table 1 summarises the current unmet needs of the sub region. The largest source of this unmet need is from Brighton and Hove, based on adopted plans.

Table 1: Unmet Needs of Surrounding Authorities

Authority	Plan Period	OAN Total	Provision Total	Unmet Need	Notes
Adur	2011-2031	5,820	3,609	2,211	Proposed Submission (March 2016)
Brighton & Hove	2010-2030	30,120	13,200	16,920	Adopted Plan
Crawley	2015-2030	10,125	5,100	5,025	Adopted Plan
Horsham	2011-2031	13,000	16,000	-3,000	Adopted Plan
Lewes	2010-2030	10,400	6,900	3,500	Adopted Plan
Mid Sussex	2014-2031	12,818	13,600	-782	
Tandridge	2013-2033	9,440	2,336	7,104	Early draft (SHMA 2015). Provision ranges from 2,336-10,128 in consultation draft
Wealden	2013-2033	14,700	14,700	0	Issues and Options (Nov 2015)- maximum figures of the range used as 'worst case'
Worthing	2013-2033	12,720	5,140	12,720	Issues and Options (May 2016) - no provision figure set, so average completions over last 10 years used.
TOTAL		119,143	80,585	38,558	

86. As set out in MSDC 3 Mid Sussex has long played a role in meeting the housing needs of households originating in Brighton & Hove and Crawley, as shown in Table 2 below. An interpretation of the data shown in the table might be that that as housing supply has tightened over the past 5 years or so in Brighton and Hove, more households originating in Brighton have sought homes in Mid Sussex. It is this trend which appears to underpin some of the increases in household projections for Mid Sussex in recent years. The position for Crawley appears more cyclical, potentially related to the economic cycle and probably driven by relative affordability in the context of recession and recovery.

Table 2: Annual Household Movements into Mid Sussex (households)

Year	Mid Sussex Annual Household Growth (DCLG)	Net Growth in Households moving from Crawley	% of Annual Total Household Growth	Net Growth in Households from Brighton and Hove	% of Annual Total Household Growth	Growth in Mid Sussex from Mid Sussex and other sources	% of Annual Total Household Growth
2002	468	121	26%	90	19%	257	55%
2004	346	101	29%	178	52%	66	19%
2006	650	81	12%	153	24%	416	64%
2008	777	77	10%	197	25%	503	65%
2010	766	8	1%	151	20%	607	79%
2011	582	20	3%	160	27%	402	69%
2012	553	24	4%	178	32%	351	63%
2013	755	101	13%	247	33%	407	54%
2014	831	122	15%	233	28%	476	57%
2015	681	110	16%	210	31%	361	53%

87. Mid Sussex has traditionally placed an emphasis on helping to meet the unmet needs of Crawley. However, the short term position expressed by Crawley at the Examination on 1 December 2016 is that its own needs can be met in the next 5 years - a position it has maintained. For example in its consultation Mid Sussex District Council response to the Pease Pottage application to Mid Sussex by Mr Clem Smith of Crawley Council, it states at paragraph 4.1.2 of the letter⁵:

“In respect of Crawley’s housing supply, the Housing Trajectory confirms that the housing need for the Borough can be met in the short term (5 years) from existing commitments within the town and around its boundaries from sites including Kilnwood Vale, land at Rusper Road and west of Copthorne (a total in excess of 3,000 dwellings) however there is significant decline in sites with development potential identified beyond 2024/25”.

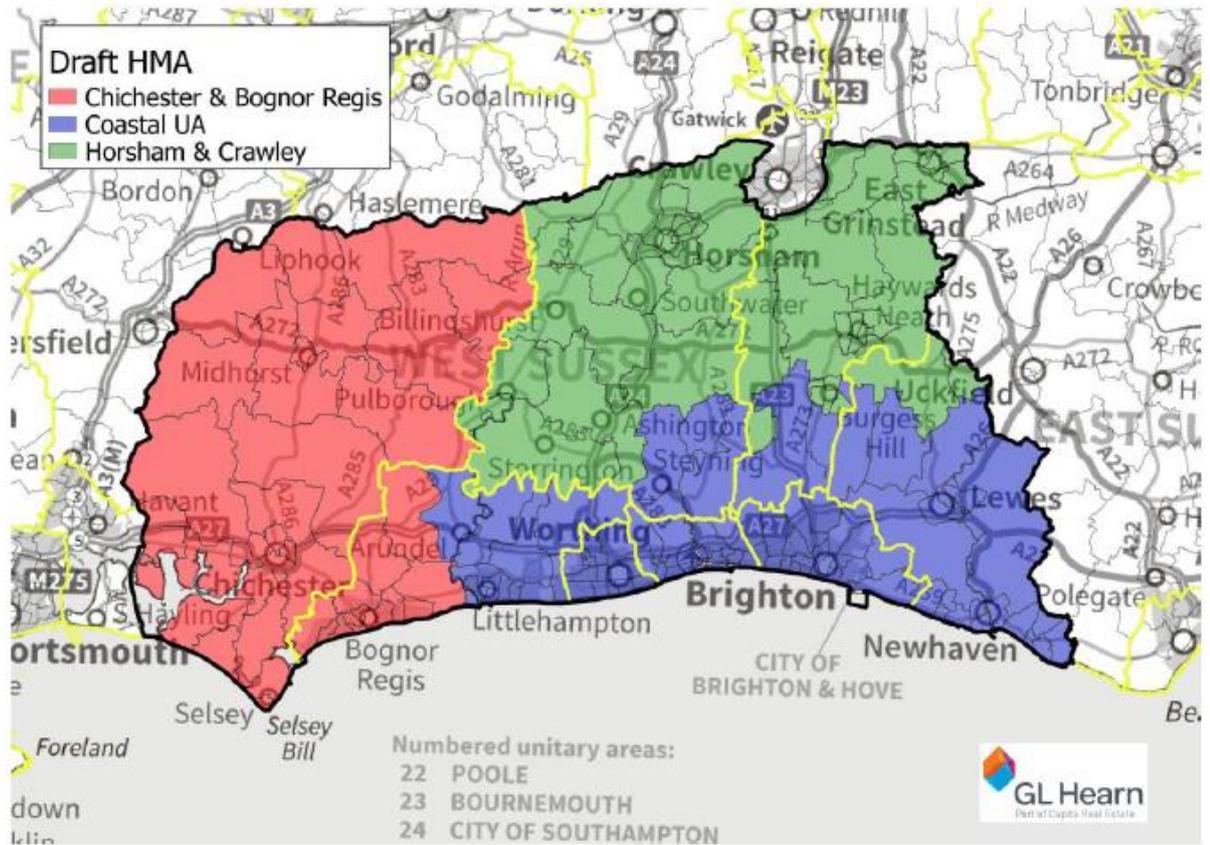
88. Mid Sussex Council has recently granted consent for approximately 600 homes at Pease Postage close to the administrative and built up boundaries of Crawley.

89. The Housing Market Areas within the wider sub region of Coastal West Sussex and Greater Brighton are being reviewed as part of the work of the Strategic Planning Board.⁶ The self-containment rate for each exceeds the typical 70% required by the guidance. As shown in their draft report of January 2017, the boundaries of the proposed Coastal Urban Area (Brighton and Worthing) HMA encompasses the towns/parishes of Burgess Hill, Hurstpierpoint and Hassocks.

⁵ Letter of 5 February 2016 from Mr Clem Smith, included in Documentation related to the Planning Application, Ref RD2 in the Examination Library.

⁶ Draft Review of HMA Areas, GL Hearn, January 2017

Figure 22: Coastal West Sussex and Greater Brighton HMA boundaries, 2016



Source: GL Hearn using 2011 Census

90. As explained in MSDC 2 the Council is keen to make a substantial allocation of housing at Burgess Hill as part of the submission plan and see rapid realisation of the scheme. However, as set out in MSDC 2 developers have sought to reduce the delivery trajectory for this site for market-related reasons.

Annex E: Relationship of Unmet Needs to DCLG Household Projections

91. The Annex considers the extent to which the unmet needs of surrounding authorities are already embodied in DCLG Household Projections. DCLG Projections are based on trends over the preceding 5 years. It suggested that an increasing tightening of the housing market in Brighton has over the past 5 years led to increasing migration – as population and household moves – into Mid Sussex and other surrounding authorities, a trend that was accompanied by a decline in the housing completions and a reduction in planned supply in Brighton and Hove. The upshot of these trends is that Mid Sussex has already been accommodating some of the unmet needs from Brighton and that this trend is embodied in the DCLG household projections.

92. As Paragraph 15 of the PPG says

“The household projections are trend based, .i.e. they provide the household levels and structures that would result if the assumptions based on previous demographic trends in the population and rates of household formation were to be realised in practice”.

93. Although practice guidance refers separately to market signals and unmet need the two are highly interrelated and in many respects should be treated together, as they cannot be distinguished. Over 75%⁷ of Mid Sussex’s growth is from in migration into the District. Mid Sussex is part of a wider housing market and its housing provision is an obvious alternative for those seeking to live in for the first time or move within surrounding districts where their needs are not being met. Rising prices are symptoms caused by unmet needs in a wider housing market area where demand clearly exceeds supply and other HMA authorities have failed to meet needs. These moves are likely to be both voluntary and reflect those displaced by market conditions, for example those seeking larger family homes.

94. The view that migration trends become embodied into household trends is confirmed by the DCLG statisticians which produce the projections. A DCLG Economic Adviser⁸ has advised the Council of the following.

“The population projections which underpin the household projections assume that population flows follow the same trends as the past five years. That is, if on average 1% of the population of Crawley moved to Mid-Sussex each year for the last 5 years, the projections assume that 1% of the population of Crawley will continue to move to Mid-Sussex for each subsequent year. So part of Mid-Sussex’s (and indeed every other LA’s) household growth will consist of people moving from other LAs”.

⁷ EP21 HEDNA Update para 8.13, in the SNPP 2014 migration rises over the plan period so that almost all growth is from migrants by the end of the Plan Period.

⁸ Angus Hawkins, Economic Adviser, Housing & Planning Analysis Division, Analysis & Data Directorate, DCLG, 16th December 2016 (by email).

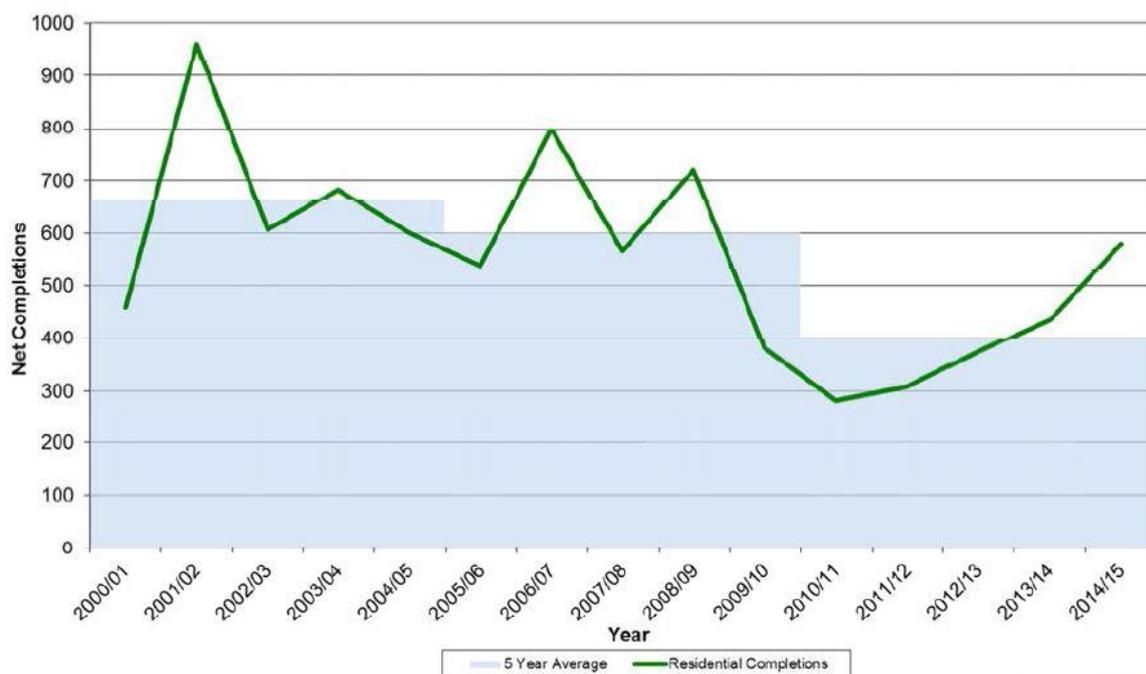
95. The tendency for DCLG projections to embody trends influenced by the influence of policy beyond the district was noted by the Reigate and Banstead Inspector. In particular at paragraph 22, the Inspector concluded:

“Population and household projections are trend-based – they indicate the growth that would occur if recent trends (generally over the past five years) continue over the period of the projection. Consequently they take no account of policy interventions or other individual factors which affect growth rates in particular areas at particular times. This has profound significance for Reigate & Banstead because of its participation in the government’s New Growth Points (NGP) initiative. This required the Council to “front-load” its delivery of the level of housing proposed in the SEP and led to a high number of dwelling completions in the years 2006-2010. Not surprisingly, this led to a significant increase in migration into the borough over the same period: the evidence demonstrates a markedly higher increase in both overall population and in-migration over this period compared with Surrey authorities and the wider South East”.

96. As shown in Annex D many of the authorities surrounding Mid Sussex have been unable to meet their OANs through provision, or in emerging evidence and plans. The largest of these is Brighton

97. The overall Housing supply position has tightened in Brighton in recent years. The Brighton and Hove City Plan makes provision for a figure of 15,800 dwellings over the plan period, against an assessed need across the plan period (from 2010 to 2030) for 30,120 new dwellings, leaving an actual shortfall of about 14,320 over the plan period 2010 - 2030. In addition as illustrated in Chart 3 below taken from the latest Brighton Annual Monitoring Report 2015, there was a notable reduction in the 5 year average of completions after 2010 – a critical period that has informed the most recent DCLG household projections. This period has also been matched by a generalised growth net out migration of population as shown in Table 3 since 2010 which peaked in 2014 with the net loss of 1640 persons from the City, and an increase in migration into Mid Sussex.

Chart 3: Total Residential Completions in Brighton & Hove 2000/01 – 2014/15



BHCC 2015

Source: Brighton and Hove Authority Monitoring Report 2015

Table 3: All Residential Population moves to and from Brighton 2002 -2014 (persons)

Year	From Brighton	To Brighton	Net gain (loss)
2002	16700	16800	100
2004	17300	17100	(200)
2006	17300	17400	100
2008	17000	17200	200
2010	17800	17300	(500)
2011	17800	17400	(400)
2012	19680	18690	(990)
2013	18940	17700	(1240)
2014	19950	18310	(1640)
2015	19960	19210	(750)

Table 4: Residential Population moves to and from Mid Sussex 2002 - 2014 (Persons)

	From Brighton	To Brighton	Net gain (loss) to Mid Sussex
2002	630	440	190
2004	810	430	380
2006	750	420	330
2008	840	410	430
2010	780	450	330
2011	810	460	350
2012	900	510	390
2013	960	420	540
2014	960	450	510
2015	960	500	460

98. It is suggested that these trends are now embodied in the DCLG Household Projections for Brighton and Hove. The significant under provision in terms of both completions and Plan provision has, as might be expected, had the effect of stabilising the 2014-based household projections relative to those in 2012. The 2012-based forecasts suggested a need to meet the housing needs of 1283 households for the period 2014 -2031, while in the 2014 projections for the same period this has reduced slightly to 1280 per annum. These projections are perhaps surprising given provision in Brighton and Hove, and the implied under provision and backlog, and are thought to have reflected housing supply constraints. The graph chart 3 might be seen as suggesting a recent upturn in the Brighton and Hove housing supply, which may influence future projections, but it is probably too soon to judge.
99. DCLG Household Projections for Mid Sussex increased between 2012 and 2014 from 656 dwellings per annum based on the 2012-based projections to 714 in the 2014-based projections, which reflects the increasing migration into the District from surrounding authorities, especially Brighton as shown in Table 4.
100. It is suggested that these trends have become partly embodied in both migration into Mid Sussex, which has increased. The use of recent trends by DCLG to inform DCLG projections that the needs of Brighton and Crawley are already substantially reflected in the DCLG household projections. This is because moves from Brighton and Crawley are an established part of housing demand in Mid Sussex. Demand from these sources is also likely to be substantially reflected in market signals.
101. It is also important to consider where the unmet needs of Brighton are being met. Mid Sussex is taking a share of Brighton's growth that is large in Mid Sussex terms, but is small in Brighton terms. In actuality in 2015 much of the 'unmet needs' of Brighton as represented by gross residential out migration from Brighton are being met by London Boroughs (18.0%), the coastal authorities: Lewes (7.7%). Adur (6.7%), Worthing (4.3%); Mid Sussex (3.9%) and Horsham (2.1%). The remainder is then met by a very long tail of other authorities regionally and nationally. These moves may be seen as reflecting the market preferences of those moving from Brighton.

END