Changes to the Current Planning System
consultation paper

A response by Smart Growth UK

Introduction

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This response is made on behalf of the Smart Growth UK coalition to the paper entitled *Changes to the Current Planning System* (*CCPS*)[1] dated 6 August 2020.

Smart Growth is an internationally recognised approach to planning, transportation and community development which promotes sustainable uses for our land, ways of moving people and goods around it and protection of our communities. It emphasises compact and accessible urban communities and avoids car-dependency. It seeks traditional ways of planning towns around local services, ease of walking and cycling and good public transport, especially rail-based. It looks for ways to rebuild our lost sense of community.

We have serious concerns about recent approaches to planning and believe many of the current proposals to reform it in England would make matters significantly worse. They would damage the environment, undermine our responses to the climate and biodiversity emergencies and fail to address current crises in housing.

The Smart Growth approach of course accepts that we need to build homes but believes they should meet genuine need rather than the aspirations of the development industry. It aims to concentrate development in urban areas where possible, it prioritises appropriate densities (avoiding very low-density sprawl and very high-density town cramming) to use our scarce land efficiently, it prioritises development at transit-oriented locations and it believes house building should aim to meet genuine needs. It shares the Government's view that the economy needs to be rebalanced regionally but believes that success in that aim would radically change our housing location needs.

In this response we have tried to look objectively at the Government's proposals and respond positively where possible. But we believe a less environmentally destructive and more rational distribution of house building, based on detailed local analyses of the type, tenure and location of the homes we actually need to build, needs to be based on radically different policies.

The consultation

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We strongly object to the way this consultation has been run - in parallel with the planning white paper *Planning for the Future*[2] but with an even tighter deadline. The consultation on this paper has allowed only a derisory eight weeks, including August

and the restrictions imposed by the pandemic. The proposals are radical and far reaching, largely inaccessible to the general public and in direct contrast to the Government's claimed aspirations to involve the public more in the decision-making process at an early stage. They would lead to fundamental changes in the house-building targets of local plans, increasing these targets above the present levels for 92% of all local authorities in England[i].

Of equal concern is that the proposals in the *CCPS*, though damaging and misguided, could be introduced in the near future without further scrutiny at Parliamentary level.

Because the relevance of the proposed new standard method is split between the two consultations, some points are, of necessity, made to both in the present response.

The Government makes a number of unsubstantiated comments throughout the paper but then asks questions that only deal with some of the minutiae of the proposed algorithm. This undermines the credibility of the whole exercise.

The standard method for assessing housing numbers in strategic plans (*CCPS* paragraphs 3-5)
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CCPS paragraph 4 says that: "in February 2019, following the technical consultation on updates to national planning policy and guidance, a short-term change was made to the standard method".

There was a consultation prior to the revision of the method in February 2019 but, as far as we are aware, no changes were made to the MHCLG proposals, and the Ministry persisted in using the out-of-date 2014-based household projections[3]. The more up-to-date 2016-based projections[4] available at that date (later largely confirmed by 2018-based projections[5]) did not meet the Government's overall policy target of 300,000 new dwellings per annum (dpa) using the then current method of calculating housing targets. To meet this target, either the baseline projections had to be increased, or the formula for calculating targets had to be changed. In the present consultation, changes to *both* the baseline and the formula are proposed.

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[i] This figure refers to the adjustment factor using the new method of calculating housing need compared with the adjustment factor using the present method. This factor is then multiplied by a baseline figure to calculate the actual number of new houses required. The baseline figure in the new method is unlikely to be lower than in the old method, so housing targets would be increased for 291 of the 316 (i.e. 92%) of English Local Authorities.

In our view, housing targets should be based on objectively assessed needs. The type, quantity and location of housing needs are best judged locally, and the job of the Government is to facilitate the meeting of these needs by the responsible local authorities. Arbitrarily fixing a national housing target of 300,000 new dwellings per year and then creating an arbitrary formula that generates this number, both denies democratic accountability and would be politically unwise. The regions that would take a disproportionate share of this housing target, using the proposed new method, would be in the south and east of the country. The new method would do nothing to support constituencies in the "red wall", and threatens to disaffect those in the "blue wall".

The present housing shortage is the most damaging for the poorest families in our society. Building more of the same sorts of homes in the same sorts of places at the same sorts of prices as we have done in the past would clearly not address this issue. We need radical reform of housing priorities and policies, not of housing targets.

CCPS **paragraph 5** continues: "There are wider policy proposals for introducing a standard method for setting binding housing requirements, set out in the separate consultation *Planning for the Future*. It is the Government's intention that the method set out in this document would form part of the process for setting any binding housing requirement. However, this consultation does not set out how this binding requirement would be calculated, which would be determined following the *Planning for the Future* consultation. Instead, it proposes a revised standard method for calculating local housing need which would be used as the basis for plans created prior to any changes outlined in *Planning for the Future* being introduced."

Setting a "binding housing requirement" without saying how it would be calculated (in effect, leaving this to another consultation document) is a statement worthy of the Red Queen in Alice: "Sentence first - verdict afterwards". It really does deserve the response that Alice gave: "Stuff and nonsense!".

If the *CCPS* paper actually set out need, it would be purely based on demographic projections and not "fixed" by a multiplier based on affordability, which is largely dependent on many other factors such as mortgage availability, second homes, desirability to investor purchases, interest rates, commuting, Government support on the supply and demand sides (affordable and first homes policies) etc.. It has conflated "need", "demand" and "requirement" and makes no attempt to evaluate other factors at play in the housing market.

The housing market is not simply one of "supply and demand", balancing the supply of houses with the demand of families who need a roof over their heads. If it were only that simple, the new formula might work. But land and housing is also an investment vehicle for speculative capital, and this distorts the housing market. In the years following 1990, we actually built enough houses in most regions for all newly forming households (the single exception was London), but house prices increased by 150%. Buy-to-let, low interest rates, help-to-buy, second homes and international investment in UK housing stock all contributed to this house price inflation. We need to take out all these distortions of the housing market before we can even begin to judge the real need for houses locally. If a significant proportion of new houses are bought by international investors, it would be they who dictate housing needs in the proposed new formula (and, of course, the old one).

Even if we were able to factor in all of these distortions of the commercial housing market there would still be significant proportions of the 'left behind' population, those in the lowest quartiles of salary or income, and those with none at all. Figure 1 shows the housing completions in the private and social sectors from 1946 to 2018. Even in the 1970s, the social sector provided almost half (47%) of the >300,000 new dwellings built each year[6]. This need has not gone away, but is no longer met by either the present or proposed future housing policy.

Figure 1. Housing completions, private and social sectors, Great Britain (numbers), 1946-2018 (Fig. 6.2 from Meen and Whitehead (2020), based on ONS data)
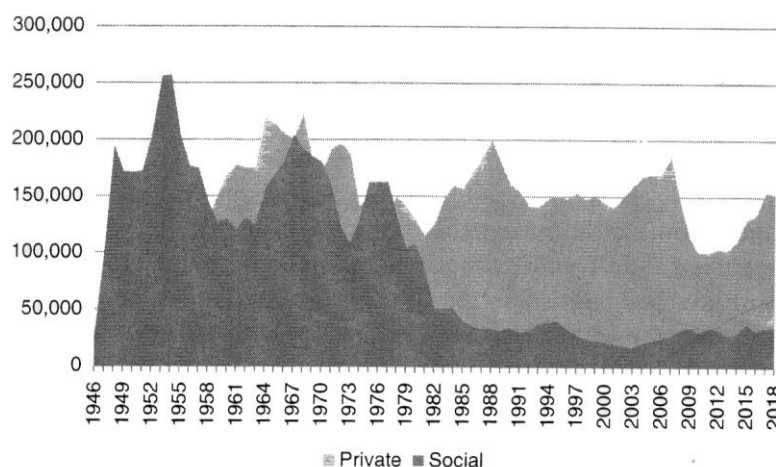
Source: Office for National Statistics

Inequality has increased since the 1970s (ONS[7]), and the UK is now one of the most unequal countries in the developed world. In the year ending 2018/2019 in England, 20% or more of people in the relative and absolute low income groups were officially in poverty once housing costs had been allowed for[8]. Home ownership is out of the reach

of a large proportion of our society, and building more market homes (with a fraction of "affordable" ones) is not the solution to this problem. A mere 5% (2,399) of the >47,000 new housing starts in 2019 by Homes England (charged by the Government with delivering "affordable housing") were for social rent. This paltry figure was presented as a "success", because it represented a 91% increase on the previous year's figure[9].

In what follows, we say little more about social housing, because the *CCPS* document ignores it more or less entirely. Yet it remains the potentially biggest contributor to solving the current UK housing crisis. Solve the social housing crisis and you are well on the way to solving the entire housing crisis.

Requirement or need? (Planning white paper paragraphs 1.20 to 2.29)

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The planning white paper (PWP) (paragraph 1.20, bullet point 1) talks of "requirement", as opposed to "need" in the *CCPS* consultation (paragraph 1.20).

"A new nationally-determined, binding housing requirement that local planning authorities would have to deliver through their local plans," it says. "This would be focused on areas where affordability pressure is highest to stop land supply being a barrier to enough homes being built. We propose that this would factor in land constraints, including the green belt, and would be consistent with our aspirations of creating a housing market that is capable of delivering 300,000 homes annually, and one million homes over this Parliament."

This statement suggests that land supply is a barrier to building houses, which become expensive as a consequence. But anyone who has actually been involved in local authority planning knows that affordability is not related to land supply and that land supply is not related to delivery. Delivery is mostly held up by large developers sitting on permissions rather than building out, because building out might cause their product price to drop, which would conflict with their business model, as identified in the Letwin review[10].

Proposal 4 and paragraphs 2.23 to 2.29, and Questions 8a and 8b of the planning white paper involve: "A standard method for establishing housing requirement figures which ensures enough land is released in the areas where affordability is worst, to stop land supply being a barrier to enough homes being built. The housing requirement would factor in land constraints and opportunities to more effectively use land, including

through densification where appropriate, to ensure that the land is identified in the most appropriate areas and housing targets are met."

This is the wrong solution to the wrong problem. Land supply does not need to be increased in areas where affordability is worst, as that is not the problem. If the aspiration is to solve access to housing *per se* in expensive areas for the less well-off, then the solution includes the rental market and the expansion of social housing. For those such as the young, or first-time-buyers, housing in expensive areas can only be made affordable by fixing the *other* factors that make it impossible for them to compete against better-funded purchasers, such as investors or second-home purchasers, or by making deposits and mortgages more accessible. None of these issues would be solved by a bigger supply of more expensive homes, as several recent commentators have noted.[11] [12] [13]

Land constraints

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The planning white paper does claim that the "requirement" would "factor in land constraints", but there is absolutely no suggestion how this might be achieved. There are many areas which are expensive simply because they have constraints – but that does not make them suitable locations for large-scale housing. For example, the New Forest is over 80% national park and is wholly and utterly unsuitable for large-scale housing. It has a significant second homes/tourism/buy-to-let market and these issues are not considered by the proposals as they stand. This is not due to a lack of land supply, and would not be solved by increasing the district allocations to unachievable levels.

Indeed, paragraph 2.25 bullet point 3 of the white paper is the only point at which national parks are mentioned, and then only *en passant*. This is not in accordance with the 2010 Circular[14], specifically its paragraph 78: "The Government recognises that the parks are not suitable locations for unrestricted housing and does not therefore provide general housing targets for them. The expectation is that new housing would be focused on meeting affordable housing requirements, supporting local employment... etc.."

Whilst the white paper says that: "national parks are highly desirable and housing supply has not kept up with demand; however, the whole purpose of national parks would be undermined by multiple large-scale housing developments so a standard method should factor this in..", this does not sound particularly resolute, and in fact

looks distinctly weak in terms of adhering to the 2010 Circular. National parks should be released from the requirement to meet the proposed standard method. Similarly, local planning authorities which contain high proportions of national parks within their jurisdiction, or are adjacent to them and are impacted by their effect on local house prices, should also have this taken into account, because this has a disproportionate effect that is not due to any supply limitations.

The planning white paper paragraph 2.29 is the only one which mentions welcoming suggestions for how to deal with constraints, and yet this issue is not covered at all in the consultation on the *CCPS* proposals and there is no numbered question relating to this aspect in either the white paper or the *CCPS* documents. This is an inept way of consulting on a method which would underpin the next generation of local plans.

Credit: *Unknown*

Boosting supply (*CCPS* paragraph 6)
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Land Supply Once again, the lack of land supply is not the limitation on homes being delivered, as is claimed in *CCPS*, paragraph 6. Those with vested interests want the

supply of land increased to give them wider options on the most profitable sites. The fact that only 187,000 homes appear in current local plans is a result of the constant changes and tinkering with the planning system rather than on the ability of local planning authorities to allocate sites when the policy situation is more stable. We do not dispute the planning system should be more accessible and that it could be improved but, in itself, planning is not the cause of delay to the allocation of sites, as is indicated by the delivery last year of 241,000 new houses. The ambition of 300,000 dpa is a policy-on figure and should not be confused with the calculation of need.

The wrong answers to the wrong questions? We are responding in detail to the sections of the *CCPS* on boosting supply, but that should not be taken as meaning we accept either the proposals or, necessarily, their rationale or underlying motivation. To state *a priori* that the "need" or "requirement" is 300,000 dpa or even 337,000 dpa, is a political choice rather than any objective statement of England's home building needs. Still less is it a statement of the type, tenure and location of the homes it needs and the proposals depend on false assumptions of need and the effect of building on local house prices.

Housing need is experienced most acutely by the poorer members of our society, those below the median wage levels in each area, and for whom the commercial market (even as adjusted by First Homes or affordable housing schemes) is simply out of reach. Making First Homes' or affordable houses' delivery conditional on a greater quantum of market housing being delivered as a *quid pro quo* compounds the problem. When the commercial market contracts, the delivery of those discounted houses dries up as well.

An excellent counter-cyclical policy to cope with the post-Covid (and post-Brexit?) economic contraction would be to allow and encourage local authorities to build social housing. With interest rates at an all-time low, and unlikely to increase in the next few years, what could be a better time for an ambitious social housing programme?

Estimates of real housing need have varied considerably over the years. The 2018-based *National Population Projections* from the Office of National Statistics[15] say the UK population will increase from 66.4 million in mid-2018 to 72.4 million in mid-2043, an average increase of 0.36% per year. The Government's current projections of increase in the number of households[16] is 160,000 annually.

The present consultation sets a minimum baseline of the delivery of 0.5% of existing housing stock per year. Any acceleration of housing stock above the expected increase in population must, however, be justified by hard data and sound reasoning. Possible justifications in terms of unmet need in earlier years can be undermined by claims of

need for things like second homes or holiday lets. Household growth projections provide ever less justification for targets well above 200,000 or higher; the bulk of the need will be older households and, to a lesser extent, single-person households. What the projections do necessitate, however, is a much more detailed examination of the type, tenure and location of England's housing need. Simply presenting a number (0.5% or 300,000+ new houses per year) without justifying it in terms of real housing need is not a sound way to develop an evidence-based policy.
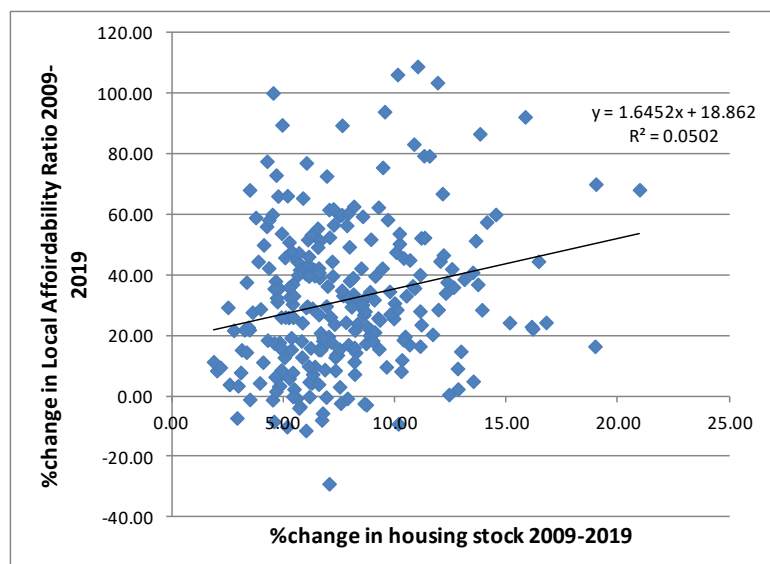
The consultation is evidently based on two assumptions:-
- that houses become expensive (and the Local Affordability Ratio increases) when they are in short supply; and
- that building more houses will make houses locally less expensive, and bring the Local Affordability Ratio back down again.

Numerous studies have challenged a notion clearly based on the law of supply and demand. A 1% increase in housing supply is associated with a 2% reduction in house prices but, on the other hand, a 1% increase in salaries is associated with a 2% increase in house prices. So increasing supply and increasing wages chase each other like a dog chasing its tail. Add in current historically low interest rates that seem to have driven up the equilibrium point of the wage/house price spiral (Figure 9, below) and it is clear that we will not be able to build ourselves out of the present housing crisis by perpetuating it. As Einstein observed: "We cannot solve our problems with the same thinking we used when we created them". But that is exactly what is proposed. If we look at the data, rather than the dogma, we find the following:-

(i) There is no relationship over time between changes in the Local Affordability Ratio and changes in housing supply. Figure 2 shows the data over a 10-year period, ending in 2019, with both axes expressed as percentage changes from the 2009 figures; each dot on the graph represents one local authority. If building more houses reduced house prices, the expectation here would be of a negative relationship. In fact, the relationship is positive and highly

Figure 2. Relationship between the percentage change in the Local Affordability Ratio (median house prices to median workplace-based earnings) and the percentage change in local housing stock for the period 2009 to 2019. There is no evidence that building more houses brings their prices down.

$y = 1.6452x + 18.862$
$R^2 = 0.0502$

%change in Local Affoirdability Ratio 2009-2019 (y-axis)

%change in housing stock 2009-2019 (x-axis)

significant (r = 0.224, df >300, significant at the 0.1% level), indicating a significant *increase* in affordability ratio as more houses were added to the current stock. The relationship is an example of the sort shown to first-year undergraduates with the warning that such graphs "are highly significant but of no predictive value whatsoever" because of the scatter around the line. But, fairly clearly, building more houses does not make them locally cheaper.

(ii) There is a relationship between average regional house prices and the distance of the region from the capital city, London (Figure 3, later). House prices nationwide seem to be responding to the housing shortfall in London (details later). If housing events in one region affect house prices in another region, it seems unlikely that a local response will result in the desired local effect.

The two examples above suggest that changes in house prices both in space and in time are not responding to local availability of houses and therefore that changing this availability would not reduce house prices locally. It is for this reason that Smart Growth UK questions the logic of the new proposed housing algorithm.

In the sections that follow, therefore, we have attempted to answer the consultation questions without accepting the underlying logic.

The role of the standard method in strategic plans (*CCPS* paragraphs 7-10)

CCPS **paragraph 7** states that the standard method identifies the minimum number of homes and therefore the amount of land required for them, adding that "a combination of intensification and densification of brownfield land, regeneration of former commercial sites and under-used sites such as car-parks" could help accommodate this number.

Yet there is nothing in the *CCPS* algorithm that even attempts to look at the proportion or availability of these sites, let alone prioritise their use. In the accompanying planning white paper, it is left to local authorities to encourage use of such sites but this would be made much harder because the CCPS algorithm generally increases the number of houses allocated to rural, less urbanised areas (where houses tend to be more expensive), which by necessity would likely lead to the development of yet more greenfield land and unsustainable car-dependent new towns and suburbs.

CCPS **paragraphs 8 and 9** reiterate what was said in paragraph 7, but this time starting with the "sufficient amount of land" needed rather than with the housing target. This again is conflating and confusing need, demand and policy. It is a broad-brush approach to something that requires a fine-grained analysis, based on local situations. The recent OFQUAL examination fiasco shows the dangers of applying a simple algorithm to a complex situation. A target may be reached, but nobody will be happy with the outcome.

CCPS **paragraph 10** again states that the "need" identified by the method must be sufficient to ensure land supply is not the limiter on national supply. This is a policy decision and has nothing to do with "need".

Real housing need and the houses required to meet it

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Even though the number of new and forming households should be considered with respect to existing supply, in most cases existing dwellings are in surplus over existing households. Simply using a crude numbers approach takes no account of the type of dwellings that already exist, nor of the type of households projected to form.

There is a persistent myth that the type of dwelling that is in short supply is "family homes", particularly those sought by first-time-buyers. Projections for the future tell a very different story. More than three-quarters of the households expected to form between now and 2043 are of the over-65s and, by the 2040s, the growth would be strongly tilted towards the over-75s. Of the rest, the majority of households would be single-person. Both the present and the new proposed methods for estimating housing requirements make no allowance at all for the changing demographics of housing needs into the future. Done properly, household-projection-based planning for housing would yield very different proposals for the number, type and location of the houses we need to build now.

Planning is not a limiter in achieving supply, as is demonstrated by the considerable number of extant permissions that have not been built-out; up to one million according to the Local Government Association over the last decade. 90% of planning applications are granted, and those which are not are rejected because they are speculative applications, not in accordance with the development plan. That is the fault of the applicant, not of the plan.

The current standard method for assessing local housing need (*CCPS* paragraphs 11-16)

It is not denied that a standard method (paragraph 11) can achieve simpler and quicker methods of identifying need in an area, but it should truly reflect "need" rather than demand. The problem with using affordability in a formula is that there are many other aspects that relate to affordability than simply the household need for homes. The current economy of the country is underpinned on the paper value of its property and, because the country is seen as a safe, lawful place to invest, there is an almost insatiable demand for property as an investment. Using affordability in a formula actually entrenches this position rather than solves it. If need were to be evaluated by size, type and tenure, there would be a much more realistic basis on which to devise a formula.

In England, the housing market is grossly distorted by London, the only region where house-building has not kept up with population increase. We estimate that in the 17-year period to 2018 there was a total shortfall of 369,000 new houses in the London area, a total that is 27% greater than the entire housing stock of Oxfordshire (290,000 houses in 2018). This shortfall ripples out across the country with effects on both wages and house price increases that diminish with distance from the capital (Figure 3), for reasons discussed in more detail on pp 49-50 of *Understanding Affordability: the Economics of Housing Markets[17]*. The lower panel in Figure 3 shows that relative to the North East (where both household incomes and house prices are the lowest in England and Wales), a 10% increase in average annual earnings is associated with a house price increase of 41%. The laws of supply and demand in London, rippling out from the capital city, have nothing at all to do with local housing need across most of the country[ii].

CCPS **paragraph 13** states that household projections may be volatile, and can lead to artificially low projections where concealed households have not been taken into account. However, affordability is also a volatile factor because global recessions such as in 2008, and pandemics, can impact both supply and demand much more than


[ii] In Figure 2 and elsewhere distances from London were obtained from a GIS of the UK regions and are the figures from the centroid of each region to the centre of London. The distance of London from its centre was arbitrarily set at 5kms because a number of best fit regressions are logarithmic which cannot handle zero values.

household projections (for example, in April Knight Frank predicted a private housing delivery drop of 35% in 2020[18]).

The change in household projections was seen in the change from the MHCLG prediction to the ONS prediction for the 2016-based projection of the future population in England. ONS stands by its method, and its 2016 projections have largely been confirmed by the 2018 figures.

Using affordability as a "proxy" for concealed households introduces an additional element of unrelated uncertainty into the model. Far better would be for the ONS to model the quantum of concealed households using the age profile of residents, divorce and marriage statistics, and check cross-border double-counting. Housing needs' surveys give a much more realistic picture of true need in local areas. Elements of true need could be ground-truthed with the upcoming 2021 census.

Figure 3. Relationship between gross annual residence-based earnings (upper) or increase in house prices (middle) and distance from London (earnings and prices are averages for 2002-2018). The North East has the lowest wages and house prices. Expressing all prices and wages relative to the North East's shows that a c. 40% increase in wages is associated with a 160% increase in house prices (lower).
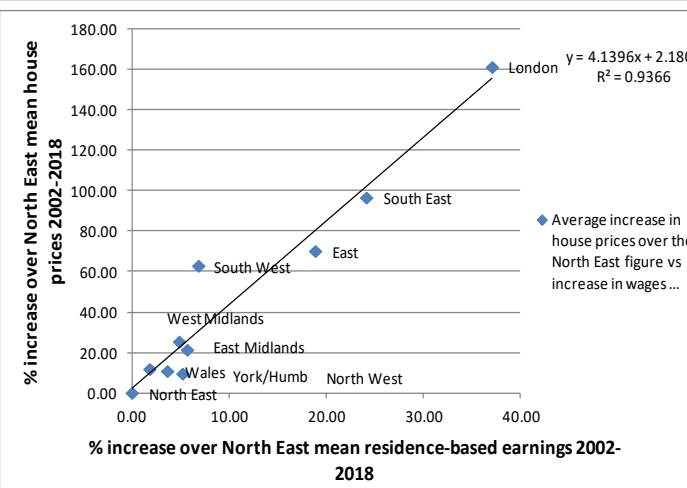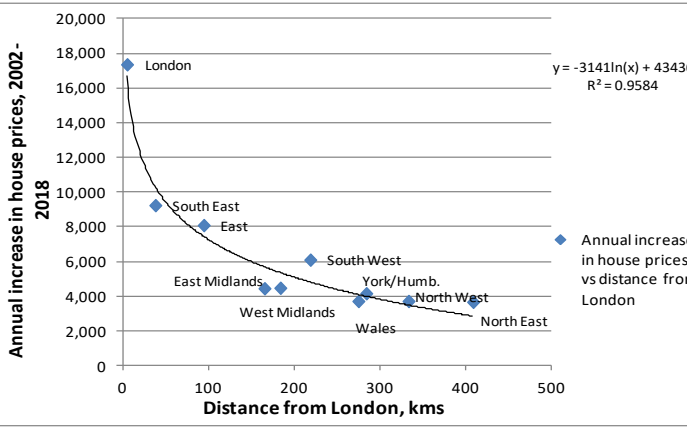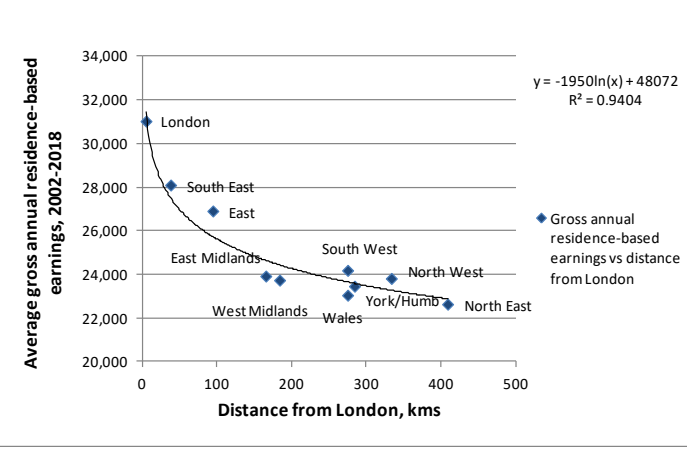

The fact that the 2016 and 2018-based projections do not imply a future housing requirement of anything like the target 300,000 dpa is clearly not a fault of the projections, but results from the creation of a politically-motivated target figure. If the figure of 300,000 dpa is to be used, the Government should at least be honest and admit

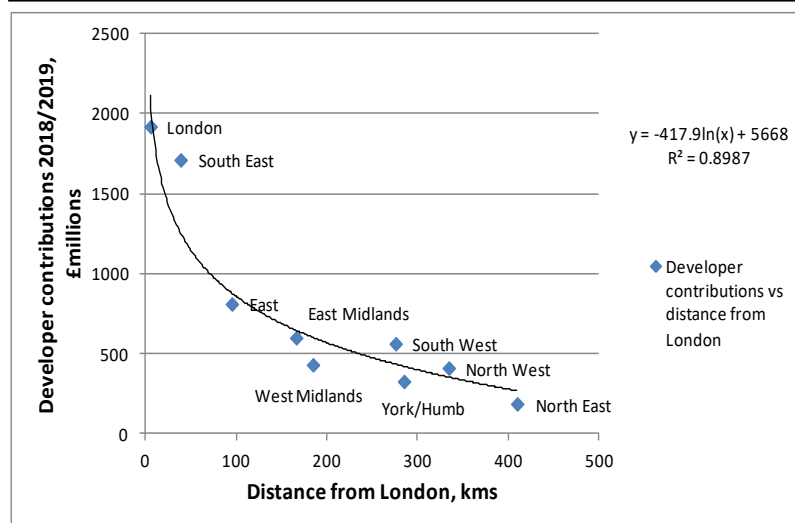that it is a policy-decision for "demand", not an evidence-based figure for artificially created "need".

CCPS **paragraph 14b** states that the distribution of homes should take account of both areas of current high demand and the emerging demand areas such as the Northern Powerhouse. At least this statement is honest, calling it "demand" not "need". However, the algorithm does not provide for a distribution in emerging demand areas. In fact, it does just the opposite. Paragraph 14c suggests stability would be provided by the method, but the volatility in pricing and the affordability factor may well make things much more volatile than expected (e.g. after a global pandemic). The problem with the proposed formula apportioning an excessive number of houses to the regions in and around London is that investment would follow, and this exacerbates the current distribution problem, as illustrated in Figure 4. The figure shows that in 2018-19, 28%

Figure 4. Total developer contributions by region, 2018/2019
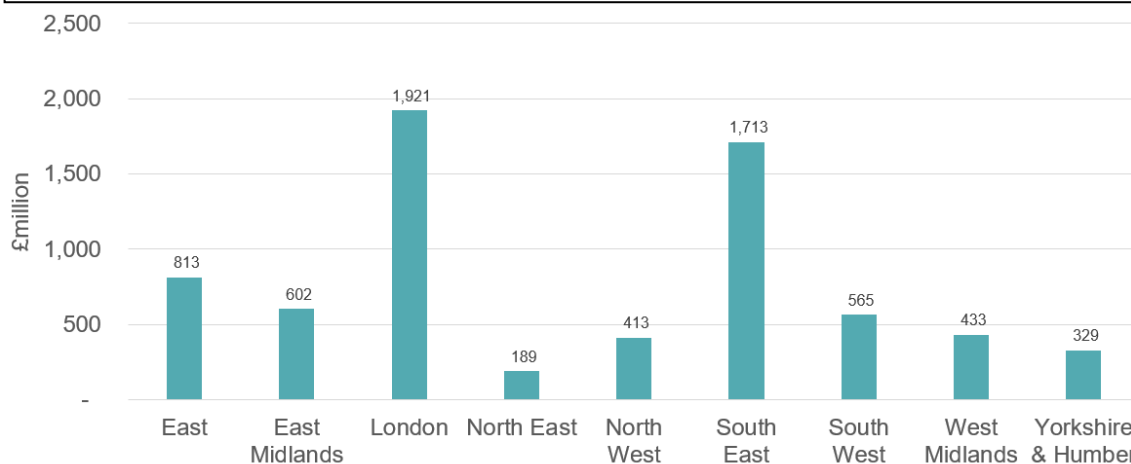
and 25% of all developer contributions – over half - went to London and the South East respectively[19]. As in Figure 3, the "London effect" is obvious when these developer contributions are plotted against distance from London (Figure 5).

CCPS **paragraph 15** welcomes the input of Lichfields – a planning and development consultancy - and Savills – an estate agent – in "adjust[ing] the methodology to address better these issues of alignment with real demand, stability and

Figure 5. Relationship between developer contributions in 2018/2019 (from Fig. 4) and the distance of each region from London.

$$y = -417.9\ln(x) + 5668$$
$$R^2 = 0.8987$$

consistency with the overall 300,000 target." In the celebrated words of Ms Mandy Rice-Davis: "Well, they would, wouldn't they?" This is equivalent to asking an arsonist to write your fire regulations. In what world, could these two organisations be considered in any way unbiased, and thus a reliable source of a new methodology?

The Government's proposed approach (*CCPS* paragraphs 17-22)

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CCPS **paragraph 17** reiterates the desire of the government to meet or exceed a housing target of 300,000 dpa, and everything that follows is designed to deliver this total number; no 'ifs', no 'buts'.

CCPS **paragraph 18** states that the new method is a starting point and not the final housing requirement. In general, both the present method and the proposed, new method are regarded as providing minimum housing figures for each region; additional numbers are usually added on for hoped-for growth, or are justified to meet some un-quantified backlog of housing delivery in the past. There are no adjustments in the calculations for constraints such as National Parks, AONBs, agriculture, leisure or wildlife and there are no questions in the consultation about such constraints. In the calculation of housing need, it is as if there are only two types of land; land already built upon and land waiting to be built upon.

CCPS **paragraph 20** suggests stock levels as an alternative baseline for calculating housing targets, on the grounds that this would offer stability and predictability and "should ensure that diverse housing needs in all parts of the country are taken into account." Stock levels have no relationship to ensuring diverse needs which should, instead, be estimated by modelling household projections and concealed households by required type, tenure and size. If the future is to be different from the past (e.g. to "level up", or otherwise reduce inequality across the nation) it clearly should not be based upon that past. Doing so would only ensure a continuation of existing patterns of settlement, unrelated to "need" or even to "demand", let alone to bringing about a redistribution to ensure levelling up, or reducing inequality.

CCPS **paragraph 21** says that household projections, the present baseline for predictions, are "a simple and relatable concept of linking housing growth to the population". We have some concerns about this approach (see later comments in response to Question 1).

The actual calculations of housing targets in the *CCPS* are carried out in two steps. Step 1 sets a baseline figure of whichever is the greater of 0.5% of existing housing stock or the projected household growth over a 10-year period into the future. Step 2 then calculates a multiplier, based on local affordability, to be applied to this baseline to calculate local housing targets.

Step 1: Setting the baseline – providing stability and certainty by incorporating a blend of household projections and stock (*CCPS* paragraphs 23-28 and Questions 1 and 2)

This section of the *CCPS* justifies the "whichever is the greater" option outlined above on the basis that housing stock is stable and varies slowly over time, whereas household projections are much more variable. Choosing the greater of these two options therefore means that whenever the projections are high (perhaps only temporarily so) their figures would be embedded in the housing targets. A low projection would not, however, reduce the housing target, because the 0.5% housing stock option then replaces it. A "ratchet effect" could result, with targets always set by the "highest bidder".

ONS household projections are based on simple and dampened logistic regressions; the results are then split into age and sex cohorts based on census and other data. Whilst a 10-year projection period sounds suitable for a baseline figure for present purposes, it is not based on the average of 10 different yearly estimates into the future, but by the application of a year-on-year projection equation. If the growth rate is wrong, the predictions become increasingly inaccurate the more they are projected into the future. Persistent biases are common features of time series' projections. We welcome the use of projections from the ONS rather than from the MHCLG, as we believe the ONS provides a more realistic picture of household growth.

Having said that, however, basing housing targets on extrapolating recent trends into the future will result in predictions that areas that have been growing faster in the past will continue to do so into the future, and areas that have been growing more slowly will continue to do so also. This is likely to exacerbate the inequality across the nation, not decrease it. It won't "level up" in terms of housing growth or, therefore, opportunities.

0.5% of the existing housing stock represents about half of the 1% increase in dwelling stock each year (through new builds, conversions etc.), but rather more than the ONS projected population growth rate into the future, of 0.36% per annum (see earlier section 'The wrong answers to the wrong questions?'). Smart Growth UK sees no reason

why the overall target (i.e. averaged across the country) should be greater than 0.5%, and therefore challenges any delivery figure significantly greater than this. As presently formulated, however, Step 2 *does* significantly increase housing targets in areas with high affordability ratios. This is a policy-based decision, not an evidence- or even needs-based decision.

Using stock levels to determine targets is claimed to: "reinforce development in existing urban areas" (*CCPS* paragraph 25) so that "new homes can maximise existing infrastructure" (*sic*). There is, however, nothing in the calculations to ensure that more development actually does go to urban areas. If rural housing is more expensive than urban housing, for example, more new houses may be assigned to rural areas.

Question 1: Do you agree that planning practice guidance should be amended to specify that the appropriate baseline for the standard method is whichever is the higher of the level of 0.5% of housing stock in each local authority area OR the latest household projections averaged over a 10-year period?

Answer 1: Population time series are notoriously difficult to calculate and this is especially complicated by changes in international migration. Up to about 70% of the increase in the UK population in the next 30 years could be due to people who have not yet arrived on our shores, 50% due to direct international immigration and the remaining 20% to the babies these newly arriving immigrants would have once they have settle here. In that event, natural births and deaths of the current resident population would account for only 30% of future population change.

A feature of our unbalanced economy in recent decades has been the movement of people, both from abroad and from the rest of the UK, to those parts of the country where jobs and opportunities are greatest, mainly London and the south and east of England. Net internal migration has diminished in the last decade or so, and even reversed occasionally, and the Government has a policy of reducing net inward international migration. We are alive to the danger, of course, that discussion of the role of immigration in UK population is seized on by extremists and Smart Growth UK firmly rejects any such misuse of this discussion. But the role of both external and internal migration in population cannot simply be ignored and the evidence-base should inform debate and policy.

People inevitably move where the jobs are and they need to be housed, so policy ought to direct employment to the places where it is most needed and where housing numbers are likely to be under less stress. We cannot allow future housing policy to be dictated by the concentration of employment opportunities around London. This,

however, would necessitate policies for new job creation away from the capital city and the overheated areas of southern and eastern England to areas where pressures on housing are less[20]. In this context there is an urgent need for national economic policies to abandon those like the "Oxford-Cambridge Arc", and to seek alternatives.

Thus, whilst we might be more drawn towards a projections-based Step 1, we think the errors likely with this approach outweigh any intrinsic advantage it might have. We therefore favour, with provisos, a stock levels approach as the better of the two options.

Question 2: In the stock element of baseline, do you agree that 0.5% of existing stock for the standard method is appropriate? If not, please explain why.

Answer 2: The 0.5% figure is bigger than projected population increases so could only be justified as addressing any genuine under-supply of houses in previous years. It would allow for some continuing fragmentation of household sizes (i.e. more single person households). But adjustments would also be needed to the *type* of housing stock needed, given that the majority of household increases will be older-person households; crude stock increase targets do not allow for complexities of this sort. If we were to accept this figure, we would be reluctant to see Step 2 adjustments significantly altering the overall figure.

If stock levels are to be used, it is important to take out second-homes and the likes of Airbnb from any housing stock figure, as well as student accommodation which is transitory. If a significant proportion of the Cotswolds, Cornwall or the New Forest are second-homes, a baseline of a fixed percentage of existing stock is not only meaningless but inappropriate. One way of allowing for these effects would be to take a fixed percentage of stock level (for example, the 0.5% suggested above) and then multiply this by the current proportion of houses in the area that are the primary residence of their occupiers.

In addition, some adjustment must be made for uncompleted permissions extant in a local area, so that these are finished first. The simplest way to do this might be to reduce the final housing targets (i.e. after Step 2) by the number of uncompleted permissions (or a proportion of them).

Step 2 Adjusting for market signals – maintaining price signals using the current affordability ratio and the change in affordability over the last 10 years (*CCPS* paragraphs 29-39 and questions 3, 4 and 5)

The Adjustment Factor (AF) calculated in Step 2 is a multiplier of the baseline figure calculated in Step 1. It works on the same principle as an interest rate might do on a sum of money. For example, to calculate the effect of a 10% interest rate on a fixed sum of £100, we can either multiply the fixed sum by the interest rate (expressed as a proportion) to arrive at the amount of interest per unit time (thus £100x0.1 = £10 interest per unit time) *or* we can multiply by (1+ the interest rate) to arrive at the total sum we would have after the interest rate has been applied (thus £100x(1+0.1) = £110, the total capital now available).

In the present example, the AF is used to arrive at the equivalent of the £110 in the above example. The '1+' in the AF equation performs exactly the same task as the '1+' in the interest rate calculation; it allows us to work out the capital (baseline) plus interest (effect of adjustment) in a single calculation.

Apart from the essential '+1'at the end in the above equation, the AF has two components which, it is claimed (paragraph 31), take account of "a relative imbalance between the supply and demand for new homes".

The first component in the AF (the first set of curved brackets in the above equation, ending in the first "x0.25") adjusts housing needs in areas where the Local Affordability Ratio (LAR, the ratio of median house prices to median workplace-based earnings) is greater than four. The figure four is taken as the usual maximum allowed multiple of earnings for a mortgage loan to buy a house. If the Local Affordability Ratio (LAR) is four then the first factor in the above equation is zero; no allowance needs to be made for high house prices because house prices locally are all considered within reach of an average-salaried person. Savills has argued that the number four actually refers to the loan to income ratio, not the price to income ratio and recommends the value of five as a better option here[21]. Indeed, the factor of four is applied to a single person's earnings, and does not account for couples purchasing together.

The *CCPS* claims that if the LAR is above four, then for every 1% increase in the ratio, housing needs would be increased by 0.25% (this is the effect of the "x0.25" in this part of the equation). The reverse happens if the LAR is less than four; in that case, housing needs would be decreased by 0.25% for every 1% decrease in LAR. In fact, the impact of a changing LAR is not fixed, but depends on how far above or below the threshold value of four the LAR is. So, for example, if the LAR is eight, a 1% change in its value increases housing needs by 0.5% - double what the *CCPS* claims.

The second component (the second set of curved brackets in the above equation, ending in the second "x0.25") adjusts housing targets if the LAR has increased over the

previous 10 years. Such an increase is interpreted by the Government as indicating that housing supply has not kept up with demand; house prices have risen as a consequence, houses have become more unaffordable and the LAR has risen. Therefore, the Government concludes, more new houses should be built. This conclusion would be valid only if prices were responding to demand from only one sector of the population – those looking to buy a house in which to live. As explained above and elsewhere, houses and, especially, land in the UK are seen as a solid investment both in the UK and abroad, providing spectacular returns on capital at a time when commercial and bank interest rates are at an extended historical low. And, as shown in the earlier section, The Wrong Answers to the Wrong Questions?, there is no sign that building more houses actually does reduce house prices.

The second term, like the first, has a variable impact on the calculated Adjustment Factor. When the LAR difference over a 10 year period is about one, a 1% change in this difference results in an increase of about 0.2% in housing targets. When the difference rises to four, a 1% change results in a 0.5% increase in housing targets; when eight a 0.66% increase, and so on[iii]. Depending on where the LAR currently is, and how much it has changed over the previous 10 years, the first and second terms in the Adjustment Factor equation would make a variable contribution to the final value of the Adjustment Factor.

The effect of a locally high Affordability Ratio is capped in the present formula's Adjustment Factor so that, no matter how high it actually is, the resulting housing target is never greater than 40% over baseline (thus the cap means that the AF is always less than or equal to 1.4). The new formula proposes to abolish this cap entirely so that the higher the Affordability Ratio is, and the more it has increased over the last 10 years, the greater would be Adjustment Factor and, consequently, the calculated housing target, without limit.

It is important to show just how significant would be all of these proposed changes in the housing needs calculation, in order to answer Questions 3, 4 and 5 in this section of the *CCPS*.

[iii] In each case, the effect of LAR, or the 10-year increase in LAR, on the Adjustment Factor (therefore the housing target) was investigated by using the Adjustment Factor equation including either the first component alone (to investigate the effect of LAR), or the second component alone (to investigate the effect of 10-year differences in the LAR). The '1+' in the Adjustment Factor equation means that a fixed percentage change in the LAR does not result in a fixed percentage change in the Adjustment Factor, and therefore housing targets.

Figure 6 shows how the Local Affordability Ratio has changed in each region of England and Wales over the 10-year period ending in 2019[22].

Notice that in all regions the LAR has always been above 4.0, and that it has trended up over time (although there has been a slight downturn in the last two years in some regions, most notably London, the South East and the East). This would mean that both components of the Adjustment Factor equation would come into play to determine housing figures.

Figure 6. Regional Local Affordability Ratios (median house prices/median workplace-based earnings), 2009- 2019.
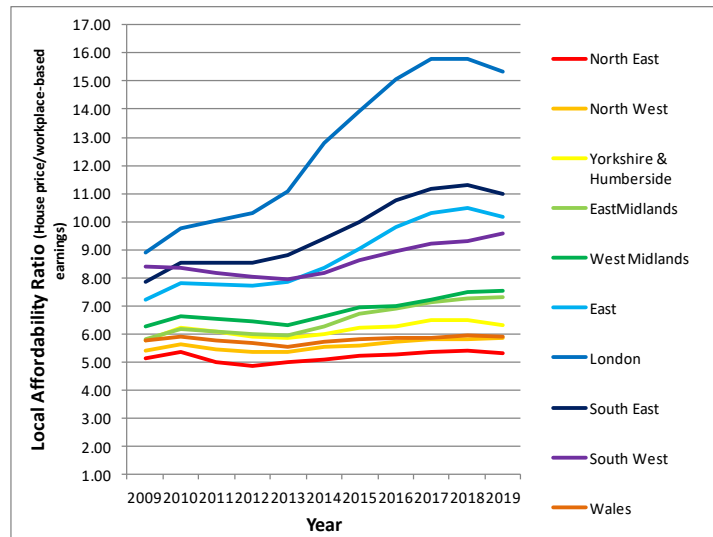
Figure 7 shows the frequency distribution of Affordability Ratios in all of the local authorities in England and Wales in 2019. Only five out of 339 (1.5%) authorities had an Affordability Ratio of 4.0 or less.

The average home is thus out of reach of the average (single) home buyer who is able to obtain a maximum mortgage of only four times her or his average salary.
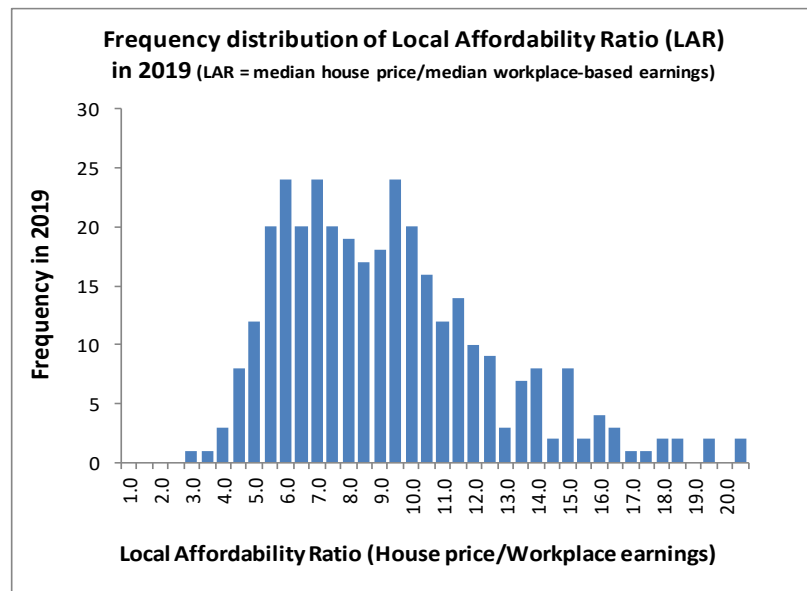
Figure 8 shows a comparison of the frequency distributions of the Adjustment Factors (AF) calculated by the existing method (red histogram) and by the CCPS proposed new

Figure 7. Frequency distribution of Local Authority Affordability Ratios (LAR) in England and Wales in 2019.

method (blue histogram). Remembering that the adjustment factor is a multiplier of the baseline figure, it is clear from Figure 8 that the multipliers calculated in the new formula are significantly higher than most of those in the old formula. An adjustment factor of 2.0 represents a doubling of baseline numbers, of 3.0 a tripling of those

numbers, and so on. In the new calculations, 38% of local authorities would have to more than double their baseline figures. Most of these authorities are in the south of the country. Unsurprisingly, all London boroughs have an AF in excess of 2.0, 22 have AFs in excess of 3.0 and three have AFs in excess of 4.0 (Hammersmith & Fulham, 4.02; Kensington & Chelsea, 7.19; and Westminster, 4.18).
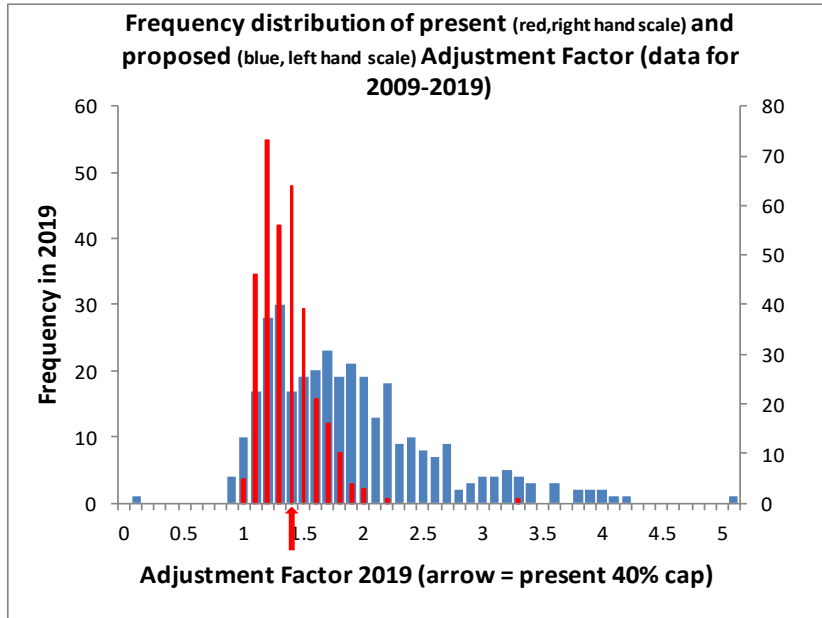
The formula has done what its creators wanted; it has assigned the greatest increase in

Figure 8. Frequency distribution of the Adjustment Factor used in the existing housing needs calculation (red histogram, right-hand scale) and the new CCPS proposed Adjustment Factor (blue histogram, left-hand scale). The red arrow below the x-axis is set at the 40% cap of the present formula (i.e. at x = 1.4). There is no cap in the new formula.

baseline housing numbers to places where houses are currently the most expensive relative to incomes. However, how you ensure that Kensington and Chelsea build *more than seven times* their baseline housing numbers would be a challenge even in a country where we are urged to: "Build, build, build".

CCPS paragraph 31 restates that: "high house prices indicate a relative imbalance between the supply and demand for new homes". However, high house prices can be related to several additional factors which are not accounted for in this methodology. The presence of housing as an investment vehicle is not accounted for, neither for capital preservation or income generation such as buy-to-let, Airbnb, nor the quantum of second or holiday homes.

In some high price areas, such as national parks, AONBs or high-quality countryside within reach of London or other centres, house prices would have to fall by up to 60% to get down to an affordability ratio of four. This would mean not just that huge swathes of new market housing would have to be built and sold cheaply by building developers, but critically that existing dwelling prices would have to fall by a similar amount (only approximately 10% of housing sales each year are of new-build homes; the remaining 90% are of existing homes). That would quite possibly put millions of current owner-

occupiers into negative equity. Pension funds with property investments would similarly be exposed.

The only solution to the housing problem is to build more social housing and thus to create a parallel and "competing" market to the private sector. Social housing would remove from the housing market only those people who cannot afford full market-price houses and, therefore, private developers would not be threatened either by any reduction in demand or by any reduction in house prices arising from Government-dictated excessive increases in private sector housing supplies.

CCPS **paragraph 32** discusses whether house price to workplace-based or residence-based earnings ratio should be used. The consultation opts for using workplace figures, but does not explain why. In areas that have high levels of commuting, particularly into London where median salaries are the highest in the country (Figure 2, upper), this decision would have a distorting effect. At first inspection, it seems more logical to use residence-based earnings, rather than workplace-based, to calculate the ratio. The high London wages of commuters into London would, however, decrease the Local Affordability Ratio in the areas outsides London where they live, and so – all other things being equal - would decrease the adjustment factor in the housing needs formula. Unfortunately, all other things are rarely equal and the high salaries of Londoners are also likely to drive up local house prices, keeping the Affordability Ratios high in such dormitory areas, and even more out of reach of local people.

CCPS **paragraphs 33 to 36** confirm that the new method is more sensitive than the old to affordability, in our view excessively so (see Figure 8 and the discussion about it). Paragraph 35 holds out the possibility that, under the new method, the adjustment factor could be less than 1.0, so that predicted housing need is less than baseline. But this would only happen if baseline is set by housing stock, the Affordability Ratio is less than four and there has been no change in affordability over the previous 10 years. Figure 7 shows that the AR is very rarely less than four and Figure 6 shows that the AR has increased in all regions over the last 10 years. Thus the chance that the adjustment factor would be less than 1.0 is vanishingly small. The result of the Adjustment Factor virtually always being greater than 1.0 is that the total number of houses would be greater than the 0.5% baseline figure set in Step 1. As was pointed out before, 0.5% itself is above the predicted increase in population in the next two decades or so; inflating it still further with an Adjustment Factor will encourage an over-supply of houses, and an eventual disinclination of the market sector to build any more.

Unless otherwise constrained, private house-builders tend to build larger and more expensive houses because the profit margin on them is greater. There is no incentive for them to build cheaper houses in the proposed new method.

A perverse consequence of the new formula might therefore arise as follows. Much of the value of a house (currently approximately 70%[23]) is for the land on which it sits. In areas where the new formula mandates that we build lots more houses (because prices are already very high), those current high prices would encourage holders of building land to insist on increasingly high prices for that land. There would be land price inflation, which in turn would drive house price inflation, keeping the price/wage ratio high and driving requirements for yet more houses. The proposals could lead to a vicious upward spiral in house prices – exactly the opposite of the *CCPS* document's intentions.

There is another unsubstantiated statement in paragraph 36 that, if an average worker

Figure 9. Over the long-term, UK house prices are related to household disposable incomes. Prices, however, go in cycles, each with different driving factors. The persistent change after about 2005 is attributed to a long-term fall in interest rates and the entry into the housing market of investment capital looking for a good return. Houses are an asset mainly because they sit on that most valuable, non-renewable and limited commodity of all – land. This is Figure 2.2 from Meen & Whitehead [op.cit.]

Figure 2.2: Ratio of UK house prices to household disposable income (2015=100), 1969–2017
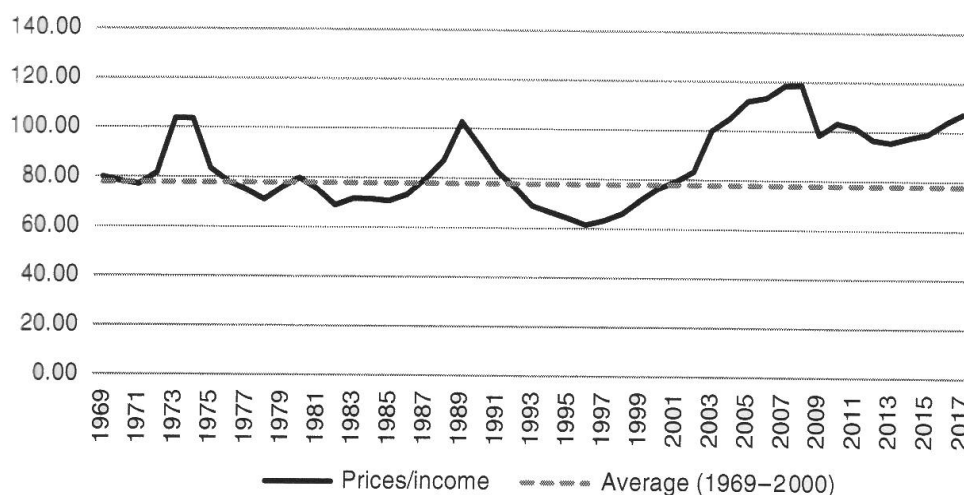
Source: Office for National Statistics

cannot get a mortgage for an average home, then there are not enough homes. This fails to consider the requirements for mortgages, particularly for first-time-buyers which are not related to supply but to deposit levels and the availability of credit. The obverse of this argument is also correct. If there are too few workers earning enough to meet standard mortgage requirements, then there are not enough well-paid workers.

Although over the longer term, house prices cannot be out of reach of the entire population, and hence house prices cannot increase without limit, house prices would continue to be within reach only of a fraction of the population (Figure 9).

CCPS **paragraph 37** concentrates on the second component of the Adjustment Factor, and on the effect of the 'x0.25' multiplier. As pointed out above, increases in the Affordability Ratio over time may have an overwhelming effect on the Adjustment Factor because of the value of this second component. The effect is scale dependent, but is considerable given the levels and recorded changes in Affordability over the last ten years (Figure 9 and discussion).

This second component would, in conjunction with the baseline of 0.5% of existing housing stock, produce the magic number of 300,000 new houses per year across the country. The new formula, however, not only demands more houses than are actually needed but also so strongly skews housing distribution that it results in some impossible housing targets, in extreme cases of several multiples of the baseline figure.

CCPS **paragraph 39** Removing the cap (currently 40%) on housing need predictions might achieve the desired outcome of 300,000 additional houses a year, but this outcome would now involve certain authorities building two, three or four or more times the baseline housing figures. This might be ignored were only a few authorities to be involved, but the data presented in Figure 9 show that 68% of all authorities would have housing targets above the previous cap of a 40% increase, and 38% would have targets double the baseline figure.

Question 3: Do you agree that using the ratio of median house prices to median workplace-based earnings for the most recent year…. to adjust the standard method's baseline is appropriate? In not, please explain why.

Answer 3: No, the resident-based median earnings to house price ratio makes more sense because commuter patterns can unduly skew the results.

Question 4: Do you agree that incorporating an adjustment for the change of affordability over 10 years is a positive way to look at whether affordability has improved? If not, please explain why.

Answer 4: The question is badly posed, and verges on the trivial; does affordability measure changes in affordability? By definition, it does. As to whether changes in the Affordability Ratio should be incorporated into a housing needs formula, the answer depends on what the formula is trying to do. If its sole purpose is to generate a grand

total of 300,000 houses per year then, appropriately weighted, it can achieve this result, although it would put more houses where it is likely to be difficult to build them. In a free market, prices are high for a reason; the demand is too great or the supply is too small. Building more houses should reduce the demand and patently increases the supply, thus reducing the demand/supply imbalance, and therefore the marginal price that developers can charge. But developers are about as unlikely to increase the supply of houses to a level that reduces house prices as a lumberjack is to saw off the branch on which she is sitting.

If the baseline is set to 0.5% in Step 1, as suggested above, then Step 2 could be used to re-distribute the total number of houses *either* in line with the current houses-as-usual approach embedded in the current and proposed formulae, *or* in a way that helps to achieve some other Government objective, which might be about social housing, jobs or the environment. Thus, for example, with a social housing programme, this redistribution should be in-line with the current demand for social housing across the country. If, for example, a Local Authority has x% of the total number, nationwide, of all those who need social housing, then that Authority should build (Step 1)*x%/100 of those social houses. Across the country, this would result in 100% of social housing needs being met, and in the places where they are needed most. This calculation assumes that all new houses are social houses, and that the entire social housing need is met within a single local plan period. Allowance could be made for the former by deciding in advance what proportion of all new houses should be social. This proportion (for example, p) is then used as a pre-multiplier in the suggested calculation, which then becomes p*(Step1)*x%/100 as the number of new houses in the current local plans that would be social.

If, on the other hand, the Government's priority is a redistribution or a levelling up across the country, a prior decision involves where to put all the new jobs being created. Once that decision is taken, Step 2 in the formula distributes the new houses in proportion to where the new jobs would be. Again, as in the previous example, not all new houses need to follow all new jobs; a fraction of new houses should be built for the offspring of local people. The projected ONS increase in the UK population to 2043 is about 9%, half due to international immigration and half due to the increase in local residents (immigrants one year become residents at some time in the future, so their offspring contribute to future "local" population growth). It would therefore seem sensible to ensure a local increase to 2043 of *c.* 9% in all local authority regions to cope with this average level of increase. The remainder could be distributed according to the new jobs.

It goes without saying that the agglomeration effect means that, without intervention, new jobs tend to be created where jobs are already present, and productive. This agglomeration has led to the London effect – the concentration of jobs and opportunities in the south-east. Government has – wittingly or unwittingly – contributed to this effect by increasing the resources poured into the south-east. Londoners have a far greater *per capita* public transport subsidy than any regional community. 53% of all UK R&D expenditure goes into just three regions, London, the South East and the East; R&D spending per head is almost twice as high in the East (£1,064) as it is on average over the UK (£558)[24]. This spending, by both the Government and industry, could be redirected to other regions of the country given the right Government intervention. There is a way; it just needs a will.

Tinkering with the relative weights of current LARs or the change in LARs over the previous 10 years is a way of massaging a houses-as-usual approach that comes up with the right total target number. If the Step 1 baseline is set at 0.5%, Step 2 should not increase the total number of houses overall, but should redistribute them in some policy-driven way. Reducing the effect of Step 2 would also reduce the effects of sudden shocks to the system – such as house price crashes, a post-Covid economic slump, or a post-Brexit slump of new immigrants. The housing market should be made less sensitive to such economic cycles; first and foremost it should be about people, not economics.

Question 5: Do you agree that affordability is given an appropriate weighting within the standard method? In not, please explain why.

Answer 5: Answers to Question 3 and Question 4 show our response to affordability weightings. As presently structured, we predict the formula is unworkable, and politically toxic in the shire counties, producing an overall outcome which could well be more than twice the actual need.

Result of the revised standard method (*CCPS* paragraphs 40-41)

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CCPS **Paragraph 40** says that: "the new standard method results in a national housing need of 337,000". No, it doesn't, it is fixed to come out with a number that is higher than the magic 300,000 dpa. This is demand; it is not national housing need which is somewhere much more like the ONS household projections of 164,000 dpa. 337,000 dpa is unlikely to be achievable in any event because developers would not build out to

suit the Government's aspirations, but their own business models. In fact, delaying construction suits their model even better, as yet more land would need to be released by local authorities, who have themselves no mechanism for ensuring construction is completed; and yet it is they who would be penalised, or rather their residents.

The new method would not result in the addition of significantly more affordable houses. We predict it would result in the exact opposite.

CCPS **Paragraph 41** The revised method supposedly: "identifies 76% of local housing need nationally focused in local authorities classified as urban". Unfortunately, this does not cover the whole story, as one large town in a rural area can push the local authority into the urban class when, in fact, a major part of its land is rural. Therefore the 76% is misleading. A better factor in the formula would be proportion of built-up land in a district.

Transition and Next Steps (*CCPS* paragraphs 43 and 44, and questions 6 and 7)

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The proposals as they stand would require such momentous changes in land-use planning that, rather than worrying about transition dates, the whole method should be reconsidered.

The standard method - conclusions

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1. The proposed new standard method (*CCPS* paragraph 30) is another "dodgy algorithm" which serves mainly to shift housing numbers from the cities to the rural districts. Its assumptions run counter to the evidence-base of overall need (based on ONS projections) and to a total lack of any evidence whatsoever that building more houses actually reduces house prices (e.g. Fig. 1).
2. It calculates a number which reaches the Government's aspiration of 300,000 pa, but this is not need, it is demand.
3. It does not account for any constraints in terms of national parks, other designations, nor water resources, or access to public transport.
4. It entrenches the perverse incentives for house builders to build expensive homes in expensive areas and commences an ever-increasing endogenous loop dis-incentivising affordability.

5. The proposed methodology does nothing to encourage (or force) the building-out of the 1,000,000 homes that are already permitted in England, the reasons for which the Letwin report identified. The *CCPS* document labours under the misapprehension that delays are solely due to the planning system.
6. The proposals fail to support the Government's levelling-up agenda, with too much development and investment focussed on already wealthy London and the south-east and too little in the Midlands and the North of England (below even their demographic projections).
7. The objective of maximising use of brownfield land is not achieved with these proposals.
8. The proposals are likely to result in a significant loss of trust in the new system.

First Homes (*CCPS* paragraphs 45-67)

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The proposal that, to qualify as a First Home, a property must be marketed and sold at a discount of at least 30% below market value, sounds good at first glance, but problematic in reality.

Shelter has pointed[25] out that First Homes could make the housing emergency worse, diverting money from other types of affordable housing, specifically social housing, and being unaffordable to the average earner in 96% of the country.
Shelter also said,

"To buy a First Home, people will need a deposit. But high rents mean it's impossible for most private renters to save for a deposit – 63% have no savings at all. And even if they get over this hurdle, not only will these homes be unaffordable for average earners, but our analysis shows that across the whole of England, only the richest 28% of private renting households earn enough money to be able to access a First Home. The vast majority of private renters – 3.3 million households – will miss out."

The proposed cap for First Homes, £420,000 in London and £250,000 elsewhere, would plainly not be affordable for the vast majority of first-time-buyers, even if local planning authorities were allowed to require a higher minimum discount if they provide evidence for need for, and viability of, homes at a higher discount. In any case, there is surely something not just economically wrong but also morally wrong with a subsidised housing market where the salary cap for entry is set at £80,000 p.a. outside London and £90,000 p.a. inside the capital, i.e. several multiples of the average wages in each area.

To afford a £250,000 mortgage[26], a buyer, or couple, would have to earn £56,000. Even in, Newham, one of the few boroughs in London where the average price paid by first time buyers is below £420,000 (£412,000), a household income of £92,000 would be required. Outside London[27], the average price a first-time buyer pays is £220,000 – less than the new cap. But in the East of England, for instance, ONS statistics for 2019 show lower quartile earnings were £22,000 a year. A single person on a £22,000 salary would only be able to borrow £100,000 and, even if two people on this salary were to join together to buy a house, they would only be able to borrow up to £200,000, *at most*. Few such potential buyers would have been able to save enough for a deposit. Of course, for every two 30% discount homes, you could have three 20% discount affordable homes.

Lenders are extremely cautious about low-deposit mortgages. Not only are interest rates for first-time-buyers with small deposits rising (3.5% for a first-time buyer with 10% deposit vs 1.79% for those with 40% equity), but also nearly all 10% deposit mortgages have been withdrawn and 5% deposit deals have disappeared entirely. The banks believe these buyers are at risk of falling into negative equity or defaulting on their mortgage. If, as looks likely, we have economic turbulence ahead, that has serious implications for the launch of this product.

First Homes could also be provided without the necessary infrastructure due to the proposal to exempt them from the community infrastructure levy where this is in place.

First Homes also run the risk of developers claiming that a discount of greater than 30% would not be viable and/or that developer contributions to other forms of affordable housing and infrastructure would need to be reduced or eliminated. The Single Infrastructure Levy would be expected to pay for First Homes, affordable homes, on and off-site infrastructure and biodiversity offsetting.

The First Homes proposal is, essentially, a way of skimming off the cream from new developments, prioritizing them over both affordable housing and infrastructure. This is a political choice, designed to attract those on higher salaries, rather than a serious attempt to address housing problems. We note that every two First Homes under this scheme would take the place of three affordable homes under the existing schemes. This "two for three" swap does not seem like a bargain.

Question 8: The Government is proposing policy compliant planning applications will deliver a minimum of 25% of onsite affordable housing as First Homes, and a minimum of 25% of offsite contributions towards First Homes where appropriate. Which do you think is the most appropriate option for the remaining 75% of affordable housing secured through developer contributions? Please provide reasons and / or evidence for your views (if possible):

(i) Prioritising the replacement of affordable home ownership tenures, and delivering rental tenures in the ratio set out in the local plan policy.
(ii) Negotiation between a local authority and developer.
(iii) Other (please specify)

Answer 8: We do not support the First Homes proposal and it is unfortunate the question regards this as a foregone conclusion. If it is, then we believe the remaining 75% should be dedicate largely or entirely to socially rented local authority or registered social landlord housing.

With regards to current exemptions from delivery of affordable home ownership products:
Question 9: Should the existing exemptions from the requirement for affordable home ownership products (e.g. for build to rent) also apply to apply to this First Homes requirement?

Answer 9: No.

Question 10: Are any existing exemptions not required? If not, please set out which exemptions and why.

Answer 10: No.

Question 11: Are any other exemptions needed? If so, please provide reasons and /or evidence for your views.

Answer 11: No.

Q12: Do you agree with the proposed approach to transitional arrangements set out above?

Answer 12: No.

Q13: Do you agree with the proposed approach to different levels of discount?

Answer 13: No.

Q14: Do you agree with the approach of allowing a small proportion of market housing on First Homes exception sites, in order to ensure site viability?

Answer 14: No.

Q15: Do you agree with the removal of the site size threshold set out in the *National Planning Policy Framework*?

Answer 15: No.

Q16: Do you agree that the First Homes exception sites policy should not apply in designated rural areas?

Answer 16: No.

First homes – conclusions

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The First Homes policy is apparently aimed at securing earlier house purchase by those on higher incomes who would be likely to become owner-occupiers in the relatively near future anyway. It would involve diverting money from much needed infrastructure and would do nothing to address the real housing crises in England.

Supporting small and medium-sized developers (*CCPS* paragraphs 68-84)

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CCPS **paragraph 68** We agree that SME builders make an important contribution to housing supply and that they are less prone to the practice of volume builders of not building out sites solely to maximize their profits. They tend to be more flexible, more willing to use small and brownfield sites and are more responsive to local need and to democratically determined design requirements than larger builders who current policies enable to ignore such things.

CCPS paragraphs 69-75 We understand the struggles that SME builders are currently facing given the state of the economy and unfair competition from larger builders facilitated by national planning policy. In this context, we can understand the motives for proposing they be exempted, at least temporarily, from Section 106 and CIL payments.

This would, however, further increase the shortfall in the money needed to provide infrastructure to support development. In the circumstances we suggest any shortfall of funds left by such an extension be made up by volume builders by increasing their contributions.

Question 17: Do you agree with the proposed approach to raise the small sites threshold for a time-limited period?

Answer 17: As stated above, any shortfall of infrastructure money should be made up by larger builders.

Question 18: What is the appropriate level of small sites threshold?
(i) Up to 40 homes
(ii) Up to 50 homes
(iii) Other (please specify)

Answer 18: The proposed level of 40-50 homes is too high. There should be no minimum threshold. The danger is that larger companies simply divide themselves into smaller units to avoid the obligation to contribute.

Question 19: Do you agree with the proposed approach to the site size threshold?

Answer 19: See above.

Question 20: Do you agree with linking the time-limited period to economic recovery and raising the threshold for an initial period of 18 months?

Answer 20: 18 months would appear to be an appropriate period, but if the infrastructure money obligation could be shifted to volume builders, the arrangement could usefully be made permanent.

Question 21: Do you agree with the proposed approach to minimising threshold effects?

Answer 21: Yes, although there would need to be financial penalties for larger developers who attempt to game the system in this way.

Question 22. Do you agree with the Government's proposed approach to setting thresholds in rural areas?

Answer 22: There should be no minimum threshold in rural areas.

Question 23, Are there any other way in which the Government can support SME builders to deliver new homes during the economic recovery period?

Answer 23: Contract them to build social housing.

Extending permission-in-principle (*CCPS* paragraphs 85-122)

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CCPS **paragraphs 85-122** Permission-in-principle has been a largely unmitigated disaster since its introduction in 2017. It has secured a new generation of slums in buildings which, had they been suitable for conversion, should have been subject to the full rigour of the planning system. PiP was introduced solely for ideological reasons and, if the Government is serious about improving housing, most of its provisions need to be brought to a halt.

With PiP we are not building the slums of the future; we are building the slums of today. The MHCLG-commissioned study of change of use permitted developments shows that PiP without fuller planning examination has been exploited to deliver houses that are unfit for occupation and do not meet even minimum building standards.[28]

Question 24: Do you agree that the new Permission in Principle should remove the restriction on major development?

Answer 24: No.

Question 25: Should the new Permission in Principle for major development set any limit on the amount of commercial development (providing housing still occupies the majority of floor space of the overall scheme)? Please provide any comments in support of your views.

Answer 25: Permission-in-principle should not apply to any major development.

Question 26: Do you agree with our proposal that information requirements for Permission in Principle by application for major development should broadly remain unchanged? If you disagree, what changes would you suggest and why?

Answer 26: Any information requirement should be at least as informative as for the usual planning permission route.

Question 27: Should there be an additional height parameter for Permission in Principle? Please provide comments in support of your views.

Answer 27: No.

Question 28: Do you agree that publicity arrangements for Permission in Principle by application should be extended for large developments? If so, should local planning authorities be:
(i) required to publish a notice in a local newspaper?
(ii) subject to a general requirement to publicise the application or
(iii) both?
(iv) disagree (please state reasons)

Answer28: See Question 25 above.

Question 29: Do you agree with our proposal for a banded fee structure based on a flat fee per hectare, with a maximum fee cap?

Answer 29: No.

Question 30: What level of flat fee do you consider appropriate, and why?

Answer 30: None.

Question 31: Do you agree than any brownfield site that is granted Permission in Principle through the application process should be included in Part 2 of the Brownfield Land Register? If you disagree, please state why.

Answer 31: No comment.

Question 32: What guidance would help support applicants and local planning authorities to make decisions about Permission in Princip0le? Where possible, please set out any areas of guidance you consider are currently lacking and would assist stakeholders.

Answer 32: See Question 25 above.

Question 33: What costs and benefits do you envisage the proposed scheme would cause? Where you have identified drawbacks, how might these be overcome?

Answer 33: The drawbacks to permission-in-principle are intrinsic and cannot be overcome.

Question 34: To what extent do you consider landowners and developers are likely to use the proposed measure? Please provide evidence where possible.

Answer 34: Land owners and developers are likely to exploit such arrangements to the maximum extent, to the detriment of the environment and sustainable development.

Public Sector Equality Duty

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Question 35. In light of the proposals set out in this consultation, are there any direct or indirect impacts in terms of eliminating unlawful discrimination, advancing equality of opportunity and fostering good relations on people who share characteristics protected under the Public Sector Equality Duty? If so, please specify....

Answer 35: Needed to all of the above.

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