

**SOUTH EAST ENGLAND
REGIONAL PLANNING COMMITTEE**

Date: 23 July 2008

Subject: **NHPAU Advice to the Minister on Regional Housing Supply Ranges for Testing**

Report of: Planning Manager

Recommendation:

It is recommended that the Committee notes the National Housing and Planning Advice Unit advice to the Minister on housing supply ranges to be tested by Regional Planning Bodies in Regional Spatial Strategy reviews.

Purpose of the Report:

To advise the Committee of the recent NHPAU advice to the Minister on the housing supply range to be tested through a review of the South East Plan.

Key Issues:

The National Housing and Planning Advice Unit has recently published its advice to the Minister on housing supply ranges to be tested by Regional Planning Bodies.

The Unit has used two different methods to inform the range: one based on an affordability model and one based on a demographic model. The bottom of the range for the South East is an average of 37,800 homes per year to 2026, and the top of the range is 49,700 homes. NHPAU believe that around 50,000 homes a year are required in the South East to stabilise affordability; 41,000 to meet demographic demand, plus allowances for backlog, second homes and vacancies; and 38,000 to meet the latest official household projections and the Government's own targets in the Housing Green Paper.

The Minister for Housing is currently considering the NHPAU advice and will decide how it is to be incorporated into formal guidance to be issued about the next round of RSS reviews. Our understanding is that the Government may set out its decision alongside the forthcoming Proposed Modifications. An announcement is expected before the Regional Planning Committee meets.

I. Introduction

- 1.1 Last year's Housing Green Paper – Homes for the Future: More affordable, more sustainable – signalled that the Government would be issuing formal guidance on housing provision ranges for the next 15 to 20 years to inform the proposed early round of Regional Spatial Strategy (RSS) reviews. The guidance would be based on the independent advice of the National Housing and Planning Advice Unit (NHPAU), but consistent with the Government's national housing targets (2 million more homes by 2016 and 3 million by 2020) and its aim of stabilising housing affordability over the longer-term.
- 1.2 The NHPAU advice¹ was submitted to the Minister for Housing on 26th June 2008. At the time of writing this report there has been no reaction from Government to either the figures for the South East or those for any of the other English regions. Our understanding is that the Government may set out its decision about how the NHPAU advice should be used to inform any review of the housing elements of the South East Plan alongside the forthcoming Proposed Modifications. An announcement is expected before the Regional Planning Committee meets.
- 1.3 In the meantime, we are working on the basis of what Government said about the NHPAU advice in its Green Paper:

‘We will expect Regional Planning Bodies and Examination in Public Panels to test these options so that the Secretary of State can be fully informed when taking the final decisions about appropriate levels of housing provision in approving the RSS.’
- 1.4 NHPAU claim that they have worked closely with Assemblies and others to develop their advice. In fact, in the South East Assembly officers have not been closely involved in any of the technical work; there were only two briefing meetings and no paperwork was shared.
- 1.5 The Regional Planning Committee has previously considered the NHPAU approach – if not its outputs – in the context of Professor Whitehead's report for the Regional Assembly on housing supply and affordability². That work is acknowledged in the NHPAU advice as the most comprehensive on affordability at a regional level.

2. NHPAU Recommended Supply Range 2008-2026

- 2.1 The NHPAU advice to Government on the supply range for the South East that should be tested through the Plan process is set out in the following table (the totals for England are included for comparison).

¹ Meeting the housing requirements of an aspiring and growing nation: taking the medium and long-term view, NHPAU, 2006. See: <http://www.communities.gov.uk/documents/507390/pdf/863376.pdf>

² See: http://www.southeast-ra.gov.uk/documents/housing/christine_whitehead-housing_and_affordability_in_se.pdf

Table 1: NHPAU Recommended Supply Range

	Bottom of Proposed Supply Range				Top of Proposed Supply Range			
	Average annual net additions to 2026	Minimum delivery point by 2016	Total net additions by 2016	Total net additions by 2020	Average annual net additions to 2026	Minimum delivery point by 2016	Total net additions by 2016	Total net additions by 2020
South East	37,800	38,700	331,500	486,200	49,700	53,800	407,200	622,500
England	231,500	240,100	1,996,900	2,957,000	276,900	297,700	2,285,200	3,475,900

2.2 The NHPAU advice is derived from two different methods for arriving at potential housing requirements: an affordability model and a demographic model. A third approach – an economic growth model – was explored by NHPAU, but not pursued. The NHPAU report explains in considerable detail the data sources, approach, assumptions and scenarios that have been used to arrive at their range. The remainder of this section of this report outlines the main points.

Affordability Analysis

2.3 The aim of this strand of the NHPAU analysis was to establish what level of housing supply would be required to stabilise (but not improve) affordability, all things being equal, over the long-term and in each region. The Government's chosen indicator is the ratio of lower quartile earnings to house prices. The baseline measure for the South East is 8.48 in the first quarter of 2007 (the equivalent figure for England is 7.25).

2.4 The tool used by NHPAU to generate the affordability results is the affordability model commissioned by Communities and Local Government (CLG) and developed by Reading Business School at Reading University. NHPAU describe their underlying assumptions as 'cautious', based on a conservative view of growth in household numbers and economic prospects. The main assumptions are set out in the following table.

Table 2: Main Assumptions Underpinning NHPAU Affordability Model

Population and Household Projections:	ONS revised 2004-based population projections and CLG revised 2004-based household projections
Growth in earnings:	Nominal growth of 4% per annum
Mortgage interest rates:	Average of 6.25% until 2026
Regional adjustment:	Under a market-led approach, the model suggests that increased supply should be focused on those regions where affordability is worst. This can lead to supply figures below basic household projections in the North and Midlands. NHPAU do not think it appropriate to plan for fewer homes in any region than the basic official household projections indicate. Therefore, a minimum requirement for each region has been introduced based on the revised 2004-based household projections.

- 2.5 Based on this analysis, NHPAU believe that in the South East an average of just under 50,000 homes per annum would be required to stabilise affordability to 2007 levels by 2026. Although the NHPAU report does not really comment on the trajectory of growth, their figures are in effect phased, with an average of just over 45,000 homes per annum to 2016, and almost 54,000 from 2016 to 2026. These results form the upper end of the NHPAU advice in Table I of this report.
- 2.6 NHPAU have also used the affordability model to explore the implications of altering the mix of homes supplied. This is because a mix that better accounts for future demand, including from existing homeowners, is likely to have a more significant impact on overall affordability. This echoes a point made by Prof. Christine Whitehead in her recent report to the Regional Assembly on housing supply and affordability. NHPAU estimate that delivering 'bigger and better' homes would have a better 'pay-off' in terms of an improvement in affordability, reducing the annual average number of homes required to stabilise affordability by 2026 to just under 48,000 in the South East.

Demographic Analysis

- 2.7 The second strand of the NHPAU analysis – formerly known as 'predict and provide' – is based on household projections. NHPAU have used the following method, data and allowances:

Table 3: NHPAU Demographic Model

Growth in number of households	CLG revised 2004-based household projections Annual average change in the South East 2006-2026 = 35,850
+	
Existing constrained demand (or 'backlog') Sharing households, overcrowded households, concealed households, homeless, changes in one-person and multi-person households, changes in non-dependent children living with their parents	Annual average net additional homes required in the South East 2008-2026 = 3,700.
+	
Demand for Second Homes	Annual allowance for the South East 2008-2026 = 500
+	
Vacancies	Annual allowance for the South East 2008-2026 = 1,020
=	
Required Housing Supply	41,200 per annum 2008-2016

- 2.8 The results from the demographic model give an annual average housing requirement for the South East of 41,200 between 2008 and 2016. It is important to note that for the South East, the NHPAU demographic analysis

does not form the bottom end of the range in Table I of this report. Rather, it falls around mid-way between the bottom and top of the proposed housing supply range for the South East.

Basis of the NHPAU Range

2.9 NHPAU recommend to Ministers that the minimum number of homes that should be considered in RSS reviews is projected housing demand based on household projections and Government targets for the supply of new homes. The bottom of the range – an average of 37,800 homes per annum to 2026 (in Table I) – is therefore based on the CLG revised 2004-based household projections, actual housing provision in 2006/07 and the housing targets in the Green Paper for 2016 and 2020. For comparative purposes, the CLG revised 2004-based household projections for the South East are set out in the following table.

Table 4: CLG Revised 2004-based Household Projections, South East

	Households
2006	3,443,000
2006-2011 (average per annum)	35,000
2011	3,618,000
2011-2016 (average per annum)	37,800
2016	3,807,000
2016-2021 (average per annum)	37,200
2021	3,993,000
2021-2026 (average per annum)	33,400
2026	4,160,000
Total Change 2006-2026	717,000
Annual Average Change 2006-2026	35,850

2.10 The upper end of the range is the number of homes that NHPAU consider necessary to meet demand (including backlog, second homes and vacancies) and to stabilise affordability. For the South East this is the figure of 49,700 homes per year to 2026 derived from the affordability model.

2.11 To summarise, NHPAU believe that:

- around 50,000 homes a year are required in the South East to stabilise affordability;
- 41,000 to meet demographic demand, plus allowances for backlog, second homes and vacancies; and,
- 38,000 to meet the household projections and the Government's own targets in its Housing Green Paper.

3. Status of the NHPAU Figures

- 3.1 The NHPAU figures represent the Unit's independent technical advice to Government on the supply ranges to be tested by regional planning bodies in future RSS reviews. The range is not a supply target and NHPAU acknowledge that consideration of how different rates of housing provision relate to wider objectives, including sustainability, the economy and infrastructure, as well as the challenge of delivery, are for detailed regional consideration and public scrutiny.
- 3.2 Nevertheless, NHPAU describe their advice as 'bookends'. Their recommendation to the Minister is that the minimum number of homes to be considered should be based on the CLG revised 2004-based household projections adjusted to ensure that the Government's housing targets are satisfied. NHPAU have also stressed what they regard as the cautious nature of the assumptions underpinning their analysis. In particular, they have chosen not to take on board the latest ONS population projections.
- 3.3 National 2006-based projections were published in September 2007, but the sub-national detail not until 12th June 2008. These projections show a projected population for the South East at 2026 which is some 412,000 more than the revised 2004-based population projections. Population change 2006 to 2026 is now projected to be 1,285,500.
- 3.4 NHPAU identify two reasons for not taking on board the latest population projections: (i) that the official CLG 2006-based household projections will not be available until later this year, and (ii) the debate about whether the population projections – particularly their migration assumptions – will be realised. Nevertheless, NHPAU go on to say that regional planning bodies will want to consider the potential impact of future projections on their plans, and that it may be one factor to influence where we start to focus along the proposed supply range. Our own initial analysis suggests that the new population projections would imply household growth of nearly 40,000 a year in the South East 2006-2026, or nearly 85,000 more households over the 20 years than in the revised 2004-based populations.
- 3.5 NHPAU advise that the upper end of their range should not be viewed as a cap and 'some Regional Planning Authorities may wish to test plans for a higher level of housing provision'. NHPAU also wish to allow for flexibility in regions such as the South East and East of England to accommodate some of London's housing demand in the event that the capital does not plan fully to meet its own growth.
- 3.6 The Minister for Housing is currently considering the NHPAU advice and will decide how it is to be incorporated into formal guidance to be issued about the next round of RSS reviews. NHPAU expect to formally engage with future RSS processes, including providing evidence to Examinations in Public.

4. Conclusions

- 4.1 Ultimately the NHPAU modelling is another tool and the weight to be attached to it is a matter for decision makers through the spatial planning process. The Regional Planning Committee will consider the weight it attaches to the NHPAU advice as part of any review of the housing elements of the South East Plan. In doing so it will be able to draw on the earlier work on affordability and land supply commissioned by the Regional Assembly from Professor Whitehead. The challenge will be to balance a whole range of factors that include affordability impacts, but also housing needs and demand, land availability, sustainability appraisal, infrastructure impacts, and delivery.

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