READING BOROUGH LOCAL PLAN EXAMINATION

# HOUSING REQUIREMENT AND FIVE YEAR SUPPLY OF HOUSING LAND

## Reading Borough Council response to Issue 2:

Is the housing requirement justified and deliverable and has it been calculated in accordance with national policy and guidance?

***Q1. It is necessary to understand whether recent household projections should inform the calculation of the Objectively Assessed Needs (OAN). What should be the starting point for the calculation of OAN, and has sufficient regard been paid to economic growth?***

**Demographic starting point**

The basis for the 2016 Strategic Housing Market Assessment (SHMA, EV011) is the 2012-based household projections. For Reading, this indicates a dwelling need of 541 per annum, and 2,293 across the whole Western Berkshire Housing Market Area up to 2036 (see Table 42 of the SHMA). More recent household projections have now become available, based at 2014.

The 2016-based household projections are not yet available, and will be published on the 20th September 2018. The 2016-based sub-national population projections (SNPP) are already available, and show a population of 178,300 at 2036 in Reading. This sits in between the 2012-based SNPP (175,600) and 2014-based SNPP (179,700). How this translates into household projections remains to be seen, but, given the above, there is no current basis for believing that it will result in a very different demographic need for new housing.

The Western Berkshire OAN Sensitivity Testing (EV034) was produced prior to the release of the 2016-based SNPP, but has sought to create a range of demographic scenarios for sensitivity testing, and this includes a scenario referred to as 'Rebased SNPP'. This is described in depth in paragraph 3.17 of that document, but in summary it takes assumptions from the 2014-based SNPP and overwrites the population projection figures for 2015 and 2016 by those in the ONS Mid-Year Population Estimates. GL Hearn's conclusions in that document are that there is a strong basis for using this as a demographic basis, in advance of the 2016-based household projections.

The table below sets out those household projections for both Reading and the HMA.

| | Reading (2036) | Western Berkshire HMA Total (2036) |
|---|---|---|
| 2012-based household projections | 541 | 2,293 |
| 2014-based household projections | 541 | 2,008 |
| Rebased SNPP scenario from GL Hearn | 542 | 2,121 |

NB: All figures include an allowance for unoccupied household spaces as calculated by GL Hearn in documents EV011 and EV034.

As can be seen, the starting point for assessing housing needs in Reading remains virtually identical in all scenarios, and broadly similar across the HMA as a whole, albeit with a slight reduction on the figure used in the SHMA. For this reason, it is considered that the demographic starting point of the SHMA remains largely the same.

**Economic growth**

The objectively assessed need as identified in the SHMA has had considerable regard to economic growth, and this is described in detail in Chapter 5 of the SHMA. The forecasts which fed into the initial analysis in the SHMA were 2013-based forecasts from Cambridge Econometrics (CE), which had been used in producing the Local Enterprise Partnership's Strategic Economic Plan. This identified a job growth for Reading of 450 per annum, which was considerably higher than any of the trend-based scenarios also considered (B, C and D). However, the SHMA included a critical analysis of whether these forecasts represented the most robust basis for considering likely housing need, based on local economic considerations. This is set out in paragraphs 5.130-5.156 (p191-195) of the SHMA, and considers that, given the thriving office market in central Reading and the likely rebalancing towards town centre locations rather than out of town business parks, the CE forecasts are likely to represent an underestimate for Reading. For that reason, an adjustment is made to the Reading figures that results in an annual growth of 735 jobs per annum, and this forms the basis for the uplift in housing need. This results in an uplift of 47 homes per annum, to form an annual need of 642 homes (before consideration of market signals).

More recently, the Western Berkshire OAN Sensitivity Testing (EV034) considered the sensitivity to recent 2016-based employment forecasts from both CE and Oxford Econometrics (OE). It suggests that there might be a case for a need of 759 homes per annum due to a much more significant employment uplift than shown in the SHMA. This is derived simply from a midpoint of the CE and OE forecasts, based on GL Hearn's view on what might be realistic (see paragraphs 4.92-4.94 of the Sensitivity Testing). The Council's view on this conclusion is that the 2016 SHMA contained a much more rigorous analysis of the economic conditions of the area, prepared with local economists Wessex Economics, with a clear rationale. This results in a more robust adjustment to account for economic needs than simply taking the mid-point of two very different forecasts, as the Sensitivity Testing does.

None of the representations made at Pre-Submission stage suggest that a different uplift to account for economic growth should be made. In the Council's view, sufficient regard has been had to economic growth.

For information, the various employment assumptions that are discussed above are summarised in table 2.1. It is worth noting that the adjusted forecasts from the SHMA are still significantly higher than the more recent CE forecasts.

**Table 2.1: Differences in economic growth assumptions for Reading**

| | **Job growth per annum** | **Total jobs at 2036** |
|---|---|---|
| ***Strategic Housing Market Assessment, 2016*** | | |
| CE forecasts 2013-based | 450 (2013-36) | 125,200 |
| SHMA adjustment | 735 (2013-36) | 131,700 |
| ***Western Berkshire OAN Sensitivity Testing, 2018*** | | |
| CE forecasts 2016-based | 538 (2016-36) | 128,379 |
| OE forecasts 2016-based | 1,087 (2016-36) | 137,486 |

***Q2. Has the affordable housing need been calculated in accordance with the guidance in the PPG and is the approach sound? What is the appropriate uplift that would be expected to improve affordability?***

**Affordable housing need**

This has been calculated within the SHMA (2016, EV011), and the methodology for calculating this is set out in chapter 6. Planning Practice Guidance paragraph 022 stated that this should be calculated by "adding together the current unmet housing need and the projected future housing need and then subtracting this from the current supply of affordable housing stock". This broadly reflects the methodology of the SHMA. PPG then deals in more depth with individual elements of the calculation, and this is dealt with under the headings below.

It should be clarified that, in line with the fact that the Examination is conducted in relation to the 2012 NPPF, reference here is made to the PPG as it existed prior to the 2018 version of the NPPF.

Types of households in need

PPG paragraph 023 sets out a list of the types of household considered to be in housing need. The Berkshire SHMA accepts this list, and refers to it on p219.

Calculating current unmet gross need

The list in paragraph 023 of the PPG is developed into a set of categories that constitute current unmet gross need for affordable housing in paragraph 024. These categories form the basis for the SHMA calculation of current unmet gross need. Table 71 of the SHMA (p219) lists the sources that are used for each category, and tables 72 and 73 (p220 and 221) set out a figure for each category before affordability is considered. The PPG states that only those households that cannot afford access to suitable housing should be considered, and paragraphs 6.54 and 6.55 (page 222) and table 75 (p223) set out how this has been addressed. The total unmet gross need in Reading at 2013 was 2,409 households. As the methodology operates on a per annum basis, this means 105 households per annum.

Calculating newly arising affordable housing need

Paragraph 025 of the PPG includes the following basic formula for calculating number of newly arising households in affordable housing need:

> Total newly arising affordable housing need (gross per year) = (the number of newly forming households x the proportion unable to afford market housing) + existing households falling into need

The SHMA addresses newly forming households in need in paragraphs 6.57 to 6.60 and table 76 (p223-224). As required by the PPG, it is based on an estimate of household formation, although the PPG is not specific on how this should be calculated. The PPG states that the process should identify the minimum household income required to access lower quartile market housing. This analysis

had already been carried out in the SHMA on p207-216, and feeds into the proportions of newly forming households in table 76. For Reading, this means 522 newly arising households in need per annum up to 2036.

The next section of the SHMA considers existing households falling into need. The PPG provides no further guidance on this, but the methodology used is consistent with the SHMA Guide and uses information from CoRE. The methodology is described in paragraph 6.61 to 6.63 and the results are set out in table 77 (p224-225). For Reading, this means 343 existing households falling into need per annum up to 2036.

The newly arising affordable housing need for Reading is therefore 865 households (522 + 343) per annum.

Calculating total affordable housing supply available

The formula advocated by PPG paragraph 026 for identifying total affordable housing supply available is:

> Total affordable housing stock available = Dwellings currently occupied by households in need + surplus stock + committed additional housing stock – units to be taken out of management

Paragraphs 6.64 to 6.68 (p225-227) of the SHMA consider the supply of affordable housing in terms of dwellings currently occupied which are likely to become available, excluding transfers, which, in line with PPG paragraph 027, is based on consideration of past trends, using data from CoRE. The SHMA does not include planned future supply at this stage, but rather after comparing need to supply, but this does not affect the final figures.

Before consideration of the pipeline, the affordable housing stock available in Reading is 564 dwellings per annum.

Total need for affordable housing

The analysis is brought together within paragraphs 6.69 to 6.71 (p227-228). In line with PPG paragraph 029, this is considered in terms of annual flows. For Reading, the figure is 406 per annum (current need of 105 + newly arising need of 865 – supply of 564). This is set out in table 81 on p228.

The pipeline of committed supply, which in Reading equates to 19 homes per annum, is then considered, which reduces the net need to 387 per annum (see table 83 on p230). However, it should be borne in mind that delivery is not necessarily certain. As the overall housing need of 699 homes per annum does not include committed supply, it makes sense for consistency to talk in terms of the 406 figure for affordable housing need.

PPG paragraph 029 states that affordable housing needs should be considered in the context of likely delivery. This analysis is carried out in paragraphs 6.95 to 6.112 (p233 to 236). The SHMA considers that across the study area, an estimated 25% of new housing would be in the form of affordable housing. As required by the

PPG, this section considers the case for increasing the housing need, but also emphasises both the role of the private rented sector in accommodating a number of those in need, and also the fact that many of the identified households in need will free up existing homes when they move. For these reasons, the SHMA considers that only those who are in concealed households or who are homeless will result in an additional need for housing, and considers that the best way to deal with concealed households is to support improvements in household formation for younger households, which is dealt with in section 7 of the SHMA.

Relationship between current stock and needs

PPG paragraph 028 states that plan makers "should look at the house size in the current stock and assess whether these match current and future needs". The analysis of house sizes needed, for both market and affordable housing, is set out in Chapter 8 of the SHMA. The housing market model used models the future requirements for market and affordable housing by size and compares to the existing profile of homes. On that basis, recommendations are made on the size of accommodation required in each local authority for affordable homes, and this is shown in table 108 on p296.

The approach to calculating affordable housing need is therefore considered to be both sound and in line with Planning Practice Guidance.

**Affordability uplift**

The SHMA considers affordability in Chapter 7, specifically paragraph 7.56 to 7.67 (p265 to 270). At 2013, Reading had a lower quartile affordability ratio of 7.60 (cost of housing compared to earnings). This is higher than the average for England (6.45) but lower than the average for the Western Berkshire HMA (8.71), which is shown in table 91 on p269. There is therefore clearly an argument for applying an uplift to reflect affordability issues.

Bearing in mind that Planning Practice Guidance includes no methodology for how to approach an uplift to improve affordability, the SHMA seeks to approach this issue based on a firm rationale rather than simply apply an arbitrary uplift. This is based on the approach that the main symptom of affordability pressures is a suppression of household formation amongst younger age groups. As set out in paragraph 7.98 of the SHMA, this approach was accepted as robust by the Inspector in Horsham.

The conclusion of the SHMA in terms of Reading is that an uplift of 57 dwellings per annum should be applied to improve affordability by returning household formation rates to 2001 levels by 2025. This results in objectively assessed need increasing from 642 to 699 per annum, and is an increase of 9%. Table 96 on p281 shows the uplift for each authority.

### *Q3. Is the adjustment for London migration sufficient, and if not, what should the figure be?*

The approach taken by the SHMA is based on an issue identified by the GLA, namely a marked decrease in out-migration from London during the recession, which leads to a potential underestimate of future out-migration in the 2012-based SNPP which formed the basis of the SHMA. The GLA produced a series of population and household projections to address this issue to inform the Further Alterations to the London Plan (FALP), the Central Scenario of which involved out-migration levels reverting back towards pre-recession levels.

The SHMA develops alternative population projections based on the approach that informed the FALP. In the case of the Western Berkshire authorities, this results in an uplift to the 2012 sub-national population projections. In Reading's case, the uplift is 68 homes per annum, which means a change in the annual need from 541 to 609 homes, although this is subsequently further increased by consideration of other factors such as employment.

The Council therefore considers that the approach in the SHMA is robust and sufficient to account for London migration, and ensures that there is a consistent approach to dealing with the issue.

The Pre-Submission representation from the Greater London Authority stated that:

> "The approach to housing need set out in the Berkshire Strategic Housing Market Assessment (SHMA) is welcomed, in particular the use of a 10-year historic migration trend and the consideration of an adjustment to reflect pre-recession migration patterns to and from London."

No alternative methodological approach to London migration has been suggested to the Council through Local Plan representations.

### *Q4. Is the housing requirement of 15,433 homes as set out in Policy H1 justified? Is the plan sufficiently flexible to ensure delivery of housing to meet the requirement over the plan period?*

The housing requirement of 15,433 homes (671 per annum) as set out in policy H1 is justified, and this justification is summarised in section 4.32 (p102-106) of the Local Plan Background Paper (EV002). Very briefly, the key method for translating the needs identified in the SHMA into the housing requirement in policy H1 is the Housing and Economic Land Availability Assessment (HELAA, EV014 & EV015). This examined the potential of all sites in the Borough that could accommodate ten dwellings or more, with an allowance for smaller sites based on historic rates, and whether these sites were suitable, available and achievable. The HELAA methodology was based on that agreed by five Berkshire authorities and described in EV013, and the emerging results were presented to and discussed with other authorities in the Housing Market Area, which led to some changes to assumptions. It is considered that this represents a robust justification for the housing requirement set out in policy H1.

There have been some representations that the HELAA should have come to different conclusions on the capacity of specific sites. This is dealt with in our response to Q3 and 3a under Issue 3.

In terms of flexibility, this is discussed in section 3.9 of the Local Plan Background Paper (EV002). It is considered that the plan is as flexible as it can be to ensure delivery of the housing requirement. Each identified site has a range of housing potential, and the Local Plan is clear that, where it can be justified in terms of design and other plan considerations, these ranges do not represent a policy limit. There remains potential for windfall sites to come forward, although the housing requirement does not currently rely on such sites other than below 10 dwellings. In terms of allocated sites, there is very limited potential for flexibility for additional sites to be included in the plan. The Council is already seeking to make use of all of the suitable, available and achievable housing sites in Reading in order to meet as much of its needs within the Borough boundaries as possible, and it is not possible to include reserve sites, as it might be in other authorities.

Section 6 of the Housing Implementation Strategy (EV012) looks at tools for maintaining a five-year supply of land across the plan period, and considers that the following measures can be used to ensure that requirements are met:

- Annual monitoring leading to Local Plan review;
- Meeting needs across the housing market area;
- Local authority land and housebuilding; and
- Rebalancing of office and housing on mixed use sites.

Commentary on those methods is included within the Housing Implementation Strategy.

### *Q4a. Are the requirements of Policy H1 relating to working with neighbouring authorities sufficiently robust?*

The wording of the second paragraph of Policy H1 is based on the approach included in the adopted Birmingham Development Plan 2031 (adopted January 2017) as a result of changes recommended by the Inspector, to address a much greater shortfall of some 38,000 dwellings over the plan period.

Policy PG1 of the BDP refers to the shortfall as follows:

> "Birmingham's objectively assessed housing need for the period 2011 to 2031 is 89,000 additional homes, including about 33,800 affordable dwellings. It is not possible to deliver all of this additional housing within the City boundary. The City Council will continue to work actively with neighbouring Councils through the Duty to Co-operate to ensure that appropriate provision is made elsewhere within the Greater Birmingham Housing Market Area to meet the shortfall of 37,900 homes, including about 14,400 affordable dwellings, within the Plan period. Policy TP48 provides further details on this."

The reference in our policy H1 is very much in line with this wording. Policy TP48 of the BDP deals with the monitoring of the provision of that shortfall and the circumstances under which a plan review would be triggered. In Reading's case, with a much smaller shortfall, it is considered that these references sit more appropriately in the monitoring section (section 11), and paragraphs 11.1.4 and 11.1.5 state the Council's commitment to monitoring the progress in accommodating this shortfall, and whether this might lead to a need for review of the plan. The BDP sets out more detailed criteria, but it is a very different situation with a far larger shortfall and a much greater number of authorities affected.

This issue is outlined in more detail in section 3.2 of the Duty to Co-operate Statement (EV001).