
Strategy and Assessment of Development Needs

'Torbay's Objectively Assessed Housing Need'

Participant's Statement

Day 1 (18th November)

On behalf of Bloor Homes

October, 2014

1.0 INTRODUCTION

- 1.1 The NPPF (Para. 47) requires that Local Plans meet the full, objectively assessed needs for market and affordable housing in the housing market area. It is clear, that the emerging Torbay Local Plan is constrained having set limits for both job and housing growth over **the plan period, based on an assessment of Torbay's capacity for growth. What it does not** appear to have done is to carry out an objective assessment of need in line with the PPG based on facts and unbiased evidence, without applying constraints, such as the supply of land for housing, infrastructure and environmental constraints. We have identified that for Torbay, there is need for at least 18,800 homes over the plan period, or 940 homes per annum. 940 homes per annum is sufficient to meet projected labour demand, is above the level of need implied by the starting point projection and is a 96% increase on past delivery. In stark comparison the emerging Local Plan sets a requirement for 8,000 – 10,000 homes over the period 2012-2032 or, 400–500 homes per annum.
- 1.2 In the Pre-Hearing Notes, Paragraph 20, the Inspector has indicated that any additional representations relating to any new material that has been prepared since the submission of the Torbay Local Plan should be submitted to the Examination by 24th October. We **note that the findings of Torbay Council's Submission Plan Technical Paper - Growth Strategy and Capacity for Change, July 2014** offers no new insight into the objectively assessed housing needs of Torbay. **Instead, it simply reiterates the Council's case for 400 to 500 dwellings per annum, adding only that such a requirement would meet the latest population projections (ONS 2012-based), but that it would not meet 'social and economic requirements'. (page 22, final paragraph).**
- 1.3 **In light of the absence of objectively assessed housing need assessment in the Council's** evidence base, the purpose of this statement is to provide an update to the objective assessment of housing need submitted by Barton Willmore in April 2014. The update is necessary to take account of important new evidence. Specifically, sub national population projections (ONS, May 2014) and employment forecasts (September 2014) published since the original assessment was produced. In addition, this updated assessment reflects the most recent changes to the State Pension Age (Pensions Act 2014) and the on-line publication of PPG (March 2014).

Planning Practice Guidance

- 1.4 The Planning Practice Guidance (PPG) was issued as a web based resource on 6th March 2014. Guidance on the assessment of housing development needs (PPG ID: 2a) includes the SHMA requirement set out in NPPF. PPG introduces the assessment of need as an

objective assessment based on facts and unbiased evidence to which constraints should not be applied (2a-004). The area assessed should be the housing market area (2a-008), reflecting the key functional linkages between places where people live and work (2a-010).

1.5 The PPG methodology for assessing overall housing need is presented at 2a-014:029. In essence, the PPG compliant assessment of need is one that takes the latest household projections as a starting point estimate of overall need and then makes adjustments, as required, to arrive at the full objectively assessed and policy off housing need, so that it satisfies all of the following tests:

- At least equals the housing number implied by the latest demographic evidence;
- Will accommodate projected, policy off job demand; and
- On reasonable assumptions could be expected to improve affordability.

2.0 TORBAY HOUSING NEED

2.1 CLG 2011-based interim household projection for Torbay provides a starting point estimate of overall need for 470 dwellings per annum.

Demographic evidence based estimate of need

2.2 The combined impact of applying the most recent evidence of population change (2012-based sub national population projections, ONS May 2014) and a return to the 2008-based household formation rates after 2021 adds 50 dwellings per annum to the starting point estimate of overall housing need.

2.3 Therefore, based solely on analysis of published demographic evidence, which will inevitably have been constrained by past levels of house building, there would be overall need for 520 dwellings per annum over the period 2011 to 2031. However this is simply the first stage of an objective assessment of housing need. It is now necessary to consider projected job growth.

Job change based estimate of need

2.4 To realise projected job growth, Torbay will need to accommodate an increase of 13,540 persons in employment (the local workforce) over the plan period. The 2012-based sub national population projections have the capacity to provide for about 25% of the required level of local workforce growth, leaving a shortfall of 10,160 workers.

2.5 A shortfall of about 10,160 resident workers against the workforce jobs projection would need to be met by an equivalent increase in net inward migration between 2011 and 2031. In 2031 the population would have to reach 160,490 in order to meet job demand, whereas the 2012-based sub national population projection estimate that the population of Torbay will be 142,000. That is, 18,490 persons (12%) short of what is required.

2.6 To fulfil projected job demand, and accommodate the implied level of population growth, the starting point estimate of overall housing need (470 dwellings per annum) would need to be increased by 470 dwellings per annum. **Therefore, on the basis of projected job change, there is an overall need for 940 dwellings per annum, over the period 2011 to 2031**

Market signals based estimate of housing need

- 2.7 Affordability in Torbay (measured in terms of the ratio between lower quartile house prices and earnings) is significantly worse than national average, with a lower quartile-priced property costing 7.7 times the lower quartile income (based on a 3-year average 2010-12), compared to the national average of 6.6.
- 2.8 The job change based estimate of overall need for 940 dwellings per annum, translated into policy and delivered over the plan period, is around 96% higher than the average delivery rate achieved in the period 2006/07 to 2012/13 (480 dwellings per annum).
- 2.9 It is clear that a level of housing supply equivalent to 940 dwellings per annum in Torbay would exceed the Barker Review benchmark of increasing supply by 86%. Therefore, on that reasonable assumption, I conclude that **growth of approximately 940 dwellings per annum could be expected to improve affordability** in Torbay.

Torbay's full objectively assessed housing need

- 2.10 As presented in Chapter 1, full housing need is that which addresses and meets in full the latest demographic based need, policy off projected labour demand and the need to improve affordability (where a problem is shown to exist, as it clearly does in Torbay).
- 2.11 At Table 2.1, the key components of the PPG compliant assessment of need for Torbay are summarised. **For Torbay, there is need for at least 18,800 dwellings over the plan period, or 940 per annum.** The full updated assessment is presented in the Addendum to this statement.
- 2.12 **940 dwellings per annum is sufficient to meet projected labour demand**, is above the level of need implied by starting point projection and **a 96% increase on past delivery**. That is, **sufficient to exert some downward pressure on prices** based on the Barker Review which found that an 86% increase in house building would be required to bring house price inflation down to the European average (1.1%).

Table 7.1: Objective Assessment of Housing Need

		Torbay	Torquay HMA
A	CLG 2011-based 'interim' Household Projections - Dwellings per Annum	470	950
Demographic Change	Projected Population Growth	15,200 (760 pa)	39,200 (1,960 pa)
	Projected Household Growth	8,800 (440 pa)	17,600 (880 pa)
	Projected Dwelling Requirement	9,400 (470 pa)	19,000 (950 pa)
B	Adjustment to (A) Required to accommodate Demographic change	+50 dpa	+1,290 dpa
Economic Growth	Experian Job Growth Forecast 2011-31	12,200	28,700
	Commuting Ratio (Census 2011)	1.11	1.08
	Required Labour Force	13,540	31,620
	Economic-led Dwelling Requirement	18,800 (940 pa)	44,770 (2,240)
C	Adjustment to (A+B) Required to accommodate Demographic and Employment change	+420 dpa	+950 dpa
Market Signals	Total Growth in dwelling stock arising from (A + B + C)	29% (1.5% pa)	28% (1.4% pa)
	Increase/Decrease vs. Delivery 2006-12	96%	114%
	Increase/Decrease vs. CLG 2011 HH Proj.	100%	155%
D	Further Uplift Required	+0 dpa	+0 dpa
=	INTERIM OBJECTIVELY ASSESSED NEED 2011-31 (A + B + C + D)	18,800 (940 pa)	44,770 (2,240)

Source: Barton Willmore Research and Modelling, ONS, CLG, Experian

- 2.13 It should be noted that the assessment of need for Torbay takes no account of, and so does not accommodate, any unmet need from neighbouring districts.

Affordable housing need

- 2.14 According to the Council's evidence base, Torbay has an annual net need for over 474 new affordable homes. **The number of dwellings required to accommodate affordable need, delivered at the current policy rate of 30%, equals 1,580 dwellings per annum.**

2.15 **There is a clear case for plan makers to set the housing requirement above 940 dwellings per annum in order to meet affordable need in full.**

Appendix A: Torbay Housing Need Assessment Update

Torbay Housing Need Assessment Update

BARTON WILLMORE
(On behalf of Bloor Homes)

October 2014

Torbay Housing Need Assessment Update

On behalf of Bloor Homes

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APPENDICES

- JD1: PPG ID2a Assessment of Housing and Economic Development Needs**
- JD2: RPTI Research Briefing: Planning for Housing in England, 2014**
- JD3: Understanding the Latest DCLG Household Projections Toolkit, Version 2, 2014**
- JD4: Barker Review 10 Years On, HBF, 2014**
- JD5: Speech by Mark Carney made on 12 June 2014**
- JD6: Speech by Nick Boles made on 10 January 2013**

1.0 INTRODUCTION

- 1.1 The purpose of this report is to provide an update to the objective assessment of housing need submitted by Barton Willmore in April 2014. The update is necessary to take account of important new evidence. Specifically, sub national population projections (ONS, May 2014) and employment forecasts (September 2014) published since the original assessment was produced. In addition, this updated assessment reflects the most recent changes to the State Pension Age (Pensions Act 2014) and the on-line publication of PPG (March 2014).
- 1.2 The remainder of this Updated is divided into the following chapters.
- 1.3 Chapter 2, **The Objective Assessment of Housing Need**, summarises the relevant aspects of national planning policy, and then sets out the required standard for an objective assessment of housing need.
- 1.4 Chapter 3, **Housing Need in Torbay**, presents the key stages and analysis of the needs assessment, alongside a summary of the demographic, economic and market signals analysis.
- 1.5 Chapter 5 **draws together the previous Chapter's findings and presents overall Conclusions**.

2.0 THE OBJECTIVE ASSESSMENT OF HOUSING DEVELOPMENT NEEDS

2.1 In this Chapter, we summarise the planning policy rationale and practice guidance for the objective assessment of full housing need. The description provided here updates Section 3 of Appendix 3, which predates PPG and instead refers to the Beta National Planning Practice Guidance. The requirement for all Local Planning Authorities (LPAs) to objectively assess housing need is rooted in the National Planning Policy Framework (NPPF) and the Planning Practice Guidance (PPG).

National Planning Policy Framework (NPPF, 27 March 2012)

2.2 NPPF directs local authorities to boost significantly the supply of housing. To that end, it states that local authorities should use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area (paragraph 47).

2.3 For plan-making purposes, local planning authorities are required to clearly understand housing needs in their area, preparing a strategic housing market assessment (SHMA) that identifies the scale and mix of housing and the range of tenures that the local population is likely to need over the plan period (paragraph 159).

Planning Practice Guidance (PPG, 06 March 2014)

2.4 PPG was issued as a web based resource on 6th March 2014. Guidance on the assessment of housing development needs (PPG ID: 2a) (**JD1**) includes the SHMA requirement set out in NPPF.

2.5 The assessment of need is introduced as an objective assessment based on facts and unbiased evidence to which constraints should not be applied (2a-004). The area assessed should be the housing market area (2a-008), reflecting the key functional linkages between places where people live and work (2a-010).

2.6 The PPG methodology for assessing overall housing need (2a-014:029), summarised below, commences with a starting point estimate of overall housing need.

Starting Point Estimate

- 2.7 The household projections published by the Department for Communities and Local Government (CLG) provide the starting point estimate of overall housing need. CLG household projections are trends based and may require adjustment to reflect factors, such as unmet or suppressed need, not captured in past trends (2a-015).
- 2.8 The latest household projections (CLG 2011-based interim) only cover the period up to 2021; therefore an assessment of likely trends after 2021 is required to align with development plan periods (2a-016).
- 2.9 Whether on an adjustment to the starting point estimate is required depends on the results of three discreet tests.

Test 1 - Adjusting for Demographic Evidence

- 2.10 Adjustments to household projection-based estimates of overall housing need should be made if justified on the basis of established sources of robust demographic evidence, such as the latest projections and population estimates published by ONS. Adjustments might include alternative/ updated components of change and household formation rates (2a-017).

Test 2 - Adjusting for Likely Change in Job Numbers

- 2.11 In addition to demographic evidence, job trends and or forecasts should also be taken into account when assessing overall housing need. The implication is that housing numbers should be increased where this will enable labour force supply to match projected job growth (2a-018).

Test 3 - Adjusting for Market Signals

- 2.12 The final test is concerned with market signals of quantity and price. A worsening trend in any indicator will require an upward adjustment the starting point estimate of overall housing need. Particular attention is given to the issue of affordability. The more significant the affordability constraints, the larger the additional supply response should be (2a-019:20).

Overall Housing Need

- 2.13 An objective assessment of overall housing need is therefore a test of whether the household projection based starting point can be reconciled with a) the latest demographic evidence, b) the ability to accommodate projected job demand, c) the requirement to address worsening market signals. If it cannot be reconciled, then an adjustment should be made.
- 2.14 The extent of any adjustment should be based on the extent to which it passes each test. That is:
- It will at least equal the housing need number implied by the latest demographic evidence;
 - It will at least accommodate projected job demand; and,
 - On reasonable assumptions, it could be expected to improve affordability.
- 2.15 The approach used by Barton Willmore to objectively assess overall housing need follows the methodology set out in PPG 2a-014:20 and summarised above. The result is a 'policy off' assessment of housing need that takes no account of the impact of planned interventions strategies and policies.

Assessing Affordable Housing Need

- 2.16 In summary, PPG advises that total affordable need is estimated by subtracting total available stock from total gross need (2a-022:029). Whilst it has no bearing on the assessment of overall housing need, delivering the required number of affordable homes can be used to justify an increase in planned housing supply (2a-029).

3.0 OBJECTIVE ASSESSMENT OF HOUSING NEED FOR TORBAY

3.1 The assessment of housing need presented here updates the analysis and conclusions presented in our March 2014 submissions. The results presented here relate to Torbay only, unless otherwise stated.

3.2 As presented in Chapter 3, full objectively assessed housing need is that which addresses and meets in full the latest demographic based need, policy off projected labour demand and the need to improve affordability (where a problem is shown to exist).

3.3 **In this chapter we demonstrate that there is a need for an average of at least 940 dwellings per annum to meet Torbay's objectively assessed overall housing needs.** The assessment is made **in the context of a need for 2,240 dwellings per annum at housing market area level and** on the basis that 940 dwellings per annum:

- will at least equal the housing need number implied by the latest demographic evidence;
- will at least accommodate projected job demand; and,
- on reasonable assumptions, can be expected to improve worsening affordability.

3.4 The remainder of this section introduces the starting point and then considers each of the above points in turn, before considering the need for affordable housing in Torbay.

Starting Point Estimate

3.5 CLG 2011-based interim household projection for Torbay provides a starting point estimate of overall need for 470 dwellings per annum.

3.6 The starting point estimate accommodates population growth of 760 persons per annum and the formation of 440 net new households per annum over a ten year period.

3.7 The projection is based on a population as at July 1st 2011 of 131,200 (ONS), including a communal population of 3,050 (ONS), and a total 59,100 households (CLG). To convert households to dwellings, a combined vacancy, second homes and sharing rate of 6.80% (VOA) is assumed.

3.8 The starting point estimate only covers the period 2011 to 2021; therefore it is necessary to make an assessment of trends after 2021. This has been carried out as part of assessing whether any adjustment is required on the basis of demographic evidence.

Adjustment for demographic evidence

Population projections

- 3.9 The latest population projections, published by ONS in May 2014, are the 2012-based population projections. They are based on updated analysis of demographic change between the 2001 and 2011 Census and comprehensively revise and replace the 2011-based interim population projections that were published by ONS in September 2012 and which underpin CLG's 2011-based interim household projections.
- 3.10 The 2012-based population projections are therefore a suitable test of the starting point estimate of overall housing need, a) because they are based upon the most up to date evidence and analysis by ONS, and b) because they cover the whole plan period (and beyond), whereas the 2011-based interim population projections only cover the period up to 2021.
- 3.11 The effect of applying the 2012-based population projections is to reduce the rate of projected population growth to 480 persons per annum over the period 2011 to 2031, on the assumption that net migration will average 800 persons per annum. That number relates to the average observed between 2008 and 2012 of 410 persons per annum.
- 3.12 It is not the same number, because internal migration (from and to the rest of England) for each year between 2008 and 2012 is first converted into a rate (the sum of all moves into Torbay at the end of the year divided by the population of England at the beginning of the year) before it is used to project local population change. It does, however reflect the same rates of internal migration in and out of the district.
- 3.13 Since the 2012-based population projections were published, the mid-year 2013 population estimates have been published by ONS (June 2014), which record that population in Torbay was higher than projected by the 2012-based population projections (132,100 people compared with 131,800. Net migration between 2009 and 2013 averages 500 persons per annum.

Household formation, headship rate projections and addressing suppressed need

- 3.14 Headship rates are required to convert estimates of the projected household population (the total population less the population not in households) into an estimate of the equivalent projected number of households. They are an estimate of how likely, by age group, a person is to form a household of a particular type (single, couple, with dependent children etc.).

- 3.15 Like the population projections, headship rate projections are trends based, take their bearings from Census data points and vary over time. At the time of writing, the 2011-based interim household projections provide the most up to date headship rate projections. However they are heavily caveated.
- 3.16 The 2011-based interim household projections represent a significant departure from household growth and rates of household formation predicted by the previous, 2008-based, household projections (CLG 2010). The 2008-based household projections extend from 2001 to 2033, and are based on the long run trend of household formation observed through successive Census from 1961-1971 to 1991-2001.
- 3.17 Therefore the 2011-based interim projections are not just a departure from the previous projections, they represent a departure from a trend that spans four decades. Moreover, they are a departure based on behaviour, shaped by the bleak socio economic context and outlook for post-recession Britain, that preceded Census day (March 27th) 2011.
- 3.18 The 2011 Census recorded household numbers and sizes at a time of economic uncertainty and restraint for many families. Evidence published by RTPI suggests that the position **recorded by the 2011 Census is artificially low, a 'forced' change brought about by economic and affordability of housing constraints, rather than the result of a 'free choice' not to form households (JD2)**.
- 3.19 The RTPI research observes that most of the shortfall between actual and projected household numbers is in the 25-34 and the 35-44 age groups. We can therefore conclude that these are the age groups that were most susceptible to economic and affordability constraints on household formation **(JD2)**.
- 3.20 In place of household formation, constraints have instead given rise to an increase in young people living with their parents or in shared accommodation. Consequently household sizes have increased to facilitate a rise in concealed households and an increase of unmet housing need **(JD3)**.
- 3.21 The RTPI research concludes that the 2011-based interim household projections are likely to underestimate growth in household numbers, and note the implication that the proportion of 25-34 year olds who set up home on their own will continue to fall below the suppressed level observed in the 2011 Census **(JD2)**.

- 3.22 **We can therefore conclude that to some degree, the 2011-based household projections embody and amplify suppressed demand or unmet housing need. If that is the case, then they should not be relied upon as a basis for predicting household formation in the future, because to do so would lead to the under provision of housing, undermining the planning system's social role and the social dimension of sustainable development** (NPPF, paragraph 7).
- 3.23 The RTP1 research provides a toolkit which enables users to examine the degree to which household formation is suppressed in the 2011-based interim household projections, and provides a basis for making any necessary adjustment (**JD3**).
- 3.24 For Torbay, the toolkit shows that whereas the population growth envisaged by the 2011-based interim household projections is 16% lower than was the case under the 2008-based projections, corresponding household growth is 32% lower. Torbay is therefore typical of the 2011-based interim projections, presenting slower household growth than expected (**JD3**, first page).
- 3.25 Furthermore the toolkit shows in the 25-34 age group, the tendency to form households was lower in 2011 than previously expected and that it will fall over the period to 2021, in contrast to expectations, based on the long term trend, that it would rise (**JD3**, second page, chart 4).
- 3.26 Whereas some of the change in tendency to form households might be attributable to the fact that recent international migrants are observed to form larger households, the toolkit shows that this is unlikely to be a significant factor in Torbay, due to the relatively small average flow of international migrants into Torbay over the last decade (**JD3**, foot of second page).
- 3.27 In light of the available evidence, we can therefore conclude that to a significant degree, the deviation from the long run trend household formation rate arises because the interim 2011-based household projections assumed that worsening affordability and then a bleak economic outlook during the period 2001 and 2011 would not improve between 2011 and 2021.
- 3.28 Whereas, the reality is that the economy has already improved, reaching its pre-recession peak in 2014, and significantly increasing housing supply will help improve affordability. Therefore, the assumption should be that the constraints faced by 24-35 year olds in particular will be alleviated over the next 20 years. As such a return to the long run formation rates after 2021, taken from the 2008-based household projections, is merited.

Demographic evidence based estimate of need

- 3.29 The combined impact of applying the most recent evidence of population change and a return to the 2008-based household formation rates after 2021 adds 50 dwellings per annum to the starting point estimate of overall housing need (470 dwellings per annum).
- 3.30 Therefore, based solely on analysis of published demographic evidence, which will inevitably have been constrained by past levels of house building, there would be overall need for 520 dwellings per annum over the period 2011 to 2031. However this is simply the first stage of an objective assessment of housing need. It is now necessary to consider projected job growth.

Adjustment for likely change in job numbers

- 3.31 The Experian forecast for Torbay (September 2014) anticipates that, on average, 610 workforce jobs will be added to the economy each year between 2011 and 2031, a growth rate of 1% per annum.
- 3.32 To realise projected job growth, Torbay will need to accommodate an increase of 13,540 persons in employment (the local workforce) over the plan period, assuming a 1.11 to 1 relationship between resident employment and workforce jobs (Census 2011). This is because Torbay is a net exporter of labour – marginally more workers than jobs, leading to net out-commuting.
- 3.33 The 2012-based sub national population projections have the capacity to provide for about 25% of the required level of local workforce growth, leaving a shortfall of 10,160 workers.
- 3.34 All labour force change calculations are made on the assumption that, a) increases to the State Pension Age serve to significantly increase economic activity rates in the 16 to 66 age group (+ 8.5%), and b) unemployment decreases significantly over the plan period (-3%).

Job change based estimate of need

- 3.35 A shortfall of about 10,160 resident workers against the workforce jobs projection would need to be met by an equivalent increase in net inward migration between 2011 and 2031. The effect would be to increase population and household growth by 710 persons and 430 households per annum, on average, compared to the starting point projection (760 persons per annum, and 440 households per annum).

- 3.36 In 2031 the population would have to reach 160,490 in order to meet job demand, whereas the 2012-based sub national population projection estimate that the population of Torbay will be 142,000. That is, 18,490 persons (12%) short of what is required.
- 3.37 To fulfil projected job demand, and accommodate the implied level of population growth, the starting point estimate of overall housing need would need to be increased by 470 dwellings per annum (see Table 3.1)
- 3.38 **Therefore, on the basis of projected job change, there is an overall need for 940 dwellings per annum, over the period 2011 to 2031.**

Table 3.1, 'Policy off' Job change based assessment of need for Torbay

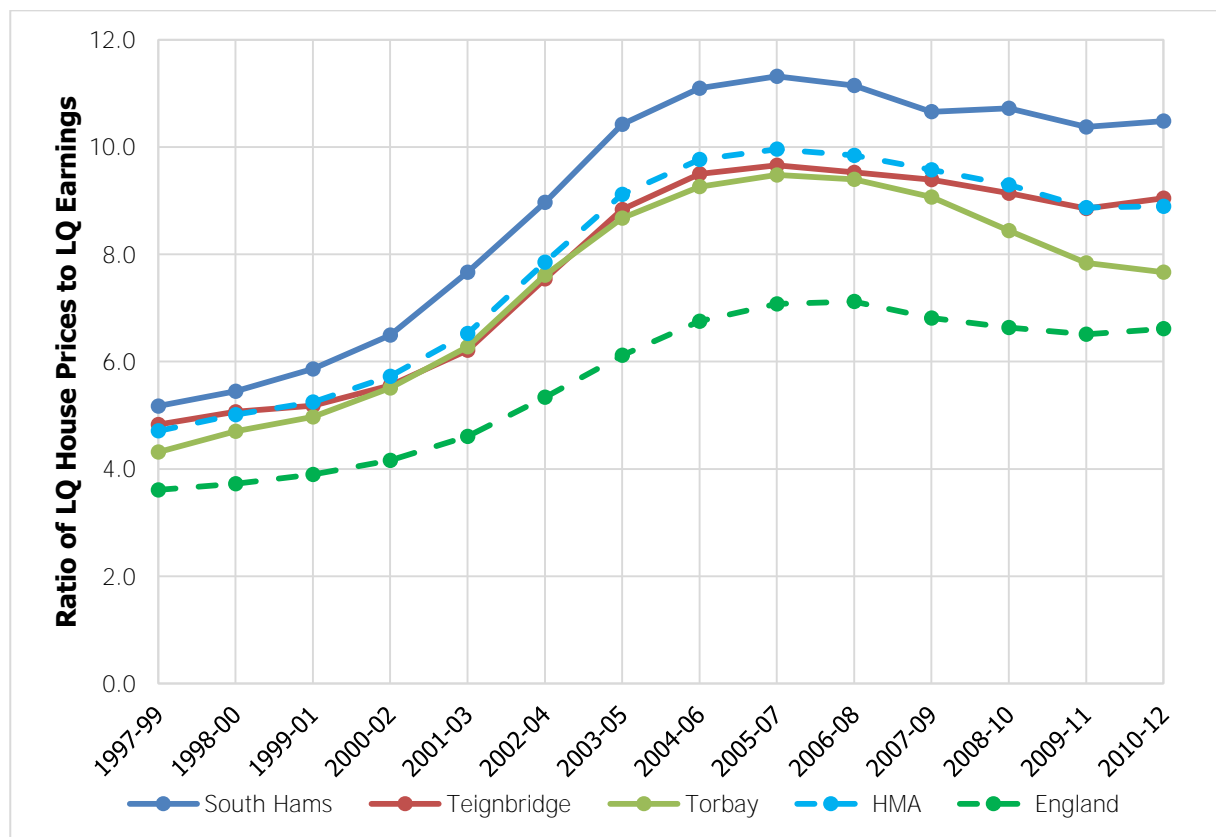
	<i>'Starting Point' to 2021</i>	Adjustment to accommodate 2012 SNPP	Adjustment to accommodate job change	Demographic and job change based housing need
Dwellings	<i>470</i>	+ 50	+ 420	940
Labour force change (employed)	-	3,380	+ 10,170	13,540
Labour demand	-	<i>13,540</i>	<i>13,540</i>	13,540
Labour force surplus/ deficit	-	<i>-10,160</i>	<i>-3,380</i>	(0)

Source: ONS and Barton Willmore

Note: Starting point figures for comparison; SNPP = ONS sub national population projection. All figures shown are annual averages to 2031, with the exception of the starting point, which is the 2011-based population projection 2011 to 2021 only. Numbers rounded to nearest 10.

Adjustment for market signals

- 3.39 The rate of housing delivery since 2006/07 has averaged 480 dwellings per annum – broadly in line with the CLG 2011-based Interim Household projections (470 dwellings per annum, see above).
- 3.40 Whilst house prices in Torbay are below both the HMA and national averages, affordability (measured in terms of the ratio between lower quartile house prices and earnings) is significantly worse than national average, with a lower quartile-priced property costing 7.7 times the lower quartile income (based on a 3-year average 2010-12), compared to the national average of 6.6.

Figure 3.1: Affordability – 3-year rolling average 1997-9 to 2010-12

Source: CLG/VOA and Barton Willmore

- 3.41 Overcrowding in Torbay is a significant issue, with 7.6% households over-occupied in 2011, compared to the Torquay HMA (5.7% of households). Furthermore, the proportion of concealed households across all ages in 2011 were also higher than the HMA, albeit marginally (1.6% compared to 1.5%) and provide an indicator that household formation across all ages has been suppressed.
- 3.42 Analysis of market signals suggests that Torbay is likely to require a significant increase in housing supply to improve affordability and widen access to the private housing market. Failure to improve the affordability of house purchasing will inevitably cause increases in rents as demand for this tenure grows.
- 3.43 In light of the identified affordability problem, it will be necessary for future housing supply to significantly exceed delivery rates experienced in the recent past. That is because, as the Barker Review findings illustrate, only a significant increase in supply will have an appreciable impact on affordability in the medium term.
- 3.44 According to Barker, taking the year ending 2003 as the base year, reducing house price inflation to 1.1% from its 2.7% 20 year trend rate would price an additional 5,000 English

households into the market by 2011. Such an outcome would only be achieved if 120,000 more (86%) additional homes were completed than there were housing starts in the base year. Whereas reducing house price inflation to 1.8% would only have such an effect by 2021 (**JD6**, page 7).

- 3.45 Evidently, it is reasonable to assume that reducing house price inflation to 1.1%, and meeting the benchmark 86% increase in supply through which it was to be achieved, could help to alleviate the affordability problem observed through market signals.
- 3.46 Further, it is clear that the Barker Review findings are of enduring relevance; albeit that **more recent assessments find that Barker's '120,000 more starts' has not** been achieved, implying that an increase greatly in excess of 86% would be required to reduce house price inflation to 1.1%.
- 3.47 First, in March 2014, the Home Builders Federation marked the fact that a decade has passed since the Barker Review was published with an assessment of what it would now take to reduce house price inflation to 1.1% (**JD4**, page 11). They found that the situation has deteriorated; implying that **housing starts would need to increase by 178% over the average number of starts recorded between 2003 and 2013**.
- 3.48 Second, Mark Carney, Governor of the Bank of England, referenced the Barker Review during a speech made on 12 June 2014 (**JD5**, page 6). He stated that ***'the underlying dynamic of the housing market reflects a chronic shortage of supply'*** and in that context referenced the Barker Review finding that *'260,000 homes a year would be necessary to contain real house price growth at 1% per annum'*. He then adds that *'far fewer have in fact been built in the years since... supply constraints are likely to put increasing pressure on prices in a now rapidly growing economy.'*

Market signals based estimate of housing need

- 3.49 Based on the evidence reviewed above, I have assessed each of the job based estimate of housing need against the Barker Review benchmark, that to increase supply by 86% can be expected to help improve affordability. On the assumption that if it was delivered as new homes, it would contribute to increasing supply.
- 3.50 The key questions then being; by how much would a housing requirement that reflected jobs led need increase supply and how does it measure up to the benchmark.

- 3.51 The job change based estimate of overall need for 940 dwellings per annum, translated into policy and delivered over the plan period, is around 96% higher than the average delivery rate achieved in the period 2006/07 to 2012/13 (480 dwellings per annum).
- 3.52 It is clear that a level of housing supply equivalent to 940 dwellings per annum in Torbay would exceed the Barker Review benchmark of increasing supply by 86%. Therefore, on that reasonable assumption, I conclude that **growth of approximately 940 dwellings per annum could be expected to improve affordability** in Torbay.

Torbay's full objectively assessed housing need

- 3.53 As presented in Chapter 3, full housing need is that which addresses and meets in full the latest demographic based need, policy off projected labour demand and the need to improve affordability (where a problem is shown to exist, as it clearly does in Torbay).
- 3.54 For Torbay, on the basis of the analysis presented from paragraphs 3.5 to 3.52, that means **need for a minimum of 940 dwellings per annum**. Table 3.2, draws the results of the analysis together, showing the results of each key test 1) for demographic need, 2) for economic (policy off jobs change) need, and 3) the need to improve affordability.

Table 3.2, Full assessment of need for Torbay

	<i>Starting point (to 2021)</i>	2012-based SNPP	Jobs change led
Average annual dwelling change, 2011 to 2031 (total dwellings)	<i>470 (9,400)</i>	520 (10,400)	940 (18,800)
Labour supply by 2031 (+/- projected need)	-	3,380 (-10,140)	13,540 (0)
+/- Barker Review benchmark of completions + 86%	-88%	-80%	+10%
Meets latest demographic need?	<i>No</i>	Yes	Yes
Meets projected policy off job demand?	-	No	Yes
Meets need to improve affordability?	<i>No</i>	No	Yes
PASS/FAIL ALL OAN TESTS?	<i>FAIL</i>	FAIL	PASS

Source: ONS and Barton Willmore

Note: Starting point figures for comparison; SNPP = ONS sub national population projection. All figures shown are annual averages to 2031, with the exception of the starting point, which is the 2011-based population projection 2011 to 2021 only. Numbers rounded to nearest 10.

4. OBJECTIVE ASSESSMENT OF NEED SENSITIVITY ANALYSIS

4.1 For the purposes of sensitivity testing the full objective assessment of need (FOAN), arrived at in Chapter 5, four scenarios have been modelled. All assume the same household population size and structure in 2011 and the same level of population growth by age and gender between 2011 and 2031 as the FOAN for 940 dwellings per annum.

4.2 That being the case, all meet, to exactly the same extent, the latest demographic projections (SNPP 2012) and the policy off job growth projections (Experian September 2014). The extent to which they can be said to meet **Torbay's** full housing need depends upon the extent to which we can realistically expect the housing crisis to be resolved by 2031.

4.3 To understand something about the impact of the housing crisis on household formation in Torbay, the first projection is a benchmark projection that shows what if the housing crisis had never happened. That is achieved by applying the CLG 2008-based headship rates for the whole of the projection period, including in the base year (2011), thereby revealing the level of unmet housing need at that time and throughout the projection.

4.4 We take the results of applying the 2008-based headship rates to the projected household population as a 'no crisis' or 'crisis neutral' benchmark, because it is generally accepted that the 2008-based rates of household formation are based on a 40 year trend, observed through consecutive Census, since 1961. Three alternative futures are then tested, which represent varying degrees of crisis resolution.

1. Housing crisis resolved which assumes that after 2021 the rate of household formation returns to the level anticipated by the 2008-based projections at the end of the plan period.

2. **Housing crisis eased**, which assumes that after 2021 the annual change in the rate of household formation is derived from the 2008-based rates of household formation, to produce an accelerated rate of household formation, compared to the 2011-based rates. This is the 'index' method used by NLP and which found favour with the South Worcestershire Local Plan Inspector earlier this year

3. Housing crisis unresolved, which assumes that the 2011-based rates of household formation continue along their current, crisis driven suppressed path.

4.5 The results are presented in Table 4.1 overleaf. **We strongly believe that a housing crisis resolved future should be planned for, meaning a plan for at least 940 dwellings per annum, because, on reasonable assumptions, it can be expected to improve affordability.**

- 4.6 We believe that is the right approach because it will address, borrowing the words of Mark Carney, Governor of the Bank of England, 'chronic undersupply', evident locally through worsening affordability in Torbay, to the extent that the problem is of greater magnitude locally than it is for the country as a whole. A problem that Torbay is required by PPG to address.

Table 4.1, Household and Dwelling Growth Projections, Torbay

	2011 Households <i>(unmet need)</i>	2031 Households <i>(unmet need)</i>	Change 2011-2031	Annual Average Change (Dwellings)
Housing Crisis Resolved		76,530 <i>(0)</i>	17,430	870 (940)
Housing Crisis Eased	59,100 <i>(3,150)</i>	74,190 <i>(2,340)</i>	15,090	760 (810)
Housing Crisis Unresolved		73,560 <i>(2,970)</i>	14,460	720 (780)
Housing Crisis Never Happened	60,354 <i>(0)</i>	76,530 <i>(0)</i>	16,180	810 (870)

Source: Barton Willmore analysis using POPGROUP software. Note: figures rounded to nearest 10

Why do the projections differ and what do they tell us?

- 4.7 The projections differ because each assumes different rates of household formation or headship rates. On a scale of crisis unresolved to crisis resolved, the average household size decreases, creating more households (or fractions thereof) per person and a higher headship rate, to the point where household size returns to the long term headship rate trend used by the 2008-based household projections.
- 4.8 The difference in household numbers between crisis resolved and unresolved in 2031 is 17% and therefore significant. But what does it tell us about household formation, and why is it important to understand the implications of planning for one end of the scale or the other?
- 4.9 It is important because as we move up the scale, towards housing crisis resolution, the number of families living with unrelated adults or with other families, but counted as a single household, decreases. Simultaneously the number of one family and single person households increases.
- 4.10 To put it another way, the higher the housing number, the greater the extent to which unmet need is addressed, and suppressed or unfulfilled demand is released. (See Table 4.2 for analysis of each projection).

- 4.11 For planning purposes, the analysis presented at Table 4.2 provides a guide to household formation behaviour in the context of affordability improving over time, enabling, for example, young families to get on the housing ladder, who in today's climate are unable to do so and find themselves forced to share and delay household formation. In contrast to the relative ease of doing so, for young families of equivalent means, 20 or so years ago.
- 4.12 We know that Government is alive to these issues, and the need to resolve them, and that is why one of the aims of the planning system is to boost significantly the supply of housing. As the previous Planning Minister Mr Nick Boles said in 2013 (JD6);

"We have a simple choice ... we can pass by on the other side while working men and women in their twenties and thirties have to live with their parents or share bedrooms with friends ... And shrug our shoulders as home ownership reverts to what it was in the 19th Century: a privilege, the exclusive preserve of people with large incomes or wealthy parents.... But I don't believe that anyone really wants to go down that road ... We have to accept that we are going to have to build on previously undeveloped land."

- 4.13 It is quite clear from Mr Boles speech, from NPPF and from PPG that the planning system should proactively respond to opportunities to address suppressed need. An assessment of housing need that assumes a full return to the long term trend rate of household formation, in the context of a pressing need to improve affordability, such as is the case in Torbay, presents that opportunity.

Table 4.2, Household Growth Projections, Change in Household Types, Torbay

	Household Types	2011 Households	2031 Households	Change 2011-2031	Annual Average Change (hhld)	
Housing Crisis Resolved	One family and singles	49,320	71,030	21,710	+1,090	+880
	Sharing, concealed and other families	9,780	5,500	-4,280	-210	
Housing Crisis Eased	One family and singles	49,320	64,020	14,700	+740	+760
	Sharing, concealed and other families	9,780	10,170	390	+20	
Housing Crisis Unresolved	One family and singles	49,320	61,180	11,860	+590	+720
	Sharing, concealed and other families	9,780	12,380	2,600	+130	

Source: Barton Willmore analysis using POPGROUP software. Note: figures rounded to nearest 10.

5. CONCLUSION

The correct approach to assessing housing need

5.1 In this Update, we have established the correct approach to assessing housing need, as laid down in PPG. In essence, the PPG compliant assessment of need is one that takes the latest household projections as a starting point estimate of overall need and then makes adjustments, as required, to arrive at the full objectively assessed and policy off housing need, so that it satisfies all of the following tests:

- At least equals the housing number implied by the latest demographic evidence;
- Will accommodate projected, policy off job demand; and
- On reasonable assumptions could be expected to improve affordability.

Torbay's objectively assessed housing need

5.2 At Table 5.1, I summarise the key components of the PPG compliant assessment of need for Torbay. **For Torbay, there is need for at least 18,800 dwellings over the plan period, or 940 per annum.**

5.3 **940 dwellings per annum is sufficient to meet projected labour demand**, is above the level of need implied by starting point projection and **a 96% increase on past delivery**. That is, **sufficient to exert some downward pressure on prices** based on the Barker Review which found that an 86% increase in house building would be required to bring house price inflation down to the European average (1.1%).

Affordable housing need

5.4 According to the Council's evidence base, Torbay has an annual net need for 474 new affordable homes. **The number of dwellings required to accommodate affordable need, delivered at the current policy rate of 30%, equals 1,580 dwellings per annum.**

5.5 **There is a clear case for plan makers to set the housing requirement above 940 dwellings per annum in order to meet affordable need in full.**

Table 5.1: Objective Assessment of Housing Need

		Torbay	Torquay HMA
A	CLG 2011-based 'interim' Household Projections - Dwellings per Annum	470	950
Demographic Change	Projected Population Growth	15,200 (760 pa)	39,200 (1,960 pa)
	Projected Household Growth	8,800 (440 pa)	17,600 (880 pa)
	Projected Dwelling Requirement	9,400 (470 pa)	19,000 (950 pa)
B	Adjustment to (A) Required to accommodate Demographic change	+50 dpa	+1,290 dpa
Economic Growth	Experian Job Growth Forecast 2011-31	12,200	28,700
	Commuting Ratio (Census 2011)	1.11	1.08
	Required Labour Force	13,540	31,620
	Economic-led Dwelling Requirement	18,800 (940 pa)	44,770 (2,240)
C	Adjustment to (A+B) Required to accommodate Demographic and Employment change	+420 dpa	+950 dpa
Market Signals	Total Growth in dwelling stock arising from (A + B + C)	29% (1.5% pa)	28% (1.4% pa)
	Increase/Decrease vs. Delivery 2006-12	96%	114%
	Increase/Decrease vs. CLG 2011 HH Proj.	100%	155%
D	Further Uplift Required	+0 dpa	+0 dpa
=	INTERIM OBJECTIVELY ASSESSED NEED 2011-31 (A + B + C + D)	18,800 (940 pa)	44,770 (2,240)

Source: Barton Willmore Research and Modelling, ONS, CLG, Experian

5.6 It should be noted that my assessment of need for Torbay takes no account of, and so does not accommodate, any unmet need from neighbouring districts.

Appendix JD1: PPG ID2a Assessment of Housing and Economic Development Needs

2a. HOUSING AND ECONOMIC DEVELOPMENT NEEDS ASSESSMENTS

The approach to assessing need

Paragraph: 001 Reference ID: 2a-001-20140306

What is the purpose of the assessment of housing and economic development needs guidance?

This guidance supports local planning authorities in objectively assessing and evidencing development needs for housing (both market and affordable); and economic development (which includes main town centre uses).

The assessment of housing and economic development needs includes the Strategic Housing Market Assessment requirement as set out in the National Planning Policy Framework.

Revision date: 06 03 2014

Related policy

National Planning Policy Framework

- Paragraph 159
- Annex 2 – Glossary - affordable housing/ economic development/ town centre

Paragraph: 002 Reference ID: 2a-002-20140306

What is the primary objective of the assessment?

The primary objective of identifying need is to:

- identify the future quantity of housing needed, including a breakdown by type, tenure and size;
- identify the future quantity of land or floorspace required for economic development uses including both the quantitative and qualitative needs for new development; and
- provide a breakdown of that analysis in terms of quality and location, and to provide an indication of gaps in current land supply.

Revision date: 06 03 2014

Paragraph: 003 Reference ID: 2a-003-20140306

What is the definition of need?

Need for housing in the context of the guidance refers to the scale and mix of housing and the range of tenures that is likely to be needed in the housing market area over the plan period – and should cater for the housing demand of the area and identify the scale of housing supply necessary to meet that demand.

Need for all land uses should address both the total number of homes or quantity of economic development floorspace needed based on quantitative assessments, but also on an understanding of the qualitative requirements of each market segment.

Assessing development needs should be proportionate and does not require local councils to consider purely hypothetical future scenarios, only future scenarios that could be reasonably expected to occur.

Revision date: 06 03 2014

Paragraph: 004 Reference ID: 2a-004-20140306

Can local planning authorities apply constraints to the assessment of development needs?

The assessment of development needs is an objective assessment of need based on facts and unbiased evidence. Plan makers should not apply constraints to the overall assessment of need, such as limitations imposed by the supply of land for new development, historic under performance, viability, infrastructure or environmental constraints. However, these considerations will need to be addressed when bringing evidence bases together to identify specific policies within development plans.

Revision date: 06 03 2014

Paragraph: 005 Reference ID: 2a-005-20140306

Can local planning authorities use a different methodology?

There is no one methodological approach or use of a particular dataset(s) that will provide a definitive assessment of development need. But the use of this standard methodology set out in this guidance is strongly recommended because it will ensure that the assessment findings are transparently prepared. Local planning authorities may consider departing from the methodology, but they should explain why their particular local circumstances have led them to adopt a different approach where this is the case. The assessment should be thorough but proportionate, building where possible on existing information sources outlined within the guidance.

Revision date: 06 03 2014

Paragraph: 006 Reference ID: 2a-006-20140306

Can town/parish councils and designated neighbourhood forums (qualifying bodies) preparing neighbourhood plans use this guidance?

Town/parish councils and designated neighbourhood forums (qualifying bodies) preparing neighbourhood plans can use this guidance to identify specific local needs that may be relevant to a

neighbourhood but any assessment at such a local level should be proportionate. Designated neighbourhood forums and parish/town councils can also refer to existing needs assessments prepared by the local planning authority as a starting point.

The neighbourhood plan should support the strategic development needs set out in Local Plans, including policies on housing and economic development. The level of housing and economic development is likely to be a strategic policy.

Revision date: 06 03 2014

Paragraph: 007 Reference ID: 2a-007-20140306

With whom do local planning authorities need to work?

Local planning authorities should assess their development needs working with the other local authorities in the relevant housing market area or functional economic market area in line with the duty to cooperate. This is because such needs are rarely constrained precisely by local authority administrative boundaries.

Where Local Plans are at different stages of production, local planning authorities can build upon the existing evidence base of partner local authorities in their housing market area but should co-ordinate future housing reviews so they take place at the same time.

Local communities, partner organisations, Local Enterprise Partnerships, businesses and business representative organisations, house builders, parish and town councils, designated neighbourhood forums preparing neighbourhood plans and housing associations should be involved from the earliest stages of plan preparation, which includes the preparation of the evidence base in relation to development needs.

Scope of assessments

Paragraph: 008 Reference ID: 2a-008-20140306

What areas should be assessed?

Needs should be assessed in relation to the relevant functional area, ie housing market area, functional economic area in relation to economic uses, or area of trade draw in relation to main town centre uses.

Establishing the assessment area may identify smaller sub-markets with specific features, and it may be appropriate to investigate these specifically in order to create a detailed picture of local need. It is important also to recognise **that there are 'market segments' ie not all housing types or economic development have the same appeal to different occupants.**

In some cases housing market areas and functional economic areas may well be the same.

Revision date: 06 03 2014

Paragraph: 009 Reference ID: 2a-009-20140306

Is there a single source that will identify the assessment areas?

No single source of information on needs will be comprehensive in identifying the appropriate assessment area; careful consideration should be given to the appropriateness of each source of information and how they relate to one another. For example, for housing, where there are issues of affordability or low demand, house price or rental level analyses will be particularly important in identifying the assessment area. Where there are relatively high or volatile rates of household movement, migration data will be particularly important. Plan makers will need to consider the usefulness of each source of information and approach for their purposes. Local planning authorities can use a combination of approaches where necessary.

Revision date: 06 03 2014

Paragraph: 010 Reference ID: 2a-010-20140306

What is a housing market area?

A housing market area is a geographical area defined by household demand and preferences for all types of housing, reflecting the key functional linkages between places where people live and work. It might be the case that housing market areas overlap.

The extent of the housing market areas identified will vary, and many will in practice cut across various local planning authority administrative boundaries. Local planning authorities should work with all the other constituent authorities under the duty to cooperate.

Where there is a joint plan, housing requirements and the need to identify a five year supply of sites can apply across the joint plan area. The approach being taken should be set out clearly in the plan.

Revision date: 06 03 2014

Paragraph: 011 Reference ID: 2a-011-20140306

How can housing market areas be defined?

Housing market areas can be broadly defined by using three different sources of information as follows.

- **House prices and rates of change in house prices**

Housing market areas can be identified by assessing patterns in the relationship between housing demand and supply across different locations. This analysis uses house prices to **provide a 'market-based' reflection of housing market area boundaries. It enables** the identification of areas which have clearly different price levels compared to surrounding areas. The findings provide information about differences across the area in terms of the **price people pay for similar housing, market 'hotspots', low demand** areas and volatility.

Suggested data sources:

Office for National Statistics, House Price Index, Land Registry House Price Index and Price Paid data (including sales), Department for Communities and Local Government Statistics including Live Tables on Affordability (lower quartile house prices/lower quartile earnings), Neighbourhood data from the Census.

- **Household migration and search patterns**

Migration flows and housing search patterns reflect preferences and the trade-offs made when choosing housing with different characteristics. Analysis of migration flow patterns can help to identify these relationships and the extent to which people move house within an area. The findings can identify the areas within which a relatively high proportion of household moves (typically 70 per cent) are contained. This excludes long distance moves

(eg those due to a change of lifestyle or retirement), reflecting the fact that most people move relatively short distances due to connections to families, friends, jobs, and schools.

Suggested data sources:

Census, Office for National Statistics Internal Migration Statistics, and NHS registration data. Data from estate agents and local newspapers contain information about the geographical coverage of houses advertised for sale and rent.

- **Contextual data (for example travel to work area boundaries, retail and school catchment areas)**

Travel to work areas can provide information about commuting flows and the spatial structure of the labour market, which will influence household price and location. They can also provide information about the areas within which people move without changing other aspects of their lives (eg work or service use).

Suggested data sources:

Office of National Statistics (travel to work areas), retailers and other service providers may be able to provide information about the origins of shoppers and service users, school catchment areas.

Revision date: 06 03 2014

Paragraph: 012 Reference ID: 2a-012-20140306

How can functional economic market areas be defined?

The geography of commercial property markets should be thought of in terms of the requirements of the market in terms of the location of premises, and the spatial factors used in analysing demand and supply – often referred to as the functional economic market area. Since patterns of economic activity vary from place to place, there is no standard approach to defining a functional economic market area, however, it is possible to define them taking account of factors including:

- extent of any Local Enterprise Partnership within the area;
- travel to work areas;
- housing market area;
- flow of goods, services and information within the local economy;
- service market for consumers;
- administrative area;
- Catchment areas of facilities providing cultural and social well-being;
- transport network.

Suggested Data Source:

Office of National Statistics (travel to work areas)

Revision date: 06 03 2014

Paragraph: 013 Reference ID: 2a-013-20140306

How can the area of 'trade draw' be defined?

The 'trade draw' area in relation to main town centres uses is defined in the context of the town centre impact test in the town centre guidance.

Revision date: 06 03 2014

Methodology: assessing housing need

Paragraph: 014 Reference ID: 2a-014-20140306

What methodological approach should be used?

Establishing future need for housing is not an exact science. No single approach will provide a definitive answer. Plan makers should avoid expending significant resources on primary research (information that is collected through surveys, focus groups or interviews etc and analysed to produce a new set of findings) as this will in many cases be a disproportionate way of establishing an evidence base. They should instead look to rely predominantly on secondary data (eg Census, national surveys) to inform their assessment which are identified within the guidance.

Revision date: 06 03 2014

Paragraph: 015 Reference ID: 2a-015-20140306

What is the starting point to establish the need for housing?

Household projections published by the Department for Communities and Local Government should provide the starting point estimate of overall housing need.

The household projections are produced by applying projected household representative rates to the population projections published by the Office for National Statistics. Projected household representative rates are based on trends observed in Census and Labour Force Survey data.

The household projections are trend based, ie they provide the household levels and structures that would result if the assumptions based on previous demographic trends in the population and rates of household formation were to be realised in practice. They do not attempt to predict the impact that future government policies, changing economic circumstances or other factors might have on demographic behaviour.

The household projection-based estimate of housing need may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trends. For example, formation rates may have been suppressed historically by under-supply and worsening affordability of housing. The assessment will therefore need to reflect the consequences of past under delivery of housing. As household projections do not reflect unmet housing need, local planning authorities should take a view based on available evidence of the extent to which household formation rates are or have been constrained by supply.

Revision date: 06 03 2014

Paragraph: 016 Reference ID: 2a-016-20140306

How often are the projections updated?

The Government's official population and household projections are generally updated every two years to take account of the latest demographic trends. Wherever possible, local needs assessments should be informed by the latest available information. Local Plans should be kept up-to-date, and a meaningful change in the housing situation should be considered in this context, but this does not

automatically mean that housing assessments are rendered outdated every time new projections are issued.

The 2011-based Interim Household Projections only cover a ten year period up to 2021, so plan makers would need to assess likely trends after 2021 to align with their development plan periods.

Revision date: 06 03 2014

Related policy

National Planning Policy Framework

- Paragraph 17, bullet 1

Paragraph: 017

Reference ID: 2a-017-20140306

Can adjustments be made to household projection-based estimates of housing need?

The household projections produced by the Department for Communities and Local Government are statistically robust and are based on nationally consistent assumptions. However, plan makers may consider sensitivity testing, specific to their local circumstances, based on alternative assumptions in relation to the underlying demographic projections and household formation rates. Account should also be taken of the most recent demographic evidence including the latest Office of National Statistics population estimates.

Any local changes would need to be clearly explained and justified on the basis of established sources of robust evidence.

Issues will vary across areas but might include:

- migration levels that may be affected by changes in employment growth or a one off event such as a large employer moving in or out of an area or a large housing development such as an urban extension in the last five years
- demographic structure that may be affected by local circumstances or policies eg expansion in education or facilities for older people

Local housing need surveys may be appropriate to assess the affordable housing requirements specific to the needs of people in rural areas, given the lack of granularity provided by secondary sources of information.

Revision date: 06 03 2014

Paragraph: 018

Reference ID: 2a-018-20140306

How should employment trends be taken into account?

Plan makers should make an assessment of the likely change in job numbers based on past trends and/or economic forecasts as appropriate and also having regard to the growth of the working age population in the housing market area. Any cross-boundary migration assumptions, particularly where one area decides to assume a lower internal migration figure than the housing market area figures suggest, will need to be agreed with the other relevant local planning authority under the duty to cooperate. Failure to do so will mean that there would be an increase in unmet housing need.

Where the supply of working age population that is economically active (labour force supply) is less than the projected job growth, this could result in unsustainable commuting patterns (depending on

public transport accessibility or other sustainable options such as walking or cycling) and could reduce the resilience of local businesses. In such circumstances, plan makers will need to consider how the location of new housing or infrastructure development could help address these problems.

Revision date: 06 03 2014

Paragraph: 019 Reference ID: 2a-019-20140306

How should market signals be taken into account?

The housing need number suggested by household projections (the starting point) should be adjusted to reflect appropriate market signals, as well as other market indicators of the balance between the demand for and supply of dwellings. Prices or rents rising faster than the national/local average may well indicate particular market undersupply relative to demand. Relevant signals may include the following:

- **Land Prices**
Land values are determined by the demand for land in particular uses, relative to the supply of land in those uses. The allocation of land supply designated for each different use, independently of price, can result in substantial price discontinuities for adjoining parcels of land (or land with otherwise similar characteristics). Price premiums provide direct information on the shortage of land in any locality for any particular use.
- **House Prices**
Mix adjusted house prices (adjusted to allow for the different types of houses sold in each period) measure inflation in house prices. Longer term changes may indicate an imbalance between the demand for and the supply of housing. The Office for National Statistics publishes a monthly House Price Index at regional level. The Land Registry also publishes a House Price Index and Price Paid data at local authority level.
- **Rents**
Rents provide an indication of the cost of consuming housing in a market area. Mixed adjusted rent information (adjusted to allow for the different types of properties rented in each period) shows changes in housing costs over time. Longer term changes may indicate an imbalance between demand for and supply of housing. The Office for National Statistics publishes a monthly Private Rental Index.
- **Affordability**
Assessing affordability involves comparing house costs against the ability to pay. The ratio between lower quartile house prices and the lower quartile income or earnings can be used to assess the relative affordability of housing. The Department for Communities and Local Government publishes quarterly the ratio of lower quartile house price to lower quartile earnings by local authority district.
- **Rate of Development**
Local planning authorities monitor the stock and flows of land allocated, permissions granted, and take-up of those permissions in terms of completions. Supply indicators may include the flow of new permissions expressed as a number of units per year relative to the planned number and the flow of actual completions per year relative to the planned number. A meaningful period should be used to measure supply. If the historic rate of development shows that actual supply falls below planned supply, future supply should be increased to reflect the likelihood of under-delivery of a plan. The Department for Communities and Local Government publishes quarterly planning application statistics.
- **Overcrowding**
Indicators on overcrowding, concealed and sharing households, homelessness and the numbers in temporary accommodation demonstrate un-met need for housing. Longer term increase in the number of such households may be a signal to consider increasing planned

housing numbers. The number of households accepted as homeless and in temporary accommodation is published in the quarterly Statutory Homelessness release.

Revision date: 06 03 2014

Paragraph: 020 Reference ID: 2a-020-20140306

How should plan makers respond to market signals?

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

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

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

The list of indicators above is not exhaustive. Other indicators, including those at lower spatial levels, are available and may be useful in coming to a full assessment of prevailing market conditions. In broad terms, the assessment should take account both of indicators relating to price (such as house prices, rents, affordability ratios) and quantity (such as overcrowding and rates of development).

Revision date: 06 03 2014

Paragraph: 021 Reference ID: 2a-021-20140306

How should the needs for all types of housing be addressed?

Once an overall housing figure has been identified, plan makers will need to break this down by tenure, household type (singles, couples and families) and household size. Plan makers should therefore examine current and future trends of:

- the proportion of the population of different age profile;
- the types of household (eg singles, couples, families by age group, numbers of children and dependents);
- the current housing stock size of dwellings (eg one, two+ bedrooms);
- the tenure composition of housing.

This information should be drawn together to understand how age profile and household mix relate to each other, and how this may change in the future. When considering future need for different types of housing, plan makers will need to consider whether they plan to attract a different age profile eg increasing the number of working age people.

Plan makers should look at the household types, tenure and size in the current stock and in recent supply, and assess whether continuation of these trends would meet future needs.

Identifying the need for certain types of housing and the needs of different groups is discussed below in more detail.

- **The private rented sector**

Tenure data from the Office of National Statistics can be used to understand the future need for private rented sector housing. However, this will be based on past trends. Market signals in the demand for private rented sector housing could be indicated from a change in rents. Evidence can also be sourced from the English Housing Survey, which will provide at national level updated information on tenure trends, Office of National Statistics Private Rental Index, the Valuation Office Agency, HomeLet Rental Index and other commercial sources.
- **People wishing to build their own homes**

The Government wants to enable more people to build their own home and wants to make this form of housing a mainstream housing option. There is strong industry evidence of significant demand for such housing, as supported by successive surveys. Local planning authorities should, therefore, plan to meet the strong latent demand for such housing. Additional local demand, over and above current levels of delivery can be identified from **secondary data sources such as: building plot search websites, 'Need-a-Plot' information** available from the *Self Build Portal*; and enquiries for building plots from local estate agents. However, such data is unlikely on its own to provide reliable local information on the local demand for people wishing to build their own homes. Plan makers should, therefore, consider surveying local residents, possibly as part of any wider surveys, to assess local housing need for this type of housing, and compile a local list or register of people who want to build their own homes.
- **Family housing**

Plan makers can identify current numbers of families, including those with children, by using the local household projections.
- **Housing for older people**

The need to provide housing for older people is critical given the projected increase in the number of households aged 65 and over accounts for over half of the new households (Department for Communities and Local Government Household Projections 2013). Plan makers will need to consider the size, location and quality of dwellings needed in the future for older people in order to allow them to move. This could free up houses that are under occupied. The age profile of the population can be drawn from Census data. Projections of population and households by age group should also be used. The future need for older persons housing broken down by tenure and type (e.g sheltered, enhanced sheltered, extra care, registered care) should be assessed and can be obtained from a number of online tool kits provided by the sector. The assessment should set out the level of need for residential institutions (Use Class C2). But identifying the need for particular types of general housing, such as bungalows, is equally important.
- **Households with specific needs**

There is no one source of information about disabled people who require adaptations in the home, either now or in the future. The Census provides information on the number of people with long-term limiting illness and plan makers can access information from the Department of Work and Pensions on the numbers of Disability Living Allowance/Attendance Allowance benefit claimants. Whilst these data can provide a good indication of the number of disabled people, not all of the people included within these counts will require adaptations in the home. Applications for Disabled Facilities Grant will provide an indication of levels of expressed need, although this could underestimate total need. If necessary, plan makers can engage with partners to better understand their housing requirements.

Revision date: 06 03 2014

Paragraph: 022 Reference ID: 2a-022-20140306

How should affordable housing need be calculated?

Plan makers working with relevant colleagues within their local authority (eg housing, health and social care departments) will need to estimate the number of households and projected households who lack their own housing or live in unsuitable housing and who cannot afford to meet their housing needs in the market.

This calculation involves 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.

Revision date: 06 03 2014

Paragraph: 023 Reference ID: 2a-023-20140306

What types of households are considered in affordable housing need?

The types of households to be considered in housing need are:

- homeless households or insecure tenure (e.g. housing that is too expensive compared to disposable income);
- households where there is a mismatch between the housing needed and the actual dwelling (e.g. overcrowded households);
- households containing people with social or physical impairment or other specific needs living in unsuitable dwellings (e.g. accessed via steps) which cannot be made suitable in-situ
- households that lack basic facilities (e.g. a bathroom or kitchen) and those subject to major disrepair or that are unfit for habitation;
- households containing people with particular social needs (e.g. escaping harassment) which cannot be resolved except through a move.

Revision date: 06 03 2014

Paragraph: 024 Reference ID: 2a-024-20140306

How should the current unmet gross need for affordable housing be calculated?

Plan makers should establish unmet (gross) need for affordable housing by assessing past trends and recording current estimates of:

- the number of homeless households;
- the number of those in priority need who are currently housed in temporary accommodation;
- the number of households in over-crowded housing;
- the number of concealed households;
- the number of existing affordable housing tenants in need (i.e. householders currently housed in unsuitable dwellings);
- the number of households from other tenures in need and those that cannot afford their own homes.

Care should be taken to avoid double-counting, which may be brought about with the same households being identified on more than one transfer list, and to include only those households who cannot afford to access suitable housing in the market.

Suggested data sources:

Local authorities will hold data on the number of homeless households, those in temporary accommodation and extent of overcrowding. The Census also provides data on concealed households and overcrowding which can be compared with trends contained in the English Housing Survey. Housing registers and local authority and registered social landlord transfer lists will also provide relevant information.

Revision date: 06 03 2014

Paragraph: 025 Reference ID: 2a-025-20140306

How should the number of newly arising households likely to be in affordable housing need be calculated (gross annual estimate)?

Projections of affordable housing need will need to take into account new household formation, the proportion of newly forming households unable to buy or rent in the market area, and an estimation of the number of existing households falling into need. This process should identify the minimum household income required to access lower quartile (entry level) market housing (plan makers should use current cost in this process, but may wish to factor in changes in house prices and wages). It should then assess what proportion of newly-forming households will be unable to access market housing.

Suggested data sources:

Department for Communities and Local Government household projections, English Housing Survey, local authority and registered social landlords databases, and mortgage lenders.

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*

Revision date: 06 03 2014

Paragraph: 026 Reference ID: 2a-026-20140306

How should the current total affordable housing supply available be calculated?

There will be a current supply of housing stock that can be used to accommodate households in affordable housing need as well as future supply. To identify the total affordable housing supply requires identifying the current housing stock by:

- identifying the number of affordable dwellings that are going to be vacated by current occupiers that are fit for use by other households in need;
- identifying surplus stock (vacant properties);
- identifying the committed supply of new affordable units (social rented and intermediate housing) at the point of the assessment (number and size);
- identifying units to be taken out of management (demolition or replacement schemes that lead to net losses of stock).

Sources of data:

Department for Communities and Local Government affordable housing supply statistics to show recent trends, and local authority and Registered Social Landlord records including housing register, transfer lists, demolition and conversion programmes, development programme of affordable housing providers.

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

Revision date: 06 03 2014

Paragraph: 027 Reference ID: 2a-027-20140306

What is the likely level of future housing supply of social re-lets (net) and intermediate affordable housing (excluding transfers)?

Plan makers should calculate the level of likely future affordable housing supply taking into account future annual supply of social housing re-lets (net), calculated on the basis of past trends (generally the average number of re-lets over the previous three years should be taken as the predicted annual levels), and the future annual supply of intermediate affordable housing (the number of units that come up for re-let or re-sale should be available from local operators of intermediate housing schemes).

Suggested data sources:

Local Authority and Registered Social Landlord data, CORE (Continuous Recording of lettings and sales in social housing) data on the number of lettings in the RSL sector whilst HSSA (Housing Strategy Statistical Appendix) data provides the number of lettings in council owned housing.

Future annual supply of affordable housing units =

the number of social rented units + the number of intermediate affordable units

Revision date: 06 03 2014

Paragraph: 028 Reference ID: 2a-028-20140306

What is the relationship between the current housing stock and current and future needs?

Plan makers should look at the house size in the current stock and assess whether these match current and future needs.

Revision date: 06 03 2014

Paragraph: 029 Reference ID: 2a-029-20140306

What is the total need for affordable housing?

The total need for affordable housing should be converted into annual flows by calculating the total net need (subtract total available stock from total gross need) and converting total net need into an annual flow.

The total affordable housing need should then be considered in the context of its likely delivery as a proportion of mixed market and affordable housing developments, given the probable percentage of affordable housing to be delivered by market housing led developments. An increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of affordable homes.

Revision date: 06 03 2014

Methodology: assessing economic development and main town centre uses

Paragraph: 030 Reference ID: 2a-030-20140306

How should the current situation in relation to economic and main town centre uses be assessed?

In understanding the current market in relation to economic and main town centre uses, plan makers should liaise closely with the business community to understand their current and potential future requirements. Plan makers should also consider:

- The recent pattern of employment land supply and loss to other uses (based on extant planning permissions and planning applications). This can be generated through a simple assessment of employment land by sub-areas and market segment, where there are distinct property market areas within authorities.
- Market intelligence (from local data and discussions with developers and property agents, recent surveys of business needs or engagement with business and economic forums).
- Market signals, such as levels and changes in rental values, and differentials between land values in different uses.
- Public information on employment land and premises required.
- Information held by other public sector bodies and utilities in relation to infrastructure constraints.
- The existing stock of employment land. This will indicate the demand for and supply of employment land and determine the likely business needs and future market requirements (though it is important to recognise that existing stock may not reflect the future needs of business). Recent statistics on take-up of sites should be consulted at this stage, along with other primary and secondary data sources to gain an understanding of the spatial implications of 'revealed demand' for employment land.
- The locational and premises requirements of particular types of business.
- Identification of oversupply and evidence of market failure (e.g. physical or ownership constraints that prevent the employment site being used effectively, which could be evidenced by unfulfilled requirements from business, yet developers are not prepared to build premises at the prevailing market rents).

Revision date: 06 03 2014

Paragraph: 031 Reference ID: 2a-031-20140306

How should employment land be analysed?

A simple typology of employment land by market segment and by sub-areas, where there are distinct property market areas within authorities, should be developed and analysed. This should be supplemented by information on permissions for other uses that have been granted, if available, on sites then or formerly in employment use.

When examining the recent take-up of employment land, it is important to consider projections (based on past trends) and forecasts (based on future scenarios) and identify occurrences where sites have been developed for specialist economic uses. This will help to provide an understanding of the underlying requirements for office, general business and warehousing sites, and (when compared with the overall stock of employment sites) should form the context for appraising individual sites.

Analysing supply and demand will allow plan makers to identify whether there is a mismatch between quantitative and qualitative supply of and demand for employment sites. This will enable an understanding of which market segments are over-supplied to be derived and those which are undersupplied.

Employment land markets can overlap several local authority areas.

Revision date: 06 03 2014

Paragraph: 032 Reference ID: 2a-032-20140306

How should future trends be forecast?

Plan makers should consider forecasts of quantitative and qualitative need (i.e. the number of units and amount of floorspace for other uses needed) but also its particular characteristics (eg footprint of economic uses and proximity to infrastructure). The key output is an estimate of the scale of future needs, broken down by economic sectors.

Local authorities should develop an idea of future needs based on a range of data which is current and robust. Authorities will need to take account of business cycles and make use of forecasts and surveys to assess employment land requirements.

Emerging sectors that are well suited to the area being covered by the analysis should be encouraged where possible. Market segments should be identified within the employment property market so that need can be identified for the type of employment land advocated.

The available stock of land should be compared with the particular requirements of the area so that **'gaps' in local employment land provision can be identified**

Plan makers should consider:

- sectoral and employment forecasts and projections (labour demand);
- demographically derived assessments of future employment needs (labour supply techniques);
- analyses based on the past take-up of employment land and property and/or future property market requirements;
- consultation with relevant organisations, studies of business trends, and monitoring of business, economic and employment statistics.

Revision date: 06 03 2014

Paragraph: 033 Reference ID: 2a-033-20140306

What type of employment land is needed?

The increasing diversity of employment generating uses (as evidenced by the decline of manufacturing and rise of services and an increased focus on mixed-use development) requires different policy responses and an appropriate variety of employment sites. The need for rural employment should not be overlooked.

Labour supply models are based on population and economic activity projections. Underlying population projections can be purely demographic or tied to future housing stock which needs to be assessed separately. These models normally make predictions for a period of 10 to 15 years. Plan makers should be careful to consider that national economic trends may not automatically translate to particular areas with a distinct employment base.

Revision date: 06 03 2014

Paragraph: 034 Reference ID: 2a-034-20140306

How should employment land requirements be derived?

When translating employment and output forecasts into land requirements, there are four key relationships which need to be quantified. This information should be used to inform the assessment of land requirements. The four key relationships are:

- Standard Industrial Classification sectors to use classes;
- Standard Industrial Classification sectors to type of property;
- employment to floorspace (employment density); and
- floorspace to site area (plot ratio based on industry proxies).

Core outputs and monitoring

Paragraph: 035 Reference ID: 2a-035-20140306

What are the core outputs?

Plan makers should set out clear conclusions and any assumptions made in reaching these conclusions on the levels of quantitative and qualitative predicted need. This will be an important input into assessing the suitability of sites and the Local Plan preparation process more generally.

Plan makers will need to consider their existing and emerging housing and economic strategies in light of needs.

Revision date: 06 03 2014

Paragraph: 036 Reference ID: 2a-036-20140306

How often should indicators be monitored?

Local planning authorities should not need to undertake comprehensive assessment exercises more frequently than every five years although they should be updated regularly, looking at the short-term changes in housing and economic market conditions.

Monitoring information should be shared with qualifying bodies undertaking a neighbourhood plan **via the local authorities'** monitoring report so that they can understand how their neighbourhood plan is being implemented.

Revision date: 06 03 2014

Paragraph: 037 Reference ID: 2a-037-20140306

What could be monitored?

Local planning authorities should put in place their own monitoring arrangements in relation to relevant local indicators which could include:

- housing and employment land and premises (current stock) database;
- housing and employment permissions granted, by type;
- housing and employment permissions developed by type, matched to allocated sites;
- housing and employment permissions for development of sites where change of use is involved;
- housing and employment land and premises available and recent transactions;
- housing and employment premises enquiries (if the authority has an estates team);
- housing developer or employer requirements and aspirations for houses and economic floorspace;
- housing waiting lists applications;
- the market signals.

Revision date: 06 03 2014

Appendix JD2: RPTI Research Briefing: Planning for Housing in England, 2014



Planning for housing in England

The 2011 census raises big issues for planners. In particular, it shows that average household size did not fall as expected between the censuses but stayed constant. This is probably because the 2011 census results – and the official household projections that were based on them – were influenced by increased international migration, the economic downturn and the effects of a long period of poor housing affordability. This suggests that planning on the basis of these projections could lead to an under-provision of housing in some areas.

This briefing, based on research conducted for the RTPI by the University of Cambridge, suggests how planners and others might respond.

Who should read this?

Policymakers, decision-makers and practitioners in England involved in planning for housing and related areas for which provision is influenced by changes in the number and type of households.

Key messages for policy and practice

DCLG's 2011 household projections for England (published in April 2013) are the latest official household projections and take account of the 2011 census results. As suggested in planning guidance, they are the starting point estimates for looking at household growth and housing requirements.

However, for the reasons explained in this briefing, local authorities need to consider their specific situation carefully in the light of what the latest projections suggest for their area. They should ensure that their plan anticipates the range of potential outcomes and review the plan regularly to see if changes are needed.

There are two reasons why the trends that have been projected forward in the official projections may not continue unchanged.

Firstly, increased international migration in the first decade of this century may have been responsible for a significant proportion of the changes to previous trends in household formation patterns. Secondly, it seems likely that the 2011 census results were influenced by both the economic downturn and the effects of a long period of poor housing affordability.

This raises the question of whether planners should assume that household size will remain stable or resume the previous falling trend. For some authorities, this could affect the number of homes required by 30% or more.

Consequently, three main issues should be taken into account in using DCLG household projections at the local authority level:

- The extent to which the pattern of household formation in the area been affected by an increase in international migrants (which may vary greatly).
- The extent to which household formation patterns have departed from previous trends.
- Whether there have been significant changes in the projected net flow to or from other local authorities, which may be a consequence of the use in the interim projections of flow rates from earlier projections. In such cases it might be appropriate to adjust the projected flows.

Suggestions for how planners and others might respond when planning for households in England are included in this briefing.



Main findings

Compared to 2010 projections, the 2011 census found 450,000 more people in England than expected. There were also 375,000 fewer households than anticipated (compared to 2008 projections). The average household size was larger than expected: it had remained at the 2001 level rather than falling as expected

This raises some important questions: What caused these changes? Are they likely to continue? And how should DCLG's household projections be used in assessing housing requirements? (It should be noted that this report relates only to England; different approaches to projecting household numbers are used in the other parts of the UK.)

What changed?

A detailed analysis of the census and other data points to two main reasons for the census finding fewer households than expected: increased international migration; and changes in the types of households in which younger adults are living.

Increased international migration

People arriving in England from abroad tend to live in larger households than the rest of the population. This means that if there are more people in the population who have recently arrived than anticipated, the average household size will be larger than expected.

The trends in household formation patterns which underpinned the previous set of official projections – DCLG's 2008-based household projections – were based on international migration flows from the 1990s and earlier. Compared with that period, the inflow of international migrants in the first decade of the century was 193,000 a year higher (offset in part by increased "out" migration so the growth in the net inflow was much smaller). It is therefore unsurprising that there were fewer households in 2011 than expected as more people than anticipated were living in larger households.

Analysis carried out by Alan Holmans at the University of Cambridge suggests that this may be responsible for some 200,000 of the

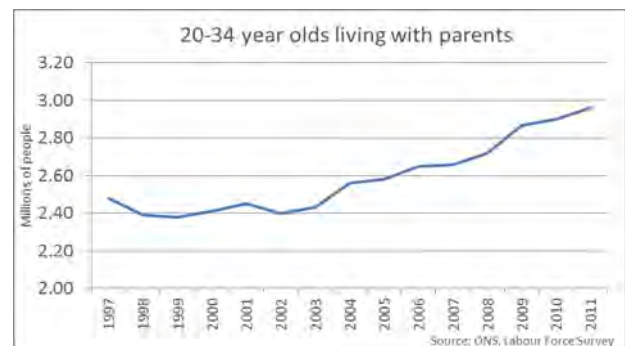
375,000 difference between the estimated and actual number of households.

Changes in living patterns

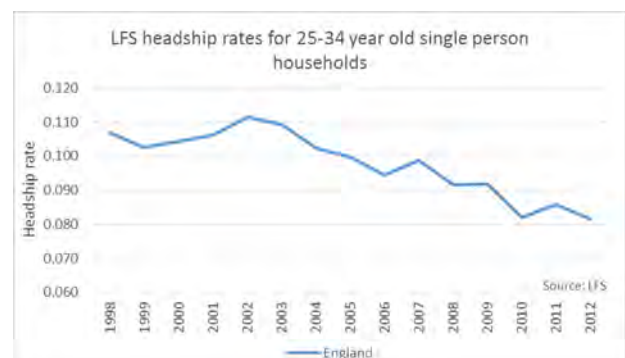
A comparison of actual and expected household numbers by age of the household representative person shows that most of the shortfall is in the 25-34 and 35-44 age groups.

Analysis of the types of households that are "missing" and other evidence from the Labour Force Survey suggests that there has been a reduction in people in this age group living alone and an increase in the numbers living with their parents or in shared accommodation.

The chart below shows how the number of 20-34 year olds living with parents has increased: in 2011 there were ½ million more 20-34 year olds living with parents than in 2001. Although some of the increase may be due to an increase in number of people in this age group, the most of it is due to changing household formation patterns.



Further, the following chart shows how the proportion of 25-34 year olds living alone in single person households fell over the same period.



Are these changes likely to continue?

What happens to the number of “missing” households attributable to increased in migration depends on what happens to migration flows in the future. If there is no further significant increase in international in migration (which seems a reasonable assumption given UK Government policies to reduce migration), there should be no increase in the number of recent migrants in the population. This is because the previous decade’s migrants will either have left or become established residents living in similar household sizes to the rest of the population. As a result, there should be no further impact on average household size for this reason.

It seems likely that changes such as more people living with their parents and more people living in shared accommodation are “forced” changes caused by those concerned not being able to afford separate accommodation, rather than free choices. Insofar as they are “forced”, it is likely that they will reverse if and when conditions improve.

The question then becomes, “What conditions would need to improve?” The two main factors are likely to be the economy, including incomes and the availability of mortgage finance, and the affordability of housing.

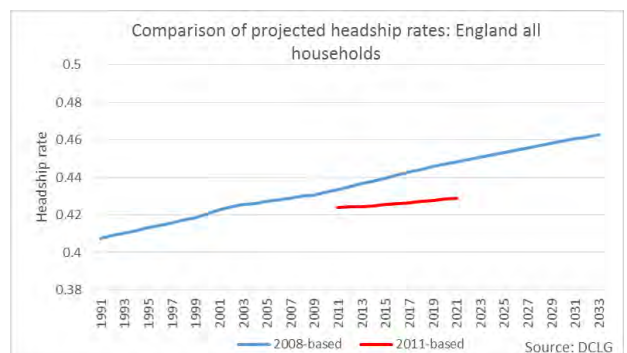
The graphs on the previous page, showing the growth in the number of young adults living with their parents and the falling proportion of 25-34 year olds living on their own, both indicate that the changes were well underway before the economic downturn. This suggests that a return to stronger economic growth and better access to mortgage finance will be insufficient on its own to produce in a return to previous patterns of household formation. There would also need to be an improvement in the affordability of housing to buy and to rent – which depends on house prices and trends in incomes and interest rates.

Using DCLG’s latest household projections

DCLG’s household projections take as their starting point the actual number of households in 2011 and household formation rates indicated by the census. They are the starting point for looking at household growth and housing requirements.

However, they are trend-based projections (rather than forecasts), meaning they tell you what would happen if the trends on which they are based were to continue. A view needs to be taken on whether that is a reasonable assumption or whether some change in the trends is more likely.

This chart shows how the number of households per person is envisaged to rise in the two projections and indicates how different the latest projections are from the 2008-based projections.



The lower starting point, in 2011, of the 2011-based projections reflects what the census found, i.e. a smaller number of households per person (which equates to a larger average household size). The projected forward trend gives rise to a flatter line, which implies a slower growth in the proportion of the population that will be ‘household representative persons’.

However, this approach does not make allowance for either:

- The likelihood that “recent international migrant” effect was a one-off;
- The possibility that conditions in the housing market and the economy more



generally will improve and there will be some return toward previous trends in household formation. (Note that the latest projections imply that the proportion of 25-34 year olds who set up home on their own continues to fall and does not just remain at the 2011 level.)

Both factors suggest that the latest projections are likely to underestimate the growth in household numbers.

Using the latest projections for local authority areas

The main issues which need to be taken into account at the local authority level are:

- The volume of international migration varies significantly from area to area, implying that the extent to which increased international migration will have affected the household projections could also vary considerably.
- The extent to which household formation patterns have departed from previous trends also varies from area to area. For some authorities the new projections suggest that household formation rates for some groups will continue to fall. The impact which any move back towards previous trends would have will also vary from area to area.
- The latest projections are 'interim' projections prepared before the full results of the 2011 census were available. This means that it was necessary to use some trend data from previous projections, including data on flows between local authorities in the UK. As a result these flows, which are major drivers of population change for many authorities, may have been under or over-estimated for some areas. Where there are big changes between the 2008-based and 2011-based projections in this area the new projections should be compared with past flows and a view taken on whether they are a reasonable basis for planning.

It should also be noted that some of the differences between the 2008-based and 2011-based projections are the result of improved methods used to estimate

international flows at the local authority level. The new methods should give more reliable results.

How might Government help?

The projections are a major asset for those planning for housing, but they could be even more useful if government could:

- Publish in an easily accessible form data showing how the projections for key drivers of change – birth, deaths and flows into and out of a local authority – relate to what has happened in the recent past. This would allow users to understand the underlying trends and take a view, in the light of their local knowledge, as to whether they are a sensible basis for planning.
- Provide sensitivity analysis at the local authority level so that users can gauge the amount of uncertainty they need to plan for.

About the research

This briefing is based on research conducted for the RTPI by Neil McDonald and Peter Williams at the Cambridge Centre for Housing and Planning Research, University of Cambridge, funded through the RTPI's Small Projects Impact Research (SPIRe) scheme.

Further information

The full report is available on the RTPI website at: www.rtpi.org.uk/spire

About the RTPI

The Royal Town Planning Institute holds a unique position in relation to planning as a professional membership body, a charity and a learned institute. We have a responsibility to promote the research needs of spatial planning in the UK, Ireland and internationally.

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You are also welcome to email us at: research@rtpi.org.uk

**Appendix JD3: Understanding the Latest DCLG Household Projections Toolkit, Version 2,
2014**

Understanding the latest DCLG household projections

Introduction

This tool is designed to enable you to:

- find out how the household projections for any given English local authority have changed between the Department for Communities and Local Government's 2008-based projections and the 2011-based interim projections released in April 2013.
- explore three key factors which are particularly important to understanding the latest projections and how they should be used. The factors are changing household formation trends; increased international migration; and, how the flows between authorities have been estimated. The role they play is discussed more fully in the RTPi research report, 'Planning for housing in England: Understanding recent changes in household formation rates and their implications for planning for housing in England' (see <http://www.rtpi.org.uk/spire>).

It should be emphasised that the purpose of the tool is to enable you to identify the issues that may warrant more detailed investigation rather than to provide a definitive view on how the latest projections should be used for any particular authority.

How to use the tool

The first step is to select the authority you are interested in from the drop down list that appears when you click on the yellow box below.

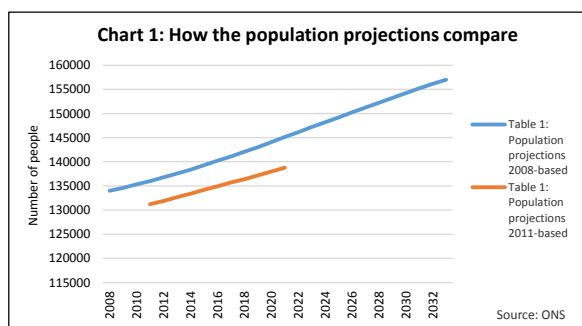
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All charts and tables are then automatically adjusted to give the data relevant to the authority chosen. The data shown in the charts appears in tables to the right of the charts.

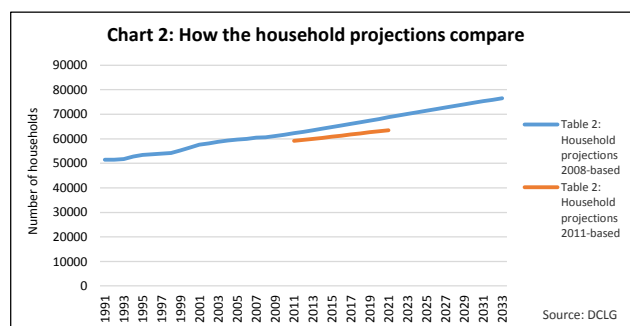
How the new and old projections compare

The tables and charts below give the basic data from the 2008 and 2011-based population and household projections. Typically the 2011-based projections show faster population growth from a higher starting point and the 2011-based household projections show slower household growth from a lower starting point. However, there is considerable variation from authority to authority.

	Average annual growth 2011-21		2011 growth as % increase on 2008	
	Population	Households	Population	Households
2008-based projection	910	652	-16%	-32%
2011-based projection	760	441		



	2011	2016	2021	2026	2031
2008-based	136000	140200	145100	150200	155200
2011-based	131200	134900	138800		



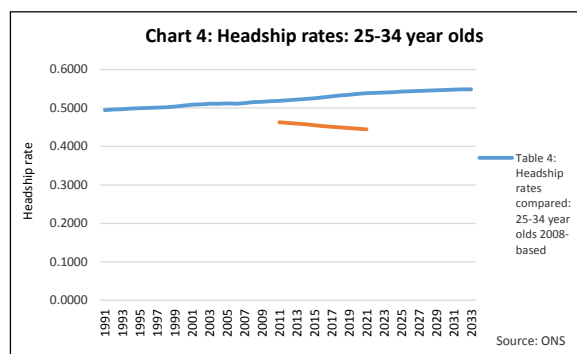
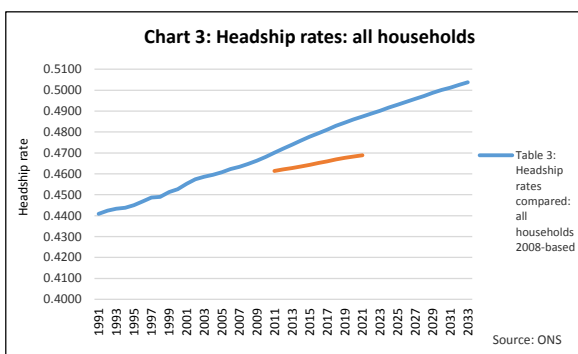
	1991	1996	2001	2006	2011	2016	2021	2026	2031
2008-based	51398	53720	57542	59942	62246	65410	68765	72088	75297
2011-based					59104	61281	63510		

The differences between the 2008-based and 2011-based projections reflect early results from the 2011 census, although in some important areas trends from earlier projections have had to be used because the data to update them was not available.

Changing household formation patterns

Perhaps the most surprising difference is the difference between the population and household projections where, for many authorities, the 2001-based projections suggest faster population growth but either slower household growth or household growth that has increased by much less than the population growth. This is due to significant changes in household formation patterns compared with what was anticipated in the earlier projections.

Charts 3 and 4 illustrate how household formation patterns have changed for the selected authority. Chart 3 shows the overall headship rate i.e. the number of households divided by the number of people living in households - a measure of the tendency to form households. For most authorities the tendency to form households was lower in 2011 than the 2008-projections had suggested and is projected to grow slower than in the latest projections. Chart 4 shows the headships rates for 25-34 year olds, the age group that has been most affected by the changing household formation patterns revealed by the 2011 census. For the vast majority of authorities the latest projections not only suggest that the tendency of this age group to form households was lower than previously expected in 2011 but that it will also fall over the period to 2021.



	1991	1996	2001	2006	2011	2016	2021	2026	2031
2008-based	0.441	0.447	0.455	0.462	0.470	0.479	0.487	0.494	0.501
2011-based					0.461	0.465	0.469		

	1991	1996	2001	2006	2011	2016	2021	2026	2031
2008-based	0.494	0.500	0.508	0.511	0.519	0.528	0.538	0.543	0.548
2011-based					0.463	0.453	0.444		

A key question facing those using the new projections is whether these trends in household formation rates are likely to continue. The RTPi research report, 'Planning for housing in England: Understanding recent changes in household formation rates and their implications for planning for housing in England' (<http://www.rtpi.org.uk/spire>) discusses two reasons for this change:

- increased international migration, which tends to increase average household size as recent migrants tend to live in larger households than the rest of the population.
- a range of changes to how people have been living, including more adult children staying on with parents or sharing homes rather than living on their own.

International migration

The international migration factor is more likely to have affected authorities with relatively large inflows of migrants. The table below give the average annual international migration flow into the chosen authority as a proportion of the total population in that period. The England average is about 1% so figures significantly above this might be thought large. In those cases it is likely to be worth exploring how international migration flows have changed over the last 20-30 years and the impact this may have had on the projections.

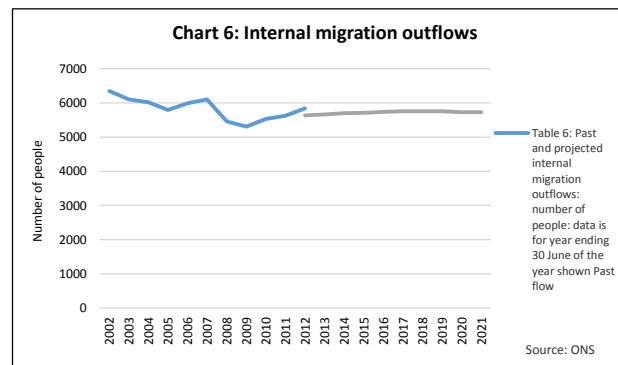
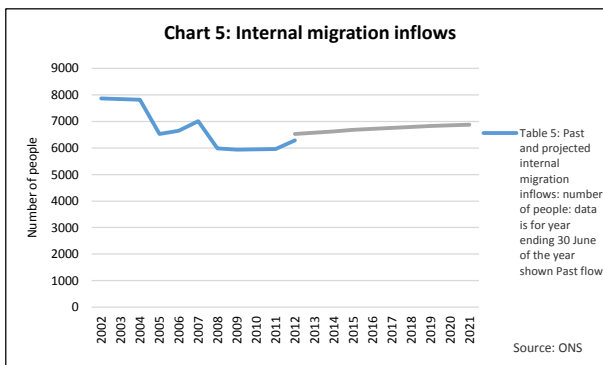
Average annual international migration 2001-11 as percentage of total population	0.45%
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Making a judgement household formation rates

Ultimately a judgement needs to be made as to whether it would be prudent to plan on the basis of the projected changes in headships rates, which for most authorities envisage that the tendency of 25-34 year olds to form households will fall. If they do not fall as envisaged the result could be an under provision of housing. To inform this judgement it may be useful to estimate the consequences of assuming either that there is no further fall in headship rates or that headship rates move at least partially back towards the previous long term trend. This can give an indication of the range of outcomes that might occur.

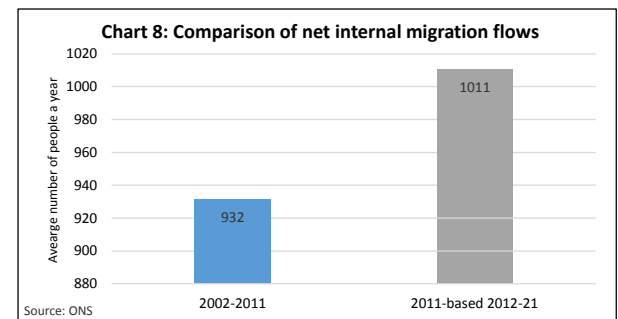
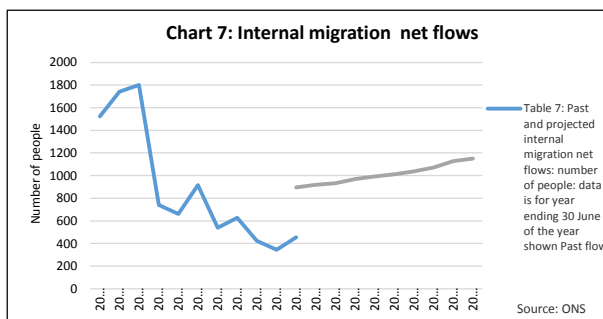
Projected flows between local authorities

The latest DCLG projections are based as far as was possible on the 2011 census results and as such provide the best available starting point for considering how household numbers and types might change in the future. However, in some areas it was necessary to use trend data from previous projections as the data needed to update those trends was not available from the 2011 census. This may have caused population changes to be either over or under-estimated in some areas. The most significant area for household growth is the projections of population flows between local authorities. For many authorities these flows are a major factor in population growth and small errors in the projected flows can have significant implications for the projected population growth. The following chart enable you to compare the projected flows in the 2008 and 2011-based projections with each other and the past flows. Where there are significant disparities these should be investigated.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Past flow	7864	7840	7819	6534	6649	7013	5990	5936	5954	5966	6287										
2011-based											6530	6580	6627	6680	6725	6761	6793	6825	6854	6882	

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Past flow	6340	6099	6018	5794	5989	6097	5451	5309	5530	5623	5834										
2011-based											5636	5661	5694	5710	5732	5751	5757	5754	5727	5730	



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Past flow	1524	1741	1801	740	660	916	539	627	424	343	453										
2011-based											895	918	933	969	993	1011	1037	1072	1126	1151	

	In	Out	Net
2002-2011	6757	5825	932
2011-based 2012-21	6726	5715	1011

Author

This tool was prepared by Neil McDonald, a Visiting Fellow at the Cambridge Centre for Housing and Planning Research and previously Chief Executive of the National Housing and Planning Advice Unit

Disclaimer

These spreadsheets seek to enable users to access ONS and DCLG data and projections easily and effectively. Every effort has been made to ensure that the ONS and DCLG data and projections are accurately reflected. Nevertheless it is possible for errors to creep into a complex spreadsheet such as this or for the spreadsheet to be inadvertently corrupted by the user. It is therefore recommended that users should check with the source data and the qualifications and caveats made by ONS and DCLG on their websites before placing reliance on the information contained in these spreadsheets. No liability can be accepted for errors.

Appendix JD4: Barker Review 10 Years On, HBF, 2014



Barker Review

a decade on

March 2014

Introduction

The decade that has passed since Kate Barker conducted her Review of Housing Supply for the Government has seen a worsening in all indicators of housing affordability and the associated prospects for aspirational would-be homeowners. Despite the best efforts and intentions of successive ministers, the 10 years since the Review has ultimately been a lost decade in terms of addressing the shortcomings of the housing market. There can be no doubt that the housing crisis facing the country in 2014 is far greater than that discussed by Barker in 2004.

The Barker Review did have a major impact on the policy environment and framework for housing supply. In policy terms it was certainly the most significant report of the first decade of the new millennium, and probably the most significant review since the 1977 Housing Policy Green Paper, and it triggered a range of planning reforms and responses from the industry. However, its impact was undoubtedly overshadowed by the global financial chaos that followed in the years afterwards.

It is testament to the quality of Kate Barker's analysis and the soundness of her recommendations that almost 30 of the 36 recommendations were subsequently implemented by the Government or by industry, especially when considering that several recommendations not carried through by the Government that commissioned the review have subsequently been adopted – in some form – by the Government which came to power in 2010. Some other recommendations were soon after the publication of the report rendered irrelevant by changes to the structures or delivery mechanisms, such as the consistent reform of the English regional government system or the abolition of Public Service Agreements (PSAs).

The severe global recession that followed the implementation of these many reforms inevitably meant that they were extremely unlikely to bring about any sustained increase in house building rates. Indeed, the industry was near decimated by the recession that took hold in 2007-8. However, with what we know now, it is also very hard to see how the reforms of the 2004 system, even without the financial crisis, would alone have delivered the step-change in house building that was required in 2004 and is even more desperately needed in 2014.

One of the most valuable analyses conducted for the Barker Review was the consideration of affordability levels, the various possible objectives and the likely number of housing starts required to achieve each of these ambitions. These ranged from the government's plans at the time to reduce housing inflation to 2.4%, thereby merely reducing the rate at which households were being priced out, up to the most ambitious objective of 'improving the housing market'. A retrospective view of these targets and the actual level of housing supply delivered over the last decade, discussed below, paints a bleak picture. Whether it is because of the limits of the measures recommended and adopted, the impact of the economic turbulence that was to come or, most likely, a combination of the two factors with others thrown in, the crisis in housing supply has drastically worsened in the 10 years since Barker authored the Review of Housing Supply.

Meeting Barker's most optimistic objective of improving the housing market and pricing many more households back into the marketplace would have required an estimated 260,000 private housing starts per year. In 2014 we are now 1.45 million homes short of where we would have been had this been achieved, and the effect of this on housing affordability is nowadays the subject of daily

discussion, media reporting and concern for millions of mainly young people for whom the dream of home ownership is increasingly out of reach and for whom private renting is also very expensive. Even against the most modest of the objectives, the country is now 450,000 homes short of where it should be, with little prospect that the cumulative shortfall will be reduced any time soon. Meanwhile the middle of the three house price targets, to 'reduce the long-term trend' in house price inflation has been missed by just under a million homes and counting. To put this into stark context, that is the same number of homes in the Birmingham primary urban area (the City of Birmingham and surrounding local authority areas).

Barker's research was based on the fact that there would be around 179,000 households formed in each year in the years after 2004. The gravity of the situation today can be summed up by the latest projections of household formation which are now more than 40,000 households per year higher than the evidence used to inform her Review. By applying an equivalent proportional increase to the objectives set out in the Barker Review, we can now estimate that the most modest objective, that would merely see fewer households priced out each year, i.e. slowing down the rapid decline in affordability but not reversing it, would now require a sustained house building rate of 200,000 private housing starts per year. Meanwhile the target of 'improving the housing market' has never been further out of reach, likely requiring an average of 320,000 private housing starts per year.

For every year that these requirements are not matched by the granting of planning permissions and the laying of foundations, the country's affordability crisis deepens and prospects for future generations grow even gloomier.

Policy measures such as the Help to Buy Equity Loan, introduced in April 2013, have, in a very short space of time, proven to be incredibly powerful in boosting supply of new homes by ensuring that those households who would in the past have been able to obtain and service a mortgage are once again able to do so, but the longer term challenge is one of planning. As the economy recovers, some form of normality is restored and the country begins to seriously address the social and economic disaster that has quickly built up in this lost decade, the key challenge now is to address the long-term supply of permissioned land.

Summary

By 2004 the housing crisis was already building...

It is 10 years since the then Chancellor and Deputy Prime Minister commissioned the economist, Kate Barker, to conduct a review of housing supply and make recommendations to improve the functioning of the housing market

The review examined three scenarios for real house price trends ranging from slowing the rate at which households were being priced out to a long-term reduction of house price inflation:

2.4% per annum; the then government's target aimed at slowing the rate at which households were being priced out of the market. Private house building would have had to increase to 160,000 starts per year in order to achieve this
1.8% per annum; to reduce the long-term trend. Private house building would have had to increase to 200,000 starts per year in order to achieve this
1.1% per annum; the EU average at the time, it was considered that achieving this would 'improve the housing market'. Private house building should increase to 260,000 starts per year in order to achieve this

Failure to implement development-friendly policies and the impact of the financial crisis has resulted in a lost decade...

Even against the most modest of these housing targets, which was met once, in 2005/6, the average annual shortfall has been 45,000 homes

Measured against the objective of improving the housing market, the average number of starts over the decade has been 145,000 per year down on the target figure of 260,000

Measured against the middle of Barker's three price inflation targets, **the shortfall of homes over the decade now stands at an estimated 953,000 homes**. This is on top of a backlog that was already large (estimated at between 93,000 and 146,000) – and growing – in 2004.

To put this into perspective, this is equivalent to:

The number of homes in Birmingham and surrounding areas¹

Half of the Social Housing Waiting List in 2012/13²

The number of households in Latvia³

Even if the number of starts rose to 210,000 per year overnight, assessed against the middle objective of 'reducing the long-term rate of inflation', the country would be four and a half years behind where it was in 2004

¹ *Cities Outlook 2014*, Centre for Cities data on housing stock, based on information from 2012 for 64 'Primary Urban Areas'. Figures for the Birmingham urban area drawn from data from the local authority areas of Birmingham, Wolverhampton, Solihull, Walsall and Dudley

² DCLG Live Table 600

³ UN Demographics Yearbook

The building of 953,000 homes would require around 0.17% of the available land in England.⁴ Approximately 10% of England is classified as urban, with 1.1% used for domestic buildings

A decade on we are 1.45 million homes short of where Kate Barker projected would have brought about an improved housing market.

But the situation now is even worse...

Barker's research was based on an annual household formation rate of 179,000 for the period to 2011, and while this was largely borne out, the ONS now provisionally projects that 221,000 households will form in each year between 2011 and 2021

Applying the same proportional increase to the objectives and targets examined by Barker in 2004 presents a very gloomy picture for housing affordability in the future

A basic estimate would suggest that in order to achieve the very modest objective of slowing the increase in the affordability gap so that fewer new households are priced out of the market, 200,000 private housing starts are now required each year – a figure last achieved in 1972-73.

'Improving the housing market', would now require 320,000 private housing starts per year over a sustained period, a figure achieved in England in only four years since World War II.

⁴ Based on average density of new development in 2011, *Land Use Change Statistics in England 2011*, DCLG (19 December 2013)

Background to the review in 2004

The Barker Review of Housing Supply, authored by economist, Kate Barker, was published on 17th March 2004. It had been commissioned a year earlier by the then Chancellor, Gordon Brown, and Deputy Prime Minister, John Prescott. Barker was commissioned to examine the operation of the housing market and address land and planning issues that contribute to market volatility and a lack of supply. The immediate background was the failure of housing completions to rise in the 1990s in response to the improved economic and demographic conditions, so that by 2001 completions had fallen to their lowest peace-time level since 1924; even lower than the trough experienced during the early 1990s recession.

Specifically, the remit included:

'issues affecting housing supply in the UK, including competition, the capacity and finance of the house building industry, new technology possible fiscal instruments, the interaction of these factors with the planning system, and sustainable development objectives'.⁵

In her Foreword to the resulting report, written as an open letter to the then Chancellor of the Exchequer and Deputy Prime Minister, the report's author noted that 'housing provision is often controversial and provokes strong reactions'. Barker also warned that 'a weak supply of housing contributes to macroeconomic instability and hinders labour market flexibility, constraining economic growth.'

The report considered a range of prospective objectives for housing completions based around reducing the real house price trend to varying rates around 2% per annum and then proposed 36 recommendations, exploring the role of planning, infrastructure, utilities as well as public land and customer satisfaction with new build homes.

Kate Barker was under no illusions about the scale of the task and the range of actors needed to play their part:

'Delivering an adequate supply of housing requires action by all players: Government; the housebuilding industry; social housing providers; communities and local authorities.'⁶

⁵ Budget Policy Note PN1: *Building a Britain of Economic Strength and Social Justice*, 9 April 2003

⁶ Barker Review: Final Report, page 12

Objectives and housing supply requirements

A better functioning housing market, it was argued, would require a reduction in the trend rate of real house price growth from the 2.7% that was seen in the 20 years before 2004.

Looking at 2002/3 and taking the gross 140,000 private sector starts in that year as a baseline, the Barker Review modelled three scenarios for reducing the trend rate in England, ranging from the pre-existing government plans for reducing the rate to 2.4% to (the then European average trend of) 1.1% in order to 'improve the housing market'.

Scenario	Real price trend	Additional private sector houses required p.a.	Average no. newly formed households priced into the market p.a.		Additional social sector houses required to 2011 p.a.
			2011	2021	
Government plans	2.4%	20,000	-5,000	-7,000	n/a
Reducing the long-term trend	1.8%	70,000	Nil	5,000	17,000
'Improving the housing market'	1.1%	120,000	5,000	15,000	21,000

(The Barker Review of Housing Supply)

Broadly, the three scenarios plotted by Barker range can be categorised as:

'Government plans': Slowing down the rate of increase in the affordability gap by increasing house building by 20,000 per annum on top of 2002-3 figures.

'Reducing the long-term trend': Halt the increase in the affordability gap and slowly make the market more affordable over a 20 year period by building an additional 70,000 homes per annum on top of 2002-3 figures.

'Improving the housing market': Begin the turnaround in affordability slippage within five years and make the market much more affordable over the long-term by building an additional 120,000 homes per annum on top of 2002-3 figures.

Achieving the desired improvement in the housing market would, it was asserted, require an additional 120,000 housing starts per year on top of the 140,000 in 2002/3, taking the annual total to 260,000. According to the Review's modelling, this scenario would see between 5,000 and 15,000 newly formed households priced into the market in each year between 2011 and 2021.

Even a more modest long-term reduction which would halt the deterioration in affordability levels and begin to price in newly formed households towards the end of the 2011-2021 period would have required 210,000 private sector housing starts per annum and 17,000 additional affordable homes per year.

Assumptions

The modelling for the Barker Review was based on assumptions for household formation rates and household size projections that were available in 2004. The figures estimated that an annual net increase in households of 179,000 p.a. in each year between 2002 and 2011.

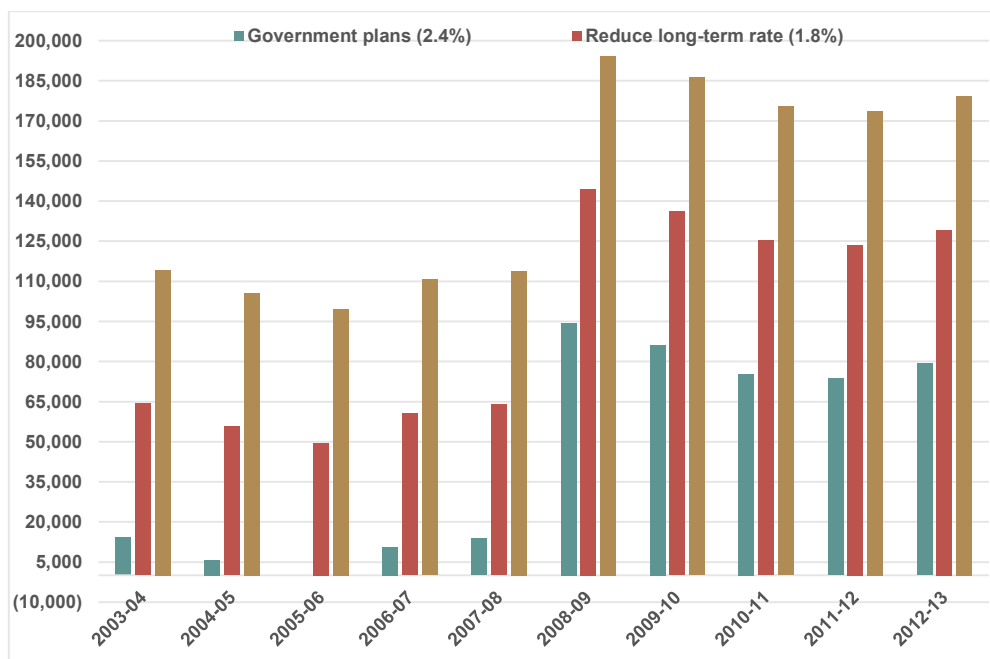
According to the Office for National Statistics (ONS) these estimates were broadly borne out by the formation rate recognised at the 2011 Census, though it is impossible to accurately measure the impact that housing undersupply in the years up to 2007, and the financial crisis and resulting tightening of the mortgage market in more recent years has had on actual household formation.

Recent figures from the ONS show that the number of people aged 20-34 living with their parents has increase by 790,000, to 3.35 million since the publication of the Barker Review, greatly accelerating a trend that had been in existence before 2004 but to nowhere near the same level. Indeed, since the beginning of the credit crunch the average annual increase in young adults residing with their parents has been 3.9% per annum compared with 1.4% per annum in the six years up to 2007.⁷ In addition the rate of home ownership has fallen very sharply amongst households, and especially among those aged under 35.

House building rates since 2004

As we have seen, the Barker Review's central objective was to provide recommendations on interventions and reforms with the aim of achieving between 210,000 and 260,000 new homes per year to 2021. In the 10 years since 2003, the lower target of 160,000 private starts per year has been achieved on just one occasion (2005-06). Even in 2005-06, the number of starts was 50,000 short of 'reducing the long-term trend' in real house price inflation and 100,000 short of the number required to improve the housing market, as defined by Kate Barker.

Shortfall of housing starts against model scenarios, 2003-2013 (England)



The chart above shows the annual gap between actual private housing starts and the projections targeted by Barker under each of the three scenarios. On

⁷ <http://www.ons.gov.uk/ons/rel/family-demography/young-adults-living-with-parents/2013/sty-young-adults.html>

average, over the decade and taking in both economically vibrant and depressed periods, the shortfall in the required number of starts compared with actual starts was:

- 45,000 homes per year short of the objective of slowing the rate at which housing was becoming unaffordable
- 95,000 homes per year short of the objective of halting the long-term trend and slowly making the market more affordable
- 145,000 homes per year short of the objective of improving the housing market

The failure to achieve the required build rate has been exacerbated by the recession which led to a single year fall of more than 55% in the number of private housing starts as mortgage finance seized up and confidence plummeted. By 2013 the cumulative shortfall against the level of output estimated to reduce the long-term real house price growth to between 1.1% and 1.8% had reached between 950,000 and 1.45 million, roughly four to seven years of the required supply. The table below illustrates this. Even the most modest objective of the

Year	Starts	Shortfall against Barker's modelled scenarios					
		Government plans to reduce to 2.4% trend (160,000 starts)		Reduce long term rate (1.8% trend) (210,000 starts)		Improve the housing market (1.1% trend) (260,000 starts)	
		Annual	Cumulative	Annual	Cumulative	Annual	Cumulative
2003 04	145,800	14,200	14,200	64,200	64,200	114,200	114,200
2004 05	154,310	5,690	19,890	55,690	119,890	105,690	219,890
2005 06	160,320	(320)	19,570	49,680	169,570	99,680	319,570
2006 07	149,350	10,650	30,220	60,650	230,220	110,650	430,220
2007 08	146,160	13,840	44,060	63,840	294,060	113,840	544,060
2008 09	65,560	94,440	138,500	144,440	438,500	194,440	738,500
2009 10	73,770	86,230	224,730	136,230	574,730	186,230	924,730
2010 11	84,710	75,290	300,020	125,290	700,020	175,290	1,100,020
2011 12	86,350	73,650	373,670	123,650	823,670	173,650	1,273,670
2012 13	80,710	79,290	452,960	129,290	952,960	179,290	1,452,960

three – effectively to slow the rate of increase in affordability gap – was achieved just once, while the best that has been achieved against the target of actively improving the market saw a shortfall of 100,000 homes.

A decade on therefore from publication of a major government-commissioned report to address the pre-existing housing shortage, the country is now around half a million more homes short of where the pre-existing plans had projected we would be at prior to the Review taking place. Set against the objective of improving the housing market, the shortfall in the number of new homes over the 2004-2014 period represents the combined housing stock of Manchester, Liverpool and Bristol combined⁸, or of the number of households in the Republic of Ireland.⁹

⁸ *Cities Outlook 2014*, Centre for Cities data on housing stock, based on information from 2012

⁹ *Private households by Household Type, Measurement, Country and Year*, UNECE Statistical Division 2011

Even against the middle of Barker's three target scenarios, the country is now 953,000 homes short of a housing stock required to reduce the long-term rate of house price inflation and price households back into the market. This is the same number of homes as can be found in Birmingham and its surrounding area.

The 10 years that have passed since the Barker Review was published have seen the crisis intensify; in practice, despite the best of intentions, it has clearly proved a lost decade. The table below shows the extent to which the country has fallen behind in correcting market and regulatory failure in the housing market. Should supply factors be addressed to such an extent that 160,000 private starts could be achieved, in order to address the cumulative shortfall, 2.8 years' worth of supply would be needed overnight to address the backlog and effectively start again at the 'square one' that Barker began from. Even if this rose to 210,000, an additional 2.2 years' worth of the same supply would be necessary to reinstate the kind of conditions seen in 2004.

Scenario	Cumulative shortfall	Years of supply at given annual build rates (total private homes p.a.)			
		80,000 starts (2012 13)	160,000 starts	210,000 starts	260,000 starts
Government plans	453,000	5.7	2.8	2.2	1.7
Reduce long term rate	953,000	11.9	6.0	4.5	3.7
Improve the market	1,453,000	18.2	9.1	6.9	5.6

Recent research on household formation and its impact on Barker's suggested objectives

Official statistics released in April 2013 projected an increase in household formation of 221,000 households per year between 2011 and 2021.¹⁰

This represents a 42,000 increase on the annual household formation rates experienced in the decade 2001-2011, a 23.5% rise. If accurate, the decade 2011-21 will see the biggest increase in household numbers of any decade since. The table below applies this increased demand to the house building rates put forward by Barker to provide an estimate of the housing starts required to meet the three objectives offered in her report.

	Required housing starts	
	2004 estimate	2013 estimate
Government's plans: slowing the increase in affordability gap	160,000	200,000
Reducing the long term trend in house price inflation	210,000	260,000
Improving the housing market	260,000	320,000

¹⁰

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/190229/Stats_Release_2011FINALDRAFTv3.pdf

The cumulative shortfall in housing starts and completions over the last decade and the interconnected demographic pressures mean that each of the objectives discussed in Barker's final report would require a substantial increase in housing output compared with what was suggested in 2004.

The 2004 target figure for this objective was 260,000 – this is now the same amount that would be estimated to be required in each year in order to achieve the less ambitious objective of 'reducing the long-term trend in house price growth'.

Indeed, even the most modest objective discussed in the 2004; reducing trend house price inflation to 2.4% p.a. could now require 200,000 private starts in each year over a sustained period, a level of overall house building only achieved once in the last 35 years – way back in 1972-73.

Annex A - Barker Review recommendations

Kate Barker made 36 recommendations to Government, regional and local bodies and the house building industry. Not all were taken forward and many others have since been overtaken by broader reforms such as the abolition of regional government and regional planning.

Recommendation 1: Government should establish a market affordability goal. This goal should be incorporated into the PSA framework to reflect housing as a national priority.

Status: Introduced in full by 2008

Public Service Agreements (PSAs) were introduced by the previous Labour Government with departments set targets according to their own policy objectives. In 2008 the framework was reformed to introduce 30 cross-governmental PSAs underpinned by 'Departmental Strategic Objectives'.

By the time that PSAs were abolished by the Coalition Government, a PSA had been introduced aimed at increasing housing supply:

PSA 20: Increase long term housing supply and affordability

In autumn 2009, the government had assessed performance against this target as demonstrating 'strong progress'.

Recommendation 2: Local authorities should use their powers to charge more for second homes to improve efficiency of the use of stock

Status: Introduced in part in 2004 and in full in 2013

In 2003 Council Tax rules previously meant that second homes and long-term vacant properties qualified for a discount of 50%. The then Government then gave local authorities the discretion to reduce the discount to as low as 10%.

The current government has since given authorities the power to charge second home owners full rate Council Tax. This measure, introduced as part of the wide-ranging Local Government Finance Act 2012, came into effect in April 2013.

Recommendation 3: Further research should be undertaken to improve the evidence base for housing policies, for example on the relationship between housing, economic growth and deprivation at a micro level.

Status: Introduced in full in 2006.

The National Housing and Planning Advice Unit (NHPAU) was established in 2006 with the aim of advising the government on the impact on affordability of planned housing provision, and it produced a range of valuable research reports. The NHPAU was abolished in June 2010. We have no comparable source of research and evidence.

The Spatial Economics Research Centre (SERC), based at the London School of Economics (LSE), was established in 2008 and brings together researchers from across the country to extend understanding as to why some regions, cities and communities prosper while others do not. A major strand of the Centre's work is on housing and land markets. The centre is funded through grants from the Economic and Social Research Council, Department for Business, Innovation and Skills (BIS), the Welsh Assembly Government and (between 2008 and 2011) the Department for Communities and Local

Government. SERC's work has, in recent times, focused considerably on housing costs and price volatility and how supply constraints contribute to these factors.

Recommendation 4: Government should establish a review of the housing market to report in no more than three years' time. The purpose of this review would be:

- to measure Government's progress in implementing the recommendations set out in this Report; and
- to assess progress towards achieving a more flexible housing market and to identify any further obstacles.

Status: Not introduced

In its official response the Government reported that it would 'continue to monitor progress in achieving a more flexible housing market'. No formal review took place.

Recommendation 5: Each region, through the Regional Planning Body, should set its own target to improve market affordability.

Status: Not formally introduced; Government Office Regions abolished in 2011; Local Plans, introduced through the National Planning Policy Framework in 2012, are required to 'take account of... affordability'

Recommendation 6: The Regional Planning Bodies and Regional Housing Boards should be merged to create single bodies responsible for managing regional housing markets, delivering the region's affordability target and advising on distributing resources for social housing. These Regional Planning and Housing Bodies (RPHBs) would continue to be responsible for the Regional Spatial Strategy (RSS) and the integration of housing with other regional functions.

Status: Regional Planning Bodies and Regional Housing Boards were merged in 2006 and abolished in 2011

Recommendation 7: Government should set out technical guidance, accompanying a revised Planning Policy Guidance 3 (Housing), on determining the scale and allocation of housing provision at the regional level to ensure that methodologies reflect a full consideration of the economic, social and environmental costs and benefits of housing at the regional and local level.

Status: Introduced in 2006

The National Housing and Planning Advice Unit (NHPAU) was established in 2006 and asked to develop a single methodology. The NHPAU was abolished in June 2010 and regional planning was abolished in 2011.

Recommendation 8: Government should set out guidance on the composition of Regional Planning and Housing Bodies.

Status: Not introduced. Government Office Regions were abolished in 2011

Recommendation 9: Local plans should be more realistic in their initial allocation of land, and more flexible at bringing forward additional land for development. When allocating land sufficient to meet their targets for additional dwellings, local authorities should allow for the proportion of sites that prove undevelopable, often as a result of site-specific problems. In drawing up their plans, local authorities should identify their own historic shortfall and allocate an equivalent amount of land to fill this implementation gap.

Status: Introduced in 2006

Planning Policy Statement 3 (PPS 3), published in 2006, instructed local authorities to establish a five year supply of land for residential development in accordance with the needs of the area. This was underpinned by a Departmental Strategic Objective for 90% of authorities to have a five year land supply by 2011. A survey in 2010 found that just over 60% of councils had identified a five year supply.

The National Planning Policy Framework, published in 2012, superseded previous planning guidance and policy statements. It said that local authorities should identify and update annually a 'supply of specific deliverable sites' for five years' worth of housing supply with an additional 5% buffer. In local authority areas in which there has been a record of persistent under-delivery of housing, planning authorities should increase the buffer to 20% 'to provide a realistic prospect of achieving the planned supply'.¹¹

Recommendation 10: Planning guidance should be amended to advise regional and local planning authorities on assessing the value of land to society. This would enable planners to take account of the relative values that society places on different types of land use when allocating land in local development frameworks, recognising the inevitable difficulties with interpretation of this data. The general principle of containing urban sprawl through greenbelt designation should be preserved. However, planning authorities should show greater flexibility in using their existing powers to change greenbelt designations where this would avoid perverse environmental impacts elsewhere. Any change in the designation of greenbelt land should require a strong evidence base, taking full account of the value that society attaches to different types of land use in an area.

Status: Introduced in 2006

Planning Policy Statement 3 (PPS 3) highlighted how Sustainability Appraisals could prove effective in considering the economic, social and environmental costs and benefits of development options. The NPPF reiterated that changes to Green Belt boundaries should be the result of transparent a transparent review of a Local Plan and only be altered in 'exceptional circumstances'.

Recommendation 11: Housing developments differ in their nature. It is not appropriate to apply the same development control process to all developments. The Government should introduce two additional routes for developers to choose between, when applying for planning permission:

- Outline only route – applicants would put forward an outline application which contained more detail than is currently required. Local councillors would grant outline permission, but the granting of outline permission would mark the end of both the formal consultation process and of councillors' involvement. Any outstanding issues or reserved matters would be dealt with by planning officers.
- Design code route – applicants would put forward a proposal for development supported by a design code. Local councillors would satisfy themselves that the code had been drawn up in accordance with planning guidance on both design and community consultation and, if so, would adopt a Local Development Order (LDO) to cover the identified site. This would automatically waive the need for permission to be granted. Planning officers would then monitor to ensure that the conditions set out in the code were met.

¹¹ *National Planning Policy Framework*, Paragraph 47

Status: Not formally introduced

Whilst some Local Planning Authorities trialled design code led development and results were generally good with swifter approval processes, such practice is by no means widespread.

Recommendation 12: Government should take a rigorous approach to revising PPG3. Future revisions should be grounded in an evidence base and should be subject to scrutiny from a panel of housing and planning stakeholders, including the development industry. Restrictions on development should have an identifiable and evidenced benefit that outweighs their costs.

Status: Adopted

PPS3 was published in 2006, subsequently replaced by the NPPF in 2012. The first draft of the NPPF was produced with the input of a practitioners group which included developers and planning professionals.

The NPPF's presumption in favour of sustainable development addresses the need to evidence and identify any restrictions on development.

Recommendation 13: Government should allow Regional Spatial Strategies to deviate from PPG 3 where there is clear evidence to support a different approach within the region. While the agreement of the Secretary of State should be essential, it should only be possible for Government to reject an application to deviate on the grounds that the evidence is not strong enough.

Status: Introduced in 2006 through PPS3, regional planning abolished in 2011.

Recommendation 14: PPG3 should be revised to require local planning authorities to be realistic in considering whether sites are available, suitable and viable. Any site which is not available, suitable and viable should be disregarded for the purposes of the sequential test.

Status: Introduced in 2006 through PPS3. These principles were strengthened as part of the NPPF.

Recommendation 15: Government should assess whether consideration of appeals levels in the distribution of Planning Delivery Grant could help correct the potential perverse incentive for local planning authorities to reject planning applications in order to meet their performance targets. In future, the PDG should take greater account of outcomes, as well as processes.

Status: Introduced in 2005; the grant was replaced in 2008 by the joint Housing and Planning Delivery Grant in 2008 and in 2011 by the New Homes Bonus

In 2005 the Government introduced a measure of abatement into the PDG for authorities whose performance on defending appeals was poor. It was replaced in 2007/8 by the Housing and Planning Delivery Grant (HPDG) which introduced an element of performance-related grant for net housing additions.

In 2011 the new Coalition Government replaced HPDG with the New Homes Bonus which, it was argued, is more simple and transparent. The effectiveness of New Homes Bonus as a pro-development incentive is currently being evaluated by DCLG. In the 2013 Autumn Statement Treasury proposed withholding NHB from sites won on appeal.

Recommendation 16: In order to allow local planning authorities to focus on key development decisions, resources need to be released or strengthened. This could be achieved in a number of ways:

- a) Government should review the scope to increase the range of permitted development rights for householder applications, whereby certain types of development are allowed to proceed without planning permission.
- b) In the meantime, local authorities should bear in mind their power to vary these rights, once the Planning Bill has become law, through establishing Local Development Orders.
- c) Government should also consider increasing planning fees if additional resources are necessary.
- d) When dealing with large-scale developments, local planning authorities should follow existing best practice and form dedicated project teams, bringing together key public sector stakeholders.
- e) Where it is not practicable for authorities to develop the capacity necessary to manage large-scale developments, they should have access to additional planning and legal expertise or resources. This could be achieved through the Planning Advisory Service developing a team of 'trouble-shooters'.

Status

- a) Permitted development rights were increased in 2008 through an amendment to the Town and Country Planning Act 1990. A further major expansion of householders rights took place in 2013.
 - b) The Planning and Compulsory Purchase Act 2004 which took effect from 2006 included provisions on Local Development Orders
 - c) Planning fees were increased by an average of 39% in 2005. Fees have increased several times since then including a one-off average annual increase of 15% in 2011/12. In 2010 the Government consulted on local fee setting but decided against taking this measure forward
 - d) In 2008 the Government published guidance on Planning Performance Agreements in conjunction with the Advisory Team on Large Applications (ATLAS)
 - e) ATLAS was created as an arm of the Planning Advisory Service using additional funding to English Partnerships
- More generally, local planning authorities are seriously under-resourced and house builders encounter protracted delays was a result. No measures are currently in place to boost LPA resources or manpower.

Recommendation 17: Central government funding settlements for local authorities should be made more forward looking. The Government should include in its calculations of Formula Spending Shares a variable to reflect expected housing growth in an area, drawing on housing targets set by the reformed regional planning process.

Status: Introduced in 2005

In July 2005 the Government announced that the move to three year settlements would include the use of projections of changes in populations and the council tax base

Recommendation 18: Building on the broadly positive response to its Local Authority Business Growth Incentive proposal, the Government should consider ways of incentivising local authorities to meet housing growth targets. One way would be to disregard, for a period of possibly up to three years, some or all of the council tax receipts generated by new housing from the calculation of a local authority's grant allocation. This additional revenue should not be ring-fenced.

Status: Introduced in part in 2011

In its formal response to the Barker Review recommendations the then Government cited the Planning Delivery Grant as the means of achieving a strong incentive for housing growth. In 2011, the Coalition Government replaced the reformed PDG with the New

Homes Bonus which provided a payment to local authorities for each net addition to the local housing stock based on the national average Council Tax bill.

Recommendation 19: All Government Departments and agencies should assess the demands implied by the Government's housing targets in their spatial planning and funding decisions. Departments' contributions to meeting ODPM's housing targets should be recognised within their own priorities, including Public Service Agreements.

Status: Not introduced

In the 10 years since the Barker Review there have been numerous announcements and targets have been set for releasing the surplus public sector land that is owned by Whitehall departments. Looking beyond surplus land, a lack of integration across Whitehall has hampered the delivery of sites all over the country. In particular, the failure to provide necessary infrastructure improvements has held back development in many cases.

Recommendation 20: To minimise delays to development, infrastructure providers, such as the Highways Agency and water companies, should be involved from an early stage in developing both the regional spatial strategy and the local development plan.

Status: Introduced in 2005

The Highways Agency (HA) became a major statutory consultee in the development of Regional Spatial Strategies. Under the new regime, the HA must report to the DCLG on its performance in responding to planning applications. In its most recent report the HA reported that 99.6% of responses were within 21 days of receiving the application. At the Autumn Statement in December 2013, the Government announced that it would consult on proposals 'to reduce the number of applications where unnecessary statutory consultations occur and pilot a single point of contact for cases where conflicting advice is provided by key statutory consultees.'¹²

Recommendation 21: English Partnerships (EP) should have a lead role in delivering development through partnering with public and private sector bodies in assembling complex sites, masterplanning, remediating land and developing supporting infrastructure. At the same time, Government should provide greater certainty as to the principles by which EP would, or would not, intervene, so as to avoid crowding out private sector activity, or stunting the development of new markets. Devolved administrations may wish to assess the roles of their own housing and regeneration agencies in the context of this Review's recommendations.

Status: Introduced

English Partnerships took on a more strategic role in bringing forward development on surplus public sector land and brownfield prior to its merger with the Housing Corporation and functions of the Department for Communities and Local Government in 2008. The new unified housing and regeneration agency, the Homes and Communities Agency (HCA) became operational in December 2008 and has gradually adopted a larger role in the assembly and disposal of public sector land. It is now responsible for disposal of almost all central government departments' surplus land.

¹² *Autumn Statement 2013*, page 103

Recommendation 22: A Community Infrastructure Fund (CIF) of £100-200 million should be established within ODPM. Regions should be encouraged to submit bids for support towards the up-front costs of medium-sized utilities and transport infrastructure schemes, which would bring forward otherwise unviable development. Bids for support towards gap funding schemes, such as the ringmaster approach for transport infrastructure, should be particularly welcome. In these instances, Government should seek to operate clawback mechanisms where this is practicable.

Status: Introduced in 2005

The Government announced at the 2004 Spending Review that a new £200 million Community Infrastructure Fund would become operational in 2005. Two rounds of funding were made before the new Government established a Local Infrastructure Fund at the Autumn Statement 2012. Initially worth £474 million, the Chancellor increased the Government's commitment at the 2013 Autumn Statement to extend the initiative to £1bn aimed at unlocking 250,000 homes over six years.

The Community Infrastructure Levy, introduced in 2011, gave local authorities the power to levy a charge on new developments in their area in order to raise money for infrastructure funding.

Recommendation 23: Central and regional government should be more strategic in its use of area-based special purpose vehicles to deliver housing development. Where problems of land acquisition, servicing and infrastructure provision are identified through the regional planning process, Government should engage with English Partnerships to identify the most appropriate vehicle for delivering development. Greater use should be made of both UDCs and New Towns, taking advantage of their ability to deliver both additional housing and the infrastructure necessary to support it.

New guidance on the circumstances to which different vehicles are most suited, and on using compulsory purchase powers, should be included in the proposed delivering development toolkit.

Status: Not formally adopted.

Since the Barker Review was published two active Urban Development Corporations (UDCs) have concluded their activities in Thurrock and in London Thames Gateway (covering 'London Riverside' and Lower Lea Valley). West Northamptonshire UDC is due to be wound down in April 2014. The London Legacy Development Corporation, is a Mayoral Development Corporation for the Olympic Park in Stratford set up using new powers bestowed upon the Mayor in the Localism Act 2011.

In advance of the 2014 Budget, the Chancellor, George Osborne, announced that the Government will establish a UDC to overcome the barriers to development in the planned 'Ebbsfleet Garden City'.

The Planning and Compulsory Purchase Act 2004 provided clarification on the use of compulsory purchase powers and the Planning Act 2008 was further intended to speed up the planning process for major infrastructure projects.

Recommendation 24: Section 106 should be reformed to increase the certainty surrounding the process and to reduce negotiation costs for both local authorities and developers. If the Government accepts the recommendations outlined in Chapter 4 concerning the capture of development gains:

- Section 106 should be 'scaled back' to the aim of direct impact mitigation and should not allow local authorities to extract development gain over and above this, except as indicated below. ODPM should issue guidance, or new legislation, to this end.
- Section 106 should retain its current affordable and/or social housing requirements as set out in Circular 6/98, and other specific regional guidance.
- Local authorities should receive a direct share of the development gain generated by the Planning-gain Supplement in their area, to compensate for a reduced Section 106. Local authorities should be free to spend this money as they see fit. This share should at least broadly equal estimates of the amount local authorities are currently able to extract from Section 106 agreements.

If the Government decides to maintain the current fiscal framework as it is, then it should press ahead with the Section 106 reforms, on which it has recently consulted, that aim to introduce an optional planning charge in place of a negotiated agreement. However, this would be second best and leaves open the possibility of prolonged and costly Section 106 negotiations for large developments.

Status: Introduced in a form in 2011

At the end of 2005 the Government consulted on the introduction of a Planning Gain Supplement as recommended by Barker. The Planning Gain Supplement (Preparations) Act 2007 allowed for preliminary preparations but the lack of widespread support, the industry's inability to design a workable PGS, and the worsening economic environment meant that PGS was not implemented.

By October 2007 the Government announced that it now favoured a levy on development to secure contributions from developers. The Community Infrastructure Levy (CIL) was legislated for through the Planning Act 2008. This was followed by implementing regulations in April 2010. Its future was thrown into doubt as the Conservatives, the lead partner in the new Coalition Government had previously stated that it would scrap CIL. By November 2010 the new Government indicated that it would press ahead with a reformed CIL. CIL was therefore finally confirmed in law at the passage of the Localism Act 2011.

Recommendation 25: Government should consider the extension of the contaminated land tax credit and grant scheme to land that has lain derelict for a certain period of time. This should be done on the basis that extra public money levered into the market through such a scheme would encourage genuine new investment in brownfield remediation, and not simply subsidise development that would take place in any case.

Status: Not introduced

The Government consulted on an extension of the tax credit but announced at the Budget 2006 that extending it to long-term derelict land was not possible to do in a cost effective way. The Treasury instead reiterated its commitment to redeveloping brownfield land.

Recommendation 26: Government should use tax measures to extract some of the windfall gain that accrues to landowners from the sale of their land for residential development. Government should impose a Planning-gain Supplement on the granting of planning permission so that landowner development gains form a larger part of the benefits of development.

Status: Not introduced

This was considered as part of the consideration of the introduction of a Planning Gain Supplement that was not taken forward after 2007.

Recommendation 27: The provision of social housing should be increased. At least 17,000 additional houses are required each year compared with current provision to keep up with demographic trends. Addressing the backlog of housing need would raise this to 23,000 per annum (assuming substitution from sub-market to market housing, as market affordability improves). Based upon current costs of provision, additional investment building up to £1.2 to £1.6 billion per annum would be needed to support this expansion, not all of which will be from Government.

Status: Adopted

Government expenditure on affordable housing increased during the period 2004-2009. The Coalition Government introduced a new Affordable Rent product in 2011 and the majority of the latest Affordable Housing Programme is available through this product. The 2015-18 programme aims to increase the supply of new affordable homes in England by making a contribution to the delivery of 165,000 in the three year period through investment of £1.7 billion.

Recommendation 28: Government should continue to explore the scope to achieve both greater RSL efficiency and higher funding through debt finance, to increase the level of housing through the most cost effective means.

Various reforms to housing association financing have taken place over the last decade. In recent years, following the reduction in public grant available and the drying up of traditional long-term bank finance, Registered Providers have increasingly explored options such as retail bonds. Places for People was the first to launch such a bond in 2012 with its 10 year inflation linked bond. In October 2013, the housing association A2Dominion followed suit.

Recommendation 29: Government should explore moving to an alternative scheme to Right to Buy and Right to Acquire, which is provided at lower cost and enables greater recycling of revenues to increase the social housing stock.

Status: Introduced in part in 2012

The current government introduced an increase in Right to Buy discounts for council tenants in 2012. This increased the discount cap to £75,000, accompanied by a new measure to ensure that each home sold is replaced by another new home for affordable rent.

Recommendation 30: Government should deliver its proposals to promote greater interaction between institutional investors and the residential property market, through the introduction of tax transparent property investment vehicles.

Status: Introduced in part

Over the last 10 years successive governments have considered the potential of institutional investment in the private rented sector. A discussion paper on the creation of Real Estate Investment Trusts (REITs) was published in 2005. The most recent and significant contribution to this debate was Sir Adrian Montague's report in August 2012. *The Review of the Barriers to Institutional Investment in Private Rented Homes* made a series of recommendations. This led to the 2012 Autumn Statement announcement of £200m equity finance for the building of private-sector rented housing, subsequently increased to £1bn because of the level of interest. The Treasury also announced a £10bn loan guarantee fund for Affordable Housing and private rented housing.

Recommendation 31: Planning Policy Guidance 3 (Housing) should require local planning authorities to have regard to the impact on competition when allocating sites in their Local Development Frameworks. For example, if there is a choice between allocating a number of small sites or a single large site for development, competition considerations would favour a larger number of smaller sites.

When granting planning permission on large sites, local planning authorities should discuss build out rates. To encourage faster build-out, planning authorities should use their discretion in setting time limits on planning permissions and seek to agree an expected build out rate, as a condition of planning permission. If the rate of build-out has not increased appreciably by 2007, subject to conditions in the housing market, Government should review all available policy options to address this issue.

Status: Not introduced

Recommendation 32: The housebuilding industry must demonstrate increased levels of customer satisfaction:

- The House Builders Federation should develop a strategy to increase the proportion of house buyers who would recommend their housebuilder from 46 per cent to at least 75 per cent by 2007. Over the same period, levels of customer satisfaction with service quality should rise from 65 per cent to at least 85 per cent.
- The House Builders Federation should develop a code of conduct by the end of 2004 for new house sales in full compliance with the framework provided by the Office of Fair Trading's Consumer Codes Approval Scheme. The code of conduct should require fair contracts complying with the Unfair Terms in Consumer Contracts Regulations 1999.

If progress is unsatisfactory, or if customer satisfaction levels do not rise substantially in the next three years, the Office of Fair Trading should conduct a wide-ranging review of whether the market for new housing is working well for consumers.

Status: Introduced in full in 2006

The Home Builders Federation introduced a Customer Satisfaction Survey in 2005 and the first results were published in 2006. The survey is undertaken by NHBC and has subsequently been extended to cover the whole industry, not just HBF members. Industry results are published annually, as are customer satisfaction Star Ratings for HBF member companies. Since its inception the Customer Satisfaction Survey has shown year on year improvements in customer satisfaction rates, so that in the latest results (covering 2012-13), 90% of home buyers said they would recommend their home builder to a friend and the same proportion were satisfied with the overall quality of their home.

The industry developed a Code of Conduct which was formally introduced in 1st April 2010.

Although the industry introduced a customer satisfaction survey and Code of Conduct, the OFT carried out a market study of the home building industry. The final report was published in 2008.

Recommendation 33: The House Builders Federation, in conjunction with NHBC, ConstructionSkills and other interested parties, should develop a strategy to address barriers to modern methods of construction. This strategy should be developed to fit alongside existing initiatives, working closely with Government to identify further measures that can be taken. A range of approaches should be explored, in particular actions by industry, and changes to NHBC policy and practice, as well as representations to Government on areas such as changes to building regulations.

Status: HBF led a project to follow up on this Recommendation, involving all the key parties. It produced a report which analysed the issues and concluded in essence that the barriers to greater uptake first and foremost stemmed from the lack of a sufficient assured

volume of housing supply (largely due to planning-related constraints) which meant that the potential economies and scale of MMC could not be achieved in practice. There were also recommendations on a range of other issues, including skills.

Recommendation 34: CITB-ConstructionSkills and the House Builders Federation should work together to develop a strategy for substantially increasing the take-up of apprenticeships from the current level of three apprentices per 100 workers, to bring the UK to the levels of leading international comparators, such as the Netherlands and Germany. The development of this strategy should also explore whether the appropriate number and range of courses exist, and whether housebuilders are investing sufficiently in their own workforce training, as well as addressing the skills needed for modern methods of construction. In the short term, Government should consider increasing support for skills in the construction sector, alongside any increases in the training levy. If skills constraints are not adequately addressed by March 2007, Government should conduct a review of the effectiveness and impact of CITB-ConstructionSkills in the housebuilding industry.

Status: Introduced in part but affected by the recession

HBF investigated these issues in the months after the Barker Review and commissioned Professor Michael Ball to report on whether the house building industry would have the capability to expand its skilled workforce to meet the objective of building more than 200,000 homes per year. Professor Ball's report, *The Labour Needs of Extra Housing Output*, published in 2005, estimated that each new dwelling creates 1.5 direct house building jobs, meaning that an output level of 250,000 homes per year would require a workforce of 375,000

HBF launched several initiatives with its Major Home Builders Group to run new apprenticeship pilots and adopted the Qualifying the Workforce (QtW) Initiative, amongst others. The QtW scheme has proven very successful and is still in operation.

Apprenticeship schemes and employment in the industry generally were very badly affected by the recession but the turnaround over the 12 months means that the industry is looking once again to rapidly expand its workforce and HBF is currently working with partners and members on the development of a new skills strategy

Recommendation 35: The industry should work together with CABE to agree a code of best practice in the external design of new houses. Where planners and housebuilders disagree on specific design issues, they should seek arbitration, possibly through CABE, to resolve these matters.

Status: Introduced between 2003 and 2007

HBF worked with CABE and Design for Homes to develop the Building for Life Guide (now the Building for Life 12 Guide)¹³ as an industry standard, endorsed by government, for well-designed homes and neighbourhoods. Its focus is much wider than on external design of individual dwellings, covering transport links and connections with existing neighbourhoods, way-finding and amenity space as well as character and context. Building for Life 12 demonstrates the favoured approach of an industry-owned means of promoting good urban design.

The genesis of Building for Life predates the Barker Review but the recommendations in 2004 led to an acceleration in adopting its principles and Building for Life was used as the basis for the first national audit of housing design quality during the period 2004 to 2007. It is now the accepted standard for central government, many local authorities and housing associations.

¹³ <http://www.designcouncil.org.uk/knowledge-resources/building-life-12>

Recommendation 36: The House Builders Federation, in consultation with its members, should draw up a best practice guide for voluntary compensation schemes to directly compensate those immediately affected by the transitional effects associated with development. This might include cash payments to individual households.

Status: Not introduced

Industry and government were cautious about implementing and the recommendation was not therefore taken forward. In January 2013 the Government announced that local communities would directly receive between 15 and 25% of CIL revenues collected by local authorities. In a proposal put forward in the National Infrastructure Plan in December 2013, the Government said it would develop a pilot that sees a share of the “development benefits” passed directly to individual households.



About HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF's members account for around 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

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*“The voice of the
home building
industry”*

Appendix JD5: Speech by Mark Carney made on 12 June 2014



BANK OF ENGLAND

Speech

Speech given by

Mark Carney, Governor of the Bank of England

At the Lord Mayor's Banquet for Bankers and Merchants of the City of London at the
Mansion House, London

12 June 2014

Introduction

My Lord Mayor, Ladies and Gentlemen.

A year ago when my predecessor Lord King delivered his final Mansion House speech, he noted "clear signs that a recovery in the UK, albeit modest, [was] underway."

That recovery was due in no small part to measures he and his colleagues had initiated including extraordinary monetary stimulus, recapitalisation of the banking system and innovative support for lending.

The task a year ago was to secure that recovery in the face of continued domestic frailties and ongoing international weaknesses. At home, unemployment and underemployment remained elevated, productivity growth was anaemic, and debt levels were high. Abroad, the European crisis had moved only from its acute to its chronic phase and financial markets were demonstrating their fragility during the 'taper tantrum'.

With this backdrop and with real wages around 10% below their pre-crisis levels, it was not surprising that consumer confidence, though improved, remained low. Business confidence was similarly shaken by past shocks and current scepticism about the ongoing strength of demand.

The Bank responded to these challenges.

Forward guidance gave households and businesses confidence that Bank Rate would not be raised at least until jobs, incomes and spending were growing at sustainable rates. Guidance encouraged businesses to hire and spend, and helped keep expected interest rates low, even as the economy recovered strongly.

In parallel, we encouraged banks to continue repairing their balance sheets. Changes to the Bank's liquidity policy further supported lending. The core of the financial system is now on a sound footing and making an increasingly important contribution to the recovery.

We are now faced with the challenge of turning that recovery, which has steadily gained momentum and breadth over the past year, into a durable expansion.

To do so, we need balance.

Its absence can have serious consequences. One has only to look back to 1931 when Britain's economic prospects were strained by high unemployment, a large budget deficit and a deteriorating balance of payments. In the ensuing crisis the government of the day resigned and sterling was forced off the gold standard.

And the Governor? With the uncanny foresight of a central banker, Montagu Norman had already left the scene "to get a bit of rest [in Quebec]", he said, "for I have had a very hard time of it lately and I have not been so well as I would like to be."¹

However tempting, I will lean on Canada not for restoration but for a nautical analogy to describe how we can address the challenges we now face. Rather than appeal to the stately Duchess of York on which my predecessor sailed, I will look to the trusty canoe – a craft that can navigate the most rapid and treacherous waters... provided its paddlers work in sync.

Those economic currents are flowing swiftly, with the economy expanding at an annualised rate of 4% and jobs growing at a record pace.² But there are rapids ahead, with old imbalances persisting and new ones emerging. The economy is still over-levered. The housing market is showing the potential to overheat. And the current account deficit is now at a record level.

Navigating these hazards requires close coordination between all those in the boat; that is, between fiscal, monetary and prudential authorities. Tonight I want to explain the Bank's contribution to delivering a durable expansion characterised by balance in the macroeconomy, the housing market, and the financial sector.

Before doing so, I would like to join the Chancellor in paying tribute to two individuals.

The first is Sir David Lees, who as Chairman of Court has overseen the transformation of the governance and responsibilities of the Bank. David, I am extremely grateful for your support during my first year as Governor.

I'm also enormously grateful for the wise counsel of Charlie Bean during the past year. Always working, Charlie is tonight discharging his duties as President of the Royal Economic Society. Throughout his career, at the Treasury, in academia and at the Bank, Charlie has been a leading thinker and practitioner in the pursuit of macroeconomic balance. Internationally he has inspired countless policymakers, myself included. On behalf of all colleagues past and present, I would like to echo the Chancellor by thanking Charlie for his exceptional period of public service and the enormous contribution he has made to the economic well-being of this country.

Macroeconomic balance

The UK economy is currently unbalanced internally and externally.

¹ As reported in the Montreal Gazette, August 17, 1931. The Financial Times of the same day reported Norman as saying "I feel I want a bit of a rest, because I have had a very hard time lately. I haven't been quite as well as I would like, and I think the trip will do me good".

² Bank staff project annualised growth of 4% for the current quarter. That incorporates expected upward revisions to early official estimates.

Internally, there is wasteful spare capacity – an output gap – concentrated in the labour market. The Monetary Policy Committee (MPC) currently estimates this gap to be around 1-1½% of GDP, though we caution against false precision as there are wide confidence bands around this central view.

The MPC's current guidance makes clear that we will set monetary policy to meet the inflation target while using up that spare capacity. This has implications for the timing, pace and degree of Bank Rate increases.

There's already great speculation about the exact timing of the first rate hike and this decision is becoming more balanced.

It could happen sooner than markets currently expect.

But to be clear, the MPC has no pre-set course. The ultimate decision will be data-driven. At this point it is safest to conclude, as the MPC has, that there remains scope for spare capacity to be used up before policy is tightened and that a host of labour market, capacity utilisation and pricing indicators should be watched closely to determine how that slack is evolving.

Growth has been much stronger and unemployment has fallen much faster than either we or anyone else expected at last year's Mansion House dinner. So far this has been largely matched by indicators which suggest that there is more supply capacity in the labour market than we had previously thought.

As a result of these two welcome developments, despite rapid jobs growth, pay pressures and unit labour cost growth have remained subdued.³

The MPC expects the rate at which slack is being eroded to slow during the second half of this year as output growth eases and productivity growth recovers. But thus far there are few signs of a deceleration in output growth. And a challenge in deciding when to begin normalising policy is that actual output can be observed but potential supply cannot. That is why the MPC is monitoring a broad range of indicators including coincident ones such as the behaviour of wages and prices.

Of course navigating the upcoming bend in the river isn't the end of the journey.

The MPC has rightly stressed that the timing of the first Bank Rate increase is less important than the path thereafter – that is, the degree and pace of increases after they start. In particular, we expect that eventual increases in Bank Rate will be gradual and limited. That is because the economy will face the ongoing challenges of public and private balance sheet repair, a 10% appreciation of sterling over the past year or so,

³ In May 2013, the MPC projected annual growth of 1.7% for 2014Q1, only half of the rate at which it now estimates the economy to have grown over that period. Meanwhile the 2014Q1 outturn for unemployment, at 6.8%, was some 0.8ppt below the MPC's May 2013 central projection. Despite these upward surprises to activity, annual earnings growth in 2014Q1 was 0.5ppt weaker than expected in May last year. That contributed to annual unit wage costs growth around 1ppt below the MPC's May 2013 central projection.

and muted growth in our main export markets. In addition, in the medium term, higher capital, liquidity and other prudential requirements can be expected to lead to higher spreads between borrowing rates and risk-free rates than before the crisis.

Moreover, a highly indebted private sector is particularly sensitive to interest rates.⁴

Caution over the path of rate increases once they begin is also needed because we start at a point from which interest rates cannot easily be reduced. The effects of an excessive or an excessively rapid tightening of monetary policy could prove damaging and difficult to undo.

Perhaps for these reasons, financial markets expect Bank Rate to rise to only 2¼% over the next three years and, on that basis, the MPC expects the economy to move towards internal balance – almost closing the output gap – in the same period.

Just achieving internal balance will not be enough to guarantee a durable expansion. It matters how we do so. Excessive reliance on consumption or non-tradable sectors, such as housing, all financed by borrowing abroad at an overvalued exchange rate would prove only temporarily satisfying.

The UK's current account deficit is at a record level. The perennial trade deficit has been reinforced by the fact that the UK is growing much faster than its main trading partners. More recently the sharp fall in the returns we earn on our investments abroad has led to a negative 3% swing in our net investment income.

This is not an immediate cause for alarm. As the world and particularly Europe recovers, demand for our products and returns on our investments should increase. More competitiveness gains from the past depreciation may yet be realised, and in any event, unlike for much of Montagu Norman's time, our exchange rate will remain flexible.

Nonetheless, sustained borrowing from abroad to consume at home is hardly a recipe for a balanced and sustainable expansion. Borrowing to invest, improve productivity, competitiveness and incomes is.

Amidst much commentary about an unbalanced recovery, it should not be forgotten that business investment has accounted for more than a quarter of GDP growth over the past six months. The MPC's forecasts rely on continued rapid growth of business investment over the next few years, leading to a revival in productivity and real wages, which in turn will allow consumption to grow without an unsustainable decline in household savings.

⁴ Private non-financial sector debt is 163% of GDP. Around two thirds of bank loans to individuals and more than half of loans to businesses are at variable interest rates.

Creating the right conditions for investment is thus essential. In a world of corporate caution this will likely require interest rates consistent with our guidance.

The Bank is well aware that such a monetary stance could encourage other risks to develop.

For instance, there is evidence of growing vulnerabilities in financial markets. Across asset classes, implied volatilities are well below their long-term averages. Spreads in high yield and peripheral bond markets have collapsed. And covenant-light loans are the new normal. While the banking system is much more robust to spikes in volatility, end investors may not have fully absorbed the extent to which financial reforms will distribute shocks across the financial system.

This may be a case of still waters running deep – often the most dangerous time on the river.

That is why an essential counterpart to our monetary stance is macroprudential vigilance and activism. Nowhere is the need for that more acute than in the housing market.

Balance in Housing

Across the country, house prices have risen by around 10% over the past year, approaching their early 2007 levels. Price inflation has broadened and accelerated across regions. Expectations that prices will continue to rise are now most marked outside London.

There have been some signs of a slowdown in activity, with mortgage approvals falling back to their mid-2013 levels. The Bank is watching closely to determine the extent to which this reflects an underlying slowing of housing demand. However, some of this likely stems from lenders adjusting to the Financial Conduct Authority's (FCA) tough new Mortgage Market Review underwriting requirements. More worryingly, surveys suggest some slowing could reflect would-be sellers holding back properties from the market in anticipation of higher future prices – an early sign of extrapolative price expectations.

The underlying dynamic of the housing market reflects a chronic shortage of housing supply, which the Bank of England can't tackle directly.⁵ Since we are not able to build a single house, I welcome the Chancellor's announcement tonight of measures to increase housing supply.

To be clear, the Bank does not target asset price inflation in general or house prices in particular.

It is indebtedness that concerns us.

⁵ Ten years ago, former MPC member Kate Barker estimated that construction of around 260,000 homes a year would be necessary to contain real house price growth at 1 per cent per annum (Barker, 2004). Far fewer have in fact been built in the years since – just 110,000 in 2013. Because housing demand tends to rise more than one-for-one with income, supply constraints are likely to put increasing pressure on prices in a now rapidly-growing economy.

This is partly because over-extended borrowers could threaten the resilience of the core of the financial system since credit to households represents the lion's share of UK banks' domestic lending.

It is also because rapid growth in or high levels of mortgage debt can affect the stability of the economy as a whole.

An economic expansion is more precarious if there are a large proportion of heavily indebted households. History shows that the British people do everything they can to pay their mortgages. That means cutting back deeply on other expenditures when the unexpected happens, potentially slowing the economy sharply. That's why recessions that follow rapid credit growth tend to be deeper and longer lasting.

It is for these reasons that the Bank of England's Financial Policy Committee (FPC) is mandated to address systemic risks arising from unsustainable levels of debt, leverage or credit growth.

In this regard, the UK starts from a vulnerable position with household debt at 140% of disposable income.⁶ There are some signs that underwriting standards are becoming more lax, with the proportion of new mortgages at high loan-to-income ratios now at an all-time high.⁷ The increase in house prices in the past year means we can expect the proportion of high loan-to-income mortgages to grow further in the coming year even if the housing market begins to slow. This is concerning because a durable expansion requires mortgages to be serviceable over their lifetime not just when interest rates are at record lows.

The vulnerabilities associated with debt build up over longer periods than the ups and downs with which monetary policy is usually concerned. In that sense, the credit and business cycles are distinct. Using monetary policy now to target indebtedness would risk undershooting the inflation target and damaging growth. For all of these reasons, monetary policy is the last line of defence against financial instability.

Raising interest rates today would be the wrong response to this potential vulnerability tomorrow.

Fortunately, we are not up the proverbial creek without a paddle. We have many of them which we can use to steer towards two objectives.

The first is to ensure that the banking system is resilient. To that end, the Bank is conducting a stress test to assess how well major banks and building societies can withstand a sharp housing market correction during a prolonged and painful recession. The results and any consequences that flow from them will be announced later this year.

⁶ That is high relative to other advanced economies. Household debt stands at between 105% and 115% of disposable income across the Euro-area, US and Japan (IMF, 2014).

⁷ By latest estimates, around 40% of new mortgages were at LTIs of at least 3.5x. 25% at were at LTIs of at least 4x. 10% were at LTIs of at least 4.5x.

The second objective is to reduce the risk of excessive indebtedness itself by taking out insurance. Given recent experience, few can now believe that the right policy is to wait to mop up the consequences of debt-driven busts after they crystallise. That is even more obvious when Bank Rate is at its effective lower bound.

In other words, when you hear the thunder of the falls, it is wise to get off the river.

Measures to take out insurance can be graduated and proportionate if action is taken sufficiently early. We can limit risks tomorrow by acting against a loosening in underwriting standards in new mortgage lending today.

The value of acting early is reinforced by uncertainty around the precise impact of macroprudential tools. While these have proven effective in other countries, they are still relatively novel here.⁸ By acting, assessing, and if necessary re-calibrating, we are more likely to strike the right balance to support durable growth over the medium term.

That's why authorities have already moved. Last autumn we took our foot off the accelerator by removing capital relief for banks on new mortgages and, with the Treasury, by re-focussing the Funding for Lending Scheme away from mortgages towards business lending. Those steps were followed by the implementation in April of the Mortgage Market Review to reinforce banks' underwriting standards and the stress test to underpin their capital discipline.

The FPC has a wide range of other tools if further action is justified. We can direct lenders to raise capital held against mortgages or against all credit. Thanks to the FCA, we are now able to recommend a tougher interest rate stress to which new borrowers are subjected when banks assess affordability. We can also make prudential recommendations about the share of high loan to income, loan to value and long tenor mortgages in banks' and building societies' new lending.

In this regard, I applaud the Chancellor's intention to grant the FPC additional directive powers in relation to these aspects of mortgage portfolio composition.

I also welcome the Chancellor's commitment to adjust the Help to Buy Mortgage Guarantee Scheme to comply in full with any FPC actions.

⁸ Lim et al (2011) use data from 49 countries from 2000-10 to examine the efficacy of various macroprudential measures, including loan-to-value and debt-to-income caps, on mitigating systemic risk. They find that caps on loan-to-value ratios, caps on debt-to-income ratios, ceilings on credit or credit growth, reserve requirements, countercyclical capital requirements and time-varying/dynamic provisioning help to dampen pro-cyclicality. See also Dell'Ariccia et al (2012).

When we meet later this month, the FPC will weigh carefully recent and prospective changes in activity, prices and credit as well as the merits of graduated and proportionate actions to mitigate the potential vulnerabilities arising from what is the greatest risk to the domestic economy.

Balance in financial markets

The housing market is not the only market at risk of losing balance.

Confidence in some core financial markets has been buffeted by revelations of manipulation of interest rate, FX and commodity benchmarks. There have been too many such episodes to think each is an aberration.

We are working to restore balance through reforms based on the firm belief that the City's strength is founded on markets. To restore the primacy of true markets, authorities are already seeking to:

- End too big to fail. I thank many of you who are engaged with the Bank and the Treasury to help make this the year we complete the job.
- Align risk and reward by developing a new remuneration code. This is not about the societal question of the level of pay, but about the prudential question of its structure. To properly align risk and reward, the Prudential Regulation Authority will be prescribing deferral of variable remuneration, the ability to reduce deferred bonuses when subsequent performance reveals them to be undeserved, and the ability to claw back bonuses after payment.

But as the Chancellor stressed tonight, we must do more.

Recent events have shown the necessity of measures to ensure the fairness and effectiveness of core markets.

That is why I welcome wholeheartedly the Fair and Effective Markets Review announced tonight by the Chancellor, and to be led by the Bank's new Deputy Governor, Minouche Shafik. Through that Review, we will build true markets:

- Markets that are open and transparent;
- Markets where access extends beyond a privileged few;
- Markets where all who wish to trade have common information and commonly accessible prices; and
- Markets where the informational integrity of key benchmarks is beyond question.

Some of this will require changes to the way markets work, including changes to how benchmarks are calculated and the implementation of reforms currently underway to create greater pre- and post-trade transparency of standardised derivatives.

Some can be delivered, as the Chancellor announced, by bringing more activities within the scope of regulation.

And some may require new codes of conduct. Specific codes for professionals in markets will complement broader efforts to raise standards in banking by the new Banking Standards Review Council. For those in markets we need a simple approach that recognises a fundamental principle of the City: namely that true markets are the source of dynamism, prosperity and progress.

Seeking to manipulate, game or profit from unfair access transgresses that principle. It weakens the effectiveness of markets for all. It holds back prosperity. It should thus have clear consequences, including professional ostracism.

We must work together to ensure that everyone on every trading floor understands that dealing in a market means serving the needs of clients, investors and customers fairly and effectively. I am delighted that one of the City's most experienced professionals and proven leaders, Elizabeth Corley, has agreed to chair a panel of market practitioners that will inform the Review.

Now, recognising the centrality of markets doesn't mean the Bank has a naïve faith that all markets always function smoothly. The City's markets are not those of a textbook. We all know that real markets can seize up in crises of confidence, threatening financial stability and the wider economy.

Just as there will be times when central banks must backstop the banking system, there are also times when they should backstop core markets in a way that supports their contribution to the real economy but doesn't encourage excessive risk taking.

That need was behind the recent transformation of the Bank of England's sterling market framework for banks, and it is why I can announce that, in the coming year, the Bank will widen access to our facilities to include the largest broker-dealers regulated in the UK and to those central counterparties authorised to operate in UK markets. We will also look into whether we should further develop our capacity to lend in currencies other than sterling.

Conclusion

As tonight's announcements demonstrate, promoting a durable and balanced expansion will sometimes require coordination between the Bank, the Treasury, other public authorities and the private sector.

The Bank will also have to act on its own by using all of its tools in as complementary a fashion as possible. The FPC is considering using macroprudential tools to insure against potential vulnerabilities associated with

the housing market. Doing so could reduce the need for monetary policy to be diverted to address a sector-specific risk.

However, macroprudential policy is not a substitute for monetary policy. If it is used for insurance it won't necessarily affect the path of interest rate increases. The need for internal balance – to use up wasteful spare capacity while achieving the inflation target – will likely require gradual and limited interest rate increases as the expansion progresses. The start of that journey is coming nearer.

Unlike a canoe trip, the quest for economic balance never ends. With economies and markets always moving between equilibria, it is the journey that matters. By working together we can make that journey as pleasant and as prosperous as possible.

The need to work together extends beyond policymakers to all in the City. So I am delighted to take up co-presidency of Heart of the City with you, Lord Mayor. This umbrella group for City charities, co-founded by Eddie George fourteen years ago, is a great example of how cooperation and social responsibility can be at the heart of business, building the social capital necessary for vibrant and inclusive capitalism.

Fiona, you are to be commended for the energy and enthusiasm you have brought to your role – as well as the excellent hospitality you have provided tonight. So let me invite everyone here to rise and join me in a toast of good health and prosperity to "The Lord Mayor and the Lord Mayor's Consort", Fiona and Nicholas Woolf.

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Appendix JD6: Speech by Nick Boles made on 10 January 2013

Speech by Planning Minister Nick Boles at an event hosted by Policy Exchange.

[This version of the speech excludes party political content].

Last September, the Prime Minister declared that our mission is “to build an ‘aspiration nation’”, in which we “get behind people who want to get on in life.”

“It’s what’s always made our hearts beat faster,” he said. “It’s not just an economic mission” - but “a moral one” too.

I listened to that speech as one of David Cameron’s newest and most junior ministers.

And, though I find the Prime Minister’s message inspiring, implicit in it was a challenge that keeps me awake at night.

No aspiration is more deeply embedded in the British psyche than the desire to own your own home.

But the prospect of doing so has been slipping ever further out of the reach of millions of hard-working people.

This is a result of our decades-long failure to build enough houses.

And the root cause of that is our decades-long refusal to release enough land for development.

Of course, there are other problems affecting the housing market in the short term: most of all, the lack of finance for buyers and developers since the credit crunch.

These the government is already tackling.

FirstBuy, which helps reduce the deposit first-time buyers need to find to just 5% of the price of their new home, will invest £460 million, matched by housebuilders, to help 27,000 people by 2014.

NewBuy enables other households to access 95% mortgages for new build homes, and the Prime Minister announced on Monday that we will bring forward further measures to increase the availability of affordable mortgages.

Meanwhile, my colleague, Mark Prisk, is deploying £570 million in the Get Britain Building fund to get building going on sites that already have planning permission, and using the £225 million fund that the Deputy Prime Minister announced to accelerate the delivery of housing on large sites like Cranbrook in Devon and Ebbsfleet in Kent.

But, in the long term, the original source of our housing crisis is the failure of past governments to provide enough land for development.

As planning minister, it is my job to persuade local authorities to make more land available so that more homes can be built and the price of new homes comes down - and thereby reverse the trend that has been heading in the wrong direction for decades.

Now can you understand why I sleep a little uneasily?

The 2011 census revealed that, in the 'noughties', home ownership in England fell, for the first time in 60 years: from 68% to 63%.

Why? Because houses became too expensive.

The homelessness charity, Shelter, has shown that if the price of food had risen as fast as the price of housing in the last 30 years, a supermarket chicken would now cost £47 - and a jar of instant coffee would cost £20.

In the 1990s, the average person setting aside 5% of their income each week could save up for a deposit on a house after 8 years.

Today, it would take the same person 47 years.

Some say that this trend is inevitable, given a growing population, rising incomes and a finite supply of land.

But in Germany real house prices have remained constant since 2000.

And in the Netherlands, which has shared the UK's rapid growth in population, real house prices rose by a little bit more than a fifth in the same decade.

So why did they nearly double in the UK?

The answer is simple.

We've built too few houses to keep up with the rapid increase in the number of households needing a place to live, especially the dizzying increase in the number of people living on their own.

There are several reasons for this growth in the number of households.

Some we should celebrate - like the fact that people are living longer.

Others we should regret - like the high rate of divorce or the immigration policies that led to a net influx of 1.7 million people into England in a decade.

But all of these changes have happened and all of the people concerned have the right to a decent home.

In 2008, Shelter estimated that we would need to build 240,000 new homes a year in England to cater for all of these new households.

In February 2012, Alan Holmans from the Cambridge Centre for Housing and Planning Research updated these estimates using my department's publication of new projections of the number of households.

He concluded, that, to keep pace with this trend, we now need to build 270,000 new homes a year, leading to a net increase of 250,000 a year as 20,000 of them would replace existing homes that have to be demolished.

I don't know whether Mr Holman's projections will prove accurate.

But I do know that the house-building that took place during the 'noughties' fell woefully short of what was necessary.

Despite a decade of easy credit and an explicit target to build 213,000 new homes a year in England, an annual average of only 147,000 new homes were completed between 2000 and 2010.

In the same period the population went up by 3.4 million and, from 1998 to 2008, the number of households went up by 1.7 million.

On average, in each year of the 'noughties', the Netherlands built over 4.4 new homes for every 1,000 inhabitants and the French built over 5.6 for every 1,000 inhabitants. In England, we built just 2.9.

This is in spite the fact that, between 2000 and 2010, total mortgage debt in the UK more than doubled - from £500 billion to £1.2 trillion.

This is because this debt just fuelled a massive boom in prices - and did little to boost the supply of new homes.

Those homes that were built got smaller and smaller, as land prices went up and up.

From 2001 to 2003 the new houses we built in England were smaller than the ones we've already got - and 30% smaller than the new houses being built in the Netherlands, a country that is more densely populated than ours.

For housing, as in so many areas of our national life, the 'noughties' were a wasted decade.

Loads of money sloshing around, lots of top-down targets, but very little to show for it.

So now we have to build even more houses to make up the ground lost and to keep pace with future growth in the number of households needing homes.

And that's assuming we continue to tighten our grip on immigration so that net migration falls below 100,000 a year by 2015.

Now I do really understand why the idea of a lot more house-building makes people nervous.

And I certainly don't want to see more open land developed than is absolutely necessary.

But unfortunately there is no painless way to make homes affordable for working people earning ordinary wages.

"What about all the empty homes?" people ask.

And they are certainly right to suggest that we should make full use of our existing housing stock.

But most empty homes are only empty for short periods while they change hands or are renovated or are caught up in probate after the last owner's death.

There are around 259,000 houses that have been empty for more than 6 months, 50,000 fewer than in 2009.

The government has already invested £160 million and that, together with a share of the £300 million additional spending announced in September's Housing Growth Package, should help put over 15,000 empty properties back into use by 2015.

Nobody wants to see good homes standing empty.

But they can't make more than a marginal contribution to the hundreds of thousands of new homes that we need every year.

"What about all the brownfield land?" people then ask - and they point to the Campaign to Protect Rural England (CPRE) estimate that England has enough brownfield land to support 1.5 million homes.

We all want to maximise the number of homes we build on previously developed land - not least because such land tends to benefit from existing links to our road and rail networks.

But even the CPRE admitted that we would only get 450,000 new homes out of brownfield sites in those parts of the country where most of the new homes are needed - London, the South East and the South West.

And achieving that number would require us to build on every scrap of brownfield land.

The fact is that we are already building most new homes on brownfield land: 76% of all the homes completed in 2010 as against 56% in 1997.

We simply can't squeeze much more out of brownfield sites.

To restrict new house-building to brownfield land would leave us a long way short of the number of new homes we need.

So "what about the developers' land banks?" people then ask.

And again, I do understand why it riles people that their local councils have to find new sites for development, when the major house-builders are sitting on land with permission to build hundreds of thousands of new homes?

But I'm afraid this concern is also misplaced, resting on a misunderstanding about how the British house-building industry works.

At the end of September 2012, on sites of 10 or more units, there were 487,000 units with detailed planning permission.

About 246,000 of them were on sites where no building has even started - and the Growth and Infrastructure Bill that I am taking through Parliament with colleagues will make it easier for developers to renegotiate the unaffordable Section 106 agreements that have made many of these schemes unviable and caused them to stall.

Most sites with planning permission are for schemes of 150 units or more which developers generally build out over 3 to 5 years.

If we are going to have any prospect of getting our current house-builders to build the number of new homes we need, we need them to have a pipeline of sites representing 3 to 5 years' supply.

That's over a million units.

The problem with developers' land banks is not that they exist - but that they are currently much too small to feed the level of house-building that we need.

So I am afraid that we have a simple choice.

We can decide to ignore the misery of young families forced to grow up in tiny flats with no outside space.

We can pass by on the other side while working men and women in their twenties and thirties have to live with their parents or share bedrooms with friends.

We can turn a blind eye while the dream of a property-owning democracy shrivels.

And shrug our shoulders as home ownership reverts to what it was in the 19th Century: a privilege, the exclusive preserve of people with large incomes or wealthy parents.

But I don't believe that anyone really wants to go down that road.

If we believe in anything, we believe in the power of home ownership to motivate people to work hard, raise strong families and build healthy communities, to put down roots, take responsibility for their surroundings and look out for their neighbours.

As David Cameron said, "We get behind people who want to get on in life, the young people who dream of their first pay-cheque, their first car, their first home - and are ready and willing to work hard to get those things."

We have to accept that we are going to have to build on previously undeveloped land.

And to resolve that we will make these decisions locally, and that we will build beautiful places like we used to.

That way England can remain the green and pleasant land we all love.

We start from a good position.

Because, contrary to media myth, we've got plenty of undistinguished, undeveloped land to spare.

By overlaying satellite imagery onto Ordnance Survey maps, the Centre for Ecology and Hydrology's 2007 Land Cover Map shows that 8.9% of England is built up or developed as gardens.

That means that over 90% is not.

Our National Parks, Sites of Special Scientific Interest, Areas of Outstanding Natural Beauty together account for around 30% - more than 3 times the amount that is built on.

If we include the green belts that stop our cities sprawling without limit then that goes up to around 40% of England is protected from development - more than 4 times the area that is built on.

Then there are ancient woodlands and other irreplaceable habitats which are protected by the National Planning Policy Framework, and other important sites which lie outside the official designations, that are rightly championed by organisations like the RSPB and the Woodland Trust.

There is high quality agricultural land which all of us want to see used for the essential purpose of growing food.

And there are much loved open spaces in villages and towns, which local people understandably want to keep intact.

Nothing that I have said and nothing that this government has done will undermine the protection of National Parks, Sites of Special Scientific Interest, Areas of Outstanding Natural Beauty and the green belt.

Or stop good agricultural land being used for farming.

Or prevent councils from identifying ancient woodland and green spaces that local people want them to protect.

And nothing that I have said and nothing that this government has done involves telling communities how many new houses they should accept or where they should be built.

Regional top-down housing targets caused enormous resentment and as we have seen failed to deliver the goods - house-building has fallen to its lowest peacetime level since the 1920s.

So we have already revoked the regional strategy for the East of England.

And, having considered the responses to the consultation on the environmental report, I can announce today that I have decided to revoke the equivalent edict for Yorkshire and the Humber while saving the policies to protect York's green belt.

I will be making decisions about the other regional strategies in due course, once the consultations on other environmental reports have closed.

But the localism that Eric Pickles has unleashed is not and never has been a one-way street.

As he has always said, with power comes responsibility.

The National Planning Policy Framework spells it out very clearly.

As they draw up their local plans, councils must assess their local housing need in an objective way.

And they must identify immediately developable sites sufficient to supply all of the new homes that are needed over the next 5 years.

Now, many councils are embracing this duty with energy and imagination.

But some are dragging their feet.

And a few are looking for ways to evade their responsibilities - or slough them off onto their neighbours because the politics of house-building is just too difficult.

Well, that is not acceptable.

Councils which do not produce credible plans to meet local housing need will find that the presumption in favour of sustainable development will trump local decisions.

And they will have to explain to local residents why their failure to produce a robust local plan exposed their communities to speculative development in places where it is not welcome.

I will not defend and the government will not support those local councils who abdicate their responsibility to meet their fair share of our common housing needs.

I am not going to pretend that it will be easy for them.

Councillors will have to find a way to persuade the people who elect them that substantial further house-building is in the interest of the whole community, including those who are living there now.

And we are giving them the tools they need to go about this.

The first thing that people want is input into the plans for development in their neighbourhood.

And not just perfunctory consultation that is acknowledged but then ignored.

But real involvement and a vote on the outcome.

So that's why we've created the option of a neighbourhood plan, which is drawn up by representatives of a defined community and subject to a referendum of all their neighbours, before it can be adopted and form part of the statutory plan.

300 localities are already pursuing a neighbourhood plan - from Thame in South Oxfordshire to St James' ward in central Exeter to central Milton Keynes.

The trailblazer is Upper Eden in Cumbria, where I was on Monday.

Their neighbourhood plan will be the first to be put to the test in a local referendum in March of this year.

The second thing people want, aside from local input and local control, is a share in the benefits that new development can bring, whether that takes the form of a boost in the local authority's tax revenues or an investment in new community facilities or better infrastructure.

So that's why we've introduced the New Homes Bonus that gives local councils over £8,000 over 6 years for every new Council Tax Band D home that gets built.

Councils received £430 million in New Homes Bonus in 2012 to 2013 and are provisionally set to receive £660 million in 2013 to 2014.

But we need incentives, as Policy Exchange has pointed out, that are even more local - so that the people who have to live with new housing developments get a direct benefit from them.

So today I am pleased to be able to announce that in areas that charge the new Community Infrastructure Levy neighbourhoods which accept new development will get 15% of the revenues from the Levy (up to a maximum of £100 per existing household).

And because I believe, and this government believes, that neighbourhood plans are the key to unlocking more house-building, those communities that draw up a neighbourhood plan and have it approved by local people in a referendum will receive 25% of these revenues with no upper limit.

If you want to re-roof your village hall, build a permanent home for your community shop, refurbish the municipal swimming pool, implement a new landscape design in your local park or save your local pub, look no further.

Jump on the bandwagon and get yourself a neighbourhood plan.

This government believes in localism.

We believe that if you give people power, they will use it responsibly.

If you explain to them what their community and their country needs, they will do their bit to make sure it is provided.

And if you give them a stake in a future in which beautifully designed homes with easy access to green space are, once again affordable for working people on ordinary wages, they will do what it takes to bring that future about.

From my perch on the lower branches at the Department for Communities and Local Government, I look around the great wood that is the British government and I see other ministers battering away at the barriers that hold people back with gusto and grit.

Iain Duncan Smith reforming the benefits system to ensure that work always pays.

Michael Gove giving schools control over their own destinies while ramping up expectations of the standards that they will achieve for their students.

They are an inspiration and a goad.

An inspiration because they are ministers who have identified a shocking injustice in the way our society works and are fearless in their determination to "spread the privilege" of a good education and a decent job.

A goad because we are more than half way through this Parliament, and it's now up to me to make sure that our reformed planning system provides enough land to build the houses that England's next generation so desperately needs.

When it does, I'm sure I will have no problem sleeping at nights.