

Guildford Borough Council's summary response to issues arising in relation to OAN, in particular the extent of affordability uplift

Introduction

1. This note is not a comprehensive statement of the Council's position on OAN and should be read together with the Council's responses to the Initial Questions and Matters and Issues, as well as the evidence given orally.
2. It addresses three issues raised during the hearings which are relevant to the identification of an uplift:
 - i. What should the starting point be?
 - ii. What increase to demographic-led projections could, on reasonable assumptions and consistent with principles of sustainable development, be expected to improve affordability? Is such an uplift reasonable?
 - iii. Should a market signals uplift be applied to economic-led forecasts?

Issue 1: What starting point should be used for establishing the demographic-led projections?

3. It is quite clear from the guidance that the starting point should be the demographic led projections, to which adjustments should be applied.
4. Subject to any further submissions being made, for the reasons advanced orally there is clear and robust evidence that 422 dpa is the appropriate working figure for demographic starting point.¹
5. It has been suggested by some parties at the hearing that the proper approach to calculating OAN is not to take the demographic-led projections as the starting point but to work backwards from some other point (e.g. based on the total housing figures required England wide) in some form of reverse-engineering.
6. On this 'top-down' approach the demographic-led projections become something of an after-thought – requiring only an arithmetical exercise to calculate how far below the OAN the demographic-led projections fall, and thus a notional 'uplift'. On this approach the demographic-led projections for Guildford or the Borough's demographic characteristics more generally, would not in any real way influence the final OAN figure.
7. This proposed approach is contrary to national guidance and departs from the approach adopted at other Local Plan examinations, including at Waverley. It appears primarily to be a reaction to the 2016-based SNPP figures. (Attached at Annex 2 is an extract from

¹ The Council considers it likely than any adjustment to the 422dpa figure upon publication of the 2016-based SNHP in September will be limited. Importantly, it is clear that it is likely to be far more closely aligned with the 2016-based SNHP than the 2014-based SNHP.

some of the responses to MIQ's on this point, which demonstrates both their original stance and their methodology, which in most cases reflects that set out below.) Not only does the guidance provide that for the starting point to be based on the most up to date position, but that is the logical position.

Contrary to national guidance

8. The PPG does not advocate such an approach:

- i. Firstly, the PPG explains that the demographic-led projection is the starting point for calculating OAN. It does not provide – nor does it come close to providing – a methodology whereby the *starting point* for calculating OAN is a figure which could be said to improve affordability ratios;
- ii. Secondly, the PPG is quite clear that the market signals uplift should be applied to the demographic-led projections². It is the demographic-led projection of housing need which first has to be ascertained, and it is this to which a market signals uplift and/or adjustment for economic projections is to be applied. OAN cannot be fully divorced from the Borough's demographics in the way now being suggested.
- iii. Third, in respect of the degree of uplift required, the PPG expressly does not require either (a) a specific calculation of what figure might be considered to improve affordability or (b) that certainty is required that the OAN figure will improve affordability.³ The advocated alternative approach ignores this advice.
- iv. Fourth, the overarching guidance in respect of market signals uplift is that *“here an upward adjustment is required, plan makers should set this adjustment at a level that is reasonable.”* The advocated alternative approach again ignores this advice.

² Under the heading 'how should market signals be taken into account?' the PPG states “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.” (Paragraph: 019 Reference ID: 2a-019-20140306) And in the following section it states “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.” (Paragraph: 020 Reference ID: 2a-020-20140306)

³ Paragraph: 020 Reference ID: 2a-020-20140306

Approach in other Local Plan examinations

9. The alternative approach suggested was not the approach understood to be adopted in the Waverley examination.
10. In that case, based on the OBR house price forecast/ University of Reading model, it was suggested that 635 dpa would be necessary to hold the affordability ratio constant.⁴ Notwithstanding this the OAN figure finally identified (before 'policy on' factors were applied) was 495 dpa⁵, uplifted from the demographic-led projections of 378 dpa⁶ to take account *inter alia* of market signals, including affordability and the affordable housing need.
11. That approach is contrary to the alternative approach now advocated. The alternative approach would have seen the 635dpa figure used as the OAN, and to have worked backwards to calculate the appropriate uplift (which would have been 68%).
12. Nor are the Council aware of any Local Plan which has proceeded on the alternative approach now advocated.

Issue 2: What increase to the demographic-led projections could, on reasonable assumptions and consistent with principles of sustainable development, be expected to improve affordability? Is such an uplift reasonable?

13. The Council contend that an OAN of 594dpa - which is significantly above the demographic-led projection of 422dpa - could, on reasonable assumptions, be expected to improve affordability. See document 004 as to how this is derived.
14. It also contends that such an uplift produces a housing requirement figure which is reasonable and which is capable of being achieved consistent with the principles of sustainable development (matters that will be more fully discussed in future hearing sessions).
15. Six points are made.
16. **First**, as Mr Ireland explained, there is no robust model available which considers dynamics at a local authority level that would assist in understanding, in any sensible manner, the degree to which increase in housing supply in a given local authority area may impact on affordability in that area. This is not surprising given the various factors that feed into house prices and that the government's approach is based on the combined effect of appropriate increases in all authorities to support improvements in affordability. Put another way if Guildford were to act alone, it would be unlikely to achieve an impact and so it is not sensible to try to measure it on that basis.

⁴IR, para 22. This was 28.8% above Waverley's 2012-based household projections, but some 68% above the 2014-based household projections which the Inspector recommended as the appropriate starting point

⁵ IR, para 22-23

⁶ IR, para 19

17. As the Council noted was set out by the Inspector in his opening remarks – ‘I don’t accept the premise that increasingly supply in Guildford won’t improve affordability, but just increase inward migration.’ If all authorities boost housing supply significantly (as per NPPF) then it will improve affordability (emphasis added). The Council accepts and endorses this.
18. **Second**, for the reasons primarily set out by Mr Ireland, who explained in some detail why it was not applicable to the specific situation of an individual local authority, the OBR/University of Reading model –which purports to model the relationship between housing supply and affordability at a borough-level – must be treated with a significant degree of caution.
19. It is of note that this proposition is supported by a very recent Secretary of State decision⁷ (24 May 2018), in which the robustness of this model (and Mr Spry’s evidence upon it) was doubted. Whilst it is acknowledged that the context is in some respects very different (and no reference is made to other outcomes), the validity of the model to the issue at hand should be the same whether on appeal or at local plan examination. Moreover, the Secretary of State accepted a comparative approach. The Secretary of State stated as follows:

“18.For the reasons given at IR345-355 [the four most relevant paragraphs are attached at Annex 1] the Secretary of State agrees with the Inspector at IR356 that he attaches very little weight to the appellant’s evidence regarding what that uplift should be. He further agrees that in this case he considers that evidence of what has been done elsewhere is the best evidence before him. For the reasons given at IR345-355, the Secretary of State agrees with the Inspector at IR357 that clearly affordability is a significant issue in Elmbridge and he agrees that it would be appropriate to increase the SHMA16 OAN by 20% to reflect market signals.”

20. **Third**, national policy does not require a detailed analysis to be undertaken to determine to what extent an increase in housing supply is likely to impact on affordability, it being recognised that “*Market signals [including affordability] are affected by a number of economic factors*”. It stipulates that assumptions can be made, if they are reasonable:

“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.”⁸ (emphasis added)

21. **Fourth**, in determining what magnitude of uplift above demographic-led projections could, on reasonable assumptions, be expected to improve affordability, it is instructive to have regard to approaches adopted in other local plan examinations where similar

⁷ Land east of Weylands House and Molesey Road and south of Field Common lane, Walton-on-Thames, Surrey (APP/K3605/W/17/3172429)

⁸ Paragraph: 020 Reference ID: 2a-020-20140306

issues of affordability were being experienced. A comparative approach can provide evidence to justify a reasonable assumption.

22. Applying the 2017 LQ affordability ratio to the benchmarking exercise undertaken by GL Hearn⁹ would suggest that around a 20% uplift to the demographic starting point would be appropriate. In Waverley, where the affordability ratio was 15.54, an increase of 25% above the demographic projection was considered appropriate.
23. **Fifth**, as Mr Ireland explained, regard can be had to the proposed standard methodology as a 'touchstone' of what uplift to demographic-led projections could, on reasonable assumptions, be considered to improve affordability.
24. In its consultation document on this, *Planning for the Right Homes in the Right Places*, the Government detailed the proposed methodology. The consultation document outlines that this drew on work by the Local Plans Expert Group (LPEG). It outlines that the proposals were intended to be: simple, based on publically available data, and realistic – the latter “reflecting the actual need for homes in each area, taking into account the affordability of homes locally” (Para 12). Government has taken forward this methodology into its draft NPPF and PPG text. A number of parties at the Examination have referred to this.
25. The methodology provides for three dimensions, a demographic baseline (1), which is modified to take account of market signals (2), and a cap to ensure that the proposed housing need is deliverable (3).
26. (1) is dealt with above. As to (2), in Paragraph 18 of the *Planning for the Right Homes document*, the Government outlined that household growth on its own is an insufficient indicator of demand as household formation is constrained by the supply of available properties; and people may want to live in an area which they do not currently reside, for example to be near to work. To address these issues it proposed an uplift for market signals where the local affordability ratio is above 4.
27. As to (3) a 40% cap on the uplift is proposed (which in this case would apply to the household projections) to ensure that the need figure is deliverable.
28. By implication:
 - The approach remains one of applying adjustments for market signals to starting point household projections, consistent to the PPG;
 - The Government's thinking is that the market signals uplift is addressing issues associated with household formation constraints – and this should not therefore be applied as a separate adjustment.
 - The adjustment proposed through the methodology, the Government considers, will support improvements to affordability – a key tenet of the Housing White Paper;

⁹ Review of Housing Needs Evidence across West Surrey HMA, GBC-LPSS-SD-004, Figure 1

- The Government's view is that adjustments of over 40% on the household projections raise issues of deliverability.
- Whilst, as pointed out, provision is made for exceptions etc. that does not detract from the illustration of reasonable assumption upon which the Council relies (as opposed to application of the methodology itself).

29. GL Hearn has modelled the housing need arising using the standard methodology proposals for the West Surrey HMA, using the 2016-based SNPP and applying the household formation rates (2014-based) to these. This results in the following housing need:

	Base household growth 2017-27 (A)	Market signals uplift (B)	A x B	Housing Need (Uplift Capped at 40%)
Guildford	423	53%	648	592
Waverley	273	66%	453	383
Woking	216	51%	327	302
HMA	912	-	1,428	1,277

30. The household growth is calculated by applying the headship rates from the 2014-based household projections to the population growth envisaged in the 2016-based SNPP over the 2017-27 period. To this a market signals adjustment is applied, based on the 2017 LQ house price-income ratio. The market signals uplift is then capped at 40% as per the methodology to ensure deliverability.

31. The Council considers that, accompanied by increases in other areas which reflects their affordability characteristics as the methodology seeks to achieve, this supports the Government's objectives of increasing supply in areas where there are particularly affordability issues, and improving affordability overall.

32. **Sixth**, the significant increase in housing numbers contemplated by the plan will impact on affordability compared with the status quo. As the Council's response to the initial questions set out, a significant increase in housing delivery should affect price growth expectations. When taken in conjunction with the comparative exercise referred to above, this provides the basis for reasonable assumption.

33. Drawing this together, the following points can be made:

- a. GL Hearn sought to articulate a justification for identification of an enhancement, but the Council understands its approach has been rejected.
- b. There is no model to provide hard evidence of impact. There is no dispute as to the evidence justifying an uplift or that an uplift is required, and no criticism of

the Council's evidence in that regard. Council relies upon the extent of uplift above OAN, the extent of increase in units and a comparative exercise.

- c. The Council's proposed OAN on 594dpa is actually 41% above the demographic-led starting point;
- d. This would represent an uplift significantly above the magnitude of uplift applied in other areas with comparable, if not worse, affordability issues that Guildford
- e. If the standard methodology were applied – which is designed to provide uplifts which, on reasonable assumptions is considered will improve affordability on a macro-level – it would result in an OAN of 592dpa, approximately the same OAN which is being promoted by the GBC (albeit arrived at by a different methodology).

Issue 3: Should a market signals uplift be applied to economic-led forecasts?

34. No. The market signals uplift is subsumed by the economic -led figures, as the economic-led need is higher for Guildford than the need based on applying the market signals uplift to the demographic starting point.

35. The Government's proposed standard methodology approach, as the consultation sets out, draws on the report by the Local Plans Expert Group. One of the LPEG proposals was to remove the need to align with economic forecasts, its report (Para 3.21) outlining that:

“in the interests of streamlining the process, [the proposed approach] removes the current requirement to consider alignment of housing need with employment forecasts (as described above, this is one of the single most difficult and disputed steps in the current methodology). We consider the purpose of this step of the current guidance can more easily be achieved by recognising that employment growth pressure is also likely to be reflected in local affordability issues, so that an appropriate adjustment for market signals would meet this purpose. If they wish, plan makers should continue to be able to plan for further growth beyond FOAHN by considering a “policy on” alignment with job growth in setting their housing requirement where this is greater than housing need, but that this should not be part of FOAHN.” (underlining added)

36. This was informed by analysis undertaken for the Group which showed a correlation between the least affordable parts of the country and those with the highest rates of economic growth across their functioning economic areas.

37. The Council agrees with this logic, and therefore does not consider that a market signals adjustment should be applied on top of the economic-led need.

7th June 2018

Annex 1 - Extract from Inspector's Report in Weylands House and Molesey Road

Following argument recorded in particular at 113-116 & 232-236 the Inspector concluded as follows in relation to the model:

“352. With regard to the affordability model, at times this was referred to as an Office of Budget Responsibility (OBR)/University of Reading model. In fact the author of the model was Mr Spry, the appellant's witness on housing need. The inputs to Mr Spry's model include projections of house prices and earnings provided by the OBR and an elasticity factor which has been calculated by the University of Reading. [114, 226 to 232]

353. Mr Leather, the Council's witness on housing need, set out his concerns about Mr Spry's model. In particular, he identified that the OBR projections are short term (to 2022) and he argued that there is no basis for projecting them to 2035. Mr Leather also commented that the model is very sensitive to small changes in the input assumptions and that the elasticity factor was never intended to be applied at the level of an individual planning authority. The Cobham Green Belt Group (CGBG) pointed out that, contrary to the model inputs, there have been small reductions in prices since 2015 and little change is expected in the next 5 years. [232 to 235, 285]

354. To my mind there is considerable force to these criticisms. Mr Spry's model relies on projections for prices and earnings which are very likely to be subject to fluctuations. Moreover, these projections are then extended into the future far beyond the period OBR has published them for. Importantly, it is the relationship between these two uncertain figures which forms the basis for Mr Spry's calculations. I consider that the uncertainties inherent in this approach are such that very little weight can be attached to the outputs of the model.

355. I note that the Inspector conducting the examination of the Mid Sussex Local Plan accepted the use of an essentially similar model in that examination. However, I do not know whether the criticisms made of the model there had the same force as those made at this Inquiry. In any event, I note that the Inspector in Mid Sussex had corroborating evidence. He commented that the model pointed to a range that had a 'sense of realism about it'. He thought that it correlated reasonably well with other forecasts and a comparative analysis of other authorities. The context for those remarks was that the Inspector concluded that an uplift of 20% was appropriate, which was within the range suggested by the affordability model. That is very different to the situation at this Inquiry where the appellant was promoting an uplift of 64%. There was no evidence before the Inquiry of a similar uplift for market signals being adopted anywhere. Consequently, whilst I note the Mid Sussex experience, it does not alter my conclusion with regard to the use of Mr Spry's model in this case. [114, 115, 236]

356. Whilst I have found that there should be an uplift to reflect market signals, for

the reasons given above I attach very little weight to the appellant's evidence regarding what that uplift should be...."

Annex 2: Suggested Uplifts to demographic led projections (Responses to Matters and Issues)

REP-8944737-001 Barton Wilmore Martin Grant Homes

2.3.11 We consider an affordability uplift of 40% (capped) would provide a more positive response to the serious and worsening of housing affordability in Guildford. This level of uplift is in line with the Government's proposed Standard Method. Whilst we acknowledge that the Standard Method holds little weight at the current time due its consultation status, it does indicate the Government's intention with regards to local housing need and its approach to addressing affordability issues. Applied to the starting point household projection this would result in a need for 789 dpa in Guildford Borough.

REP-11189889-001 Woolf Bond OBO Taylor Wimpey Matters (Appendix A - Turley)

1.25 It is considered that the advanced OAN of 717dpa, which allows for a separate 10% uplift and therefore a cumulative adjustment close to 20% to address worsening affordability, will have a more positive impact on improving affordability. It is evident that the level of new homes implied by this adjustment²⁴ has also previously been assessed as representing a sustainable level of development by the Council and therefore must also be considered to be realistic.

REP-12062017-001 Dandara Ltd

4.4 Having regard to Figure 24 of the SHMA, and on the basis that accommodating student growth can be 'ringfenced' as a specialist housing need, it is considered, having regard to market signal adjustments made to Local Plans with comparable, albeit in the majority of cases less pronounced, market signal affordability indicators (e.g. Waverley at 25% uplift), that a minimum 20% uplift should be applied to the SHMA recommended demographic starting point of 577-584 dpa. This would give an annual housing target of **692-701 dpa** (n.b. excluding any associated uplift for employment growth and students) to positively address barriers to housing within Guildford as required by PPG.

REP-15280737-001 Miller Developments

4.3 As the science behind economic forecasting for housing need is recognised as the most volatile of the variables used to inform such assessments given the prevailing need and the Council's historic lack of delivery, Miller would advocate the most appropriate approach to addressing both need and affordability is to apply an uplift of at least 20% to the baseline demographic starting position.

REP-16206593-001 Turley OBO Bloor Homes

2.3 Secondly, GBC need to be mindful of the implications of the **draft Standardised OAN** (September 2017) which identifies a need for 789 dwellings per annum. This is 149% higher than the current adopted GBC Local Plan target, 14% greater than the OAN identified in 2015 and 21% greater than the 2017 SHMA addendum. This should also be considered against the backdrop that the draft methodology gives no consideration to employment growth at the current time. This is particularly relevant given the standardised OAN methodology identifies a significant increase and there is no review mechanism within the emerging Local Plan to address any identified increase in OAN that may be required, especially given Guildford are a Green Belt authority where Green Belt boundaries '*should not need to be altered at the end of the plan period*'. (Paragraph 85 of the Framework).

REP-17426113-001 Home Builders Federation

In considering the Council's assessment of housing need we have taken into account the Council's statements to the inspector's initial questions that the overall uplift being proposed represents a 17% increase on the demographic starting point. The approach taken by the Council has been to make a series of cumulative adjustments for economic growth, market signals and student housing. Such an approach is not inappropriate but we do not consider that even these cumulative adjustments will have the impact on affordability required by PPG and which is also a key tenet of Government policy. In order to have the impact required by PPG we would suggest that an uplift of more than 20% will be necessary. (Conclusion section 2)

REP-11458241-001 Guildford Housing Forum

2.9 At present, there is no standardised formula to calculating the scale of affordability uplift, however this is recognised as a key feature in the Government's standard housing need methodology, proposed as part of the revisions to the NPPG recently out for consultation. This proposes that the household projections are increased by 0.25% for every 1pt increase in the affordability ratio (above 4). Using the latest 2017 data, this would increase Guildford's household projections by 53%, although the methodology proposes a cap for 40% in such cases. This indicates that Guildford falls within the top tier of authorities with the most significant affordability concerns.

2.10 This matter was discussed at length as part of the Waverley Examination, where the extent of the Council's affordability pressures were tested and it was concluded that an uplift in the region of 25% was necessary to address affordability concerns. As expressed within the supporting appendices to this statement, this figure is also considered to be an appropriate uplift for the purposes of Guildford. The Forum has modelled this as part of the accompanying Appendix 1, which is summarised in the table at the bottom of this statement.

REP-11458241-001a Guildford Housing Forum – Appendix 1: RPS Report

6.30 This factor in particular is something that the Government are interested in, and forms a key tenet of the way in which the proposed standardised method is calculated. The proposed methodology, published in March 2018 as part of wider changes to the NPPF/NPPG indicates that Guildford would need to be subjected to a 40% increase on the baseline projections, to account for the current affordability ratio in the Borough. The actual figure for Guildford is 53%, however in highly unaffordable areas such as Guildford, the Government proposes to cap growth at 40%, to avoid extreme uplifts to the calculations.

6.31 In arriving at a suitable calculation to be applied to Guildford, RPS proposes that there should be a 25% uplift to the demographic OAN, which is a similar adjustment to that proposed in Waverley, which is experiencing similar affordability pressures.