

Research Paper 2

Regional imbalances in population growth and housing provision

Sponsored by The Peel Group



Turley

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This report is concerned with the regional imbalances in population growth and housing provision in England and how current policy approaches are exacerbating rather than reducing them. It calls for changes in policy that would support a more equitable and balanced national economy that works for everyone.





Overview

This report is concerned with the regional imbalances in population growth and housing provision in England.

It has been commissioned to:

- i. Draw attention to the scale of these imbalances and the impact they have in compounding and widening existing inequalities;
- ii. Examine the sufficiency of the Government's current and planned responses; and
- iii. Recommend reforms to boost housing delivery in support of an economy that works for all parts of the country.

Background

There is wide acceptance of a worsening housing crisis across England. The difficulties many people face in accessing the home they need at a cost that is affordable is a major constraint on the mobility and prosperity of a generation. Tackling the housing crisis is critical to creating an economy that works for everyone.

The Government's approach to housing has been articulated through the publication of a Housing White Paper and most recently in the publication of a revised National Planning Policy Framework (NPPF) and Planning Practice Guidance (PPG). Policy changes have been squarely aimed at 'delivering the homes this country needs, in the places people want to live' and ensuring 'local planning authorities plan for the right homes in the right places, in an open, transparent and sustainable way'¹.

Much of this literature published by the Government seeks to simplify the root cause of the housing crisis to a direct measure; that of worsening affordability as measured by the ratio between earnings and house prices. This is predicated on the assumption that housing need is greatest where affordability is at its worst and that increasing supply will address affordability.

¹MHCLG (2018) Technical consultation on updates to national planning policy and guidance, paragraphs 1 and 2



There is a clear agreement that worsening affordability is a defining factor of the current housing crisis. Indeed, the Government has cited evidence of a 'decrease in the number of people living in an area with an affordability ratio of 4 or less: from 23 million (47% of the population) in 2000, to 395,000 (less than 1% of the population) in 2017'². These figures starkly illustrate the barriers faced by a growing number of households looking to access the housing market and exercise choice in the homes that they are able to purchase or rent. This also has a direct impact on labour mobility and the ability of the UK to deliver genuinely inclusive growth.

However the predominant focus on affordability as an indicator as to the nature and severity of the housing crisis has resulted in the presentation of a single factor crisis which is mainly contained in the highest demand areas of the South of England, where the highest affordability ratios are generally recorded. This report does not challenge the severity of the housing affordability issues that affect large areas of the South of England or the importance of measures to address it. However it does contest the application of a single measure such as affordability to apportion housing need on a national basis.

The result of this approach by the Government is a failure to fully appreciate the wider factors behind the housing crisis and the challenges facing places and households across England as a whole. In turn this has led to a Government response which is somewhat one-dimensional in its approach, explicitly directed at stipulating an unprecedented boost in the supply of new homes in the areas of highest demand and greatest unaffordability, most of which are concentrated in London and the South East. This manifests itself in both the method for planning for housing and in the allocation of funding to support new provision.

By contrast, and contrary to the overall objective, application of this single factor policy is resulting in other parts of the country reducing levels of planned housing growth, consequently exacerbating regional disparities.

This situation in no small part arises from the reliance that the "standard method" of calculating housing needs places on the projection forward of historic trends and the use of a single indicator (the affordability ratio) to quantify the historic imbalance between supply and demand.

Such an approach can only have one outcome – to perpetuate a continuous widening of regional imbalances in prosperity, economic performance and access to a wide choice of high quality homes. This in turn will have much more widespread consequences and will reinforce long-standing socio-economic imbalances between North and South.

The solution must meet need and help to address housing affordability issues in the South of England while at the same time not leading to a diminution of planned housing supply elsewhere in the country.

Such an approach would lead to a net increase in the planned supply of homes nationally (bringing it closer to the Government's target of 300,000 new homes each year) and provide a boost to delivery on the ground.

²Ibid, p8 - 9

Recommendations

This report recommends reforms which would help to ensure that the objective of boosting the delivery of new homes to 300,000 per annum could be achieved in ways which address the severest challenges of affordability **and** help to reduce regional imbalances in both the amount and quality of housing.

It is our view that such an approach must recognise:

- The true extent of the crisis and the need for every part of the country to play its part in providing the homes that are needed;
- A need to depart from a methodology for calculating housing need which is so reliant on trend-based (historic) projections as the foundation for calculating future need;
- A need to refine the affordability measure used to define need. The issue of affordability cannot be narrowed down to a single indicator. For example, in applying what is advanced as a more representative measurement of affordability – the relative affordability of housing for potential first-time buyers – the conclusion has been reached that ‘affordability is not just a southern problem’³. Using this definition of affordability, published research revealed that whilst 60% of those living in the South East were judged as being unable to buy even properties at the lowest decile, this was also applicable to 30% of households in the North East region, which on average records the least expensive properties nationally; and
- That the housing crisis is also fundamentally grounded in the existing fabric of housing stock and neighbourhoods in an area. Areas in the North in particular are disadvantaged by the legacy of an existing housing stock which does not match the expectations of households required to contribute to and sustain a stronger regional economy. Addressing current deficiencies and widening the choice of homes is critical to achieving wider objectives of rebalancing and tackling the housing crisis.

A series of recommendations are made within this report which recognise the need for strategic approaches and policy frameworks which provide a structural break from the approaches adopted to date.

Six strategic recommendations are set out:

1. Revise the standard method for assessing local housing needs to remove over-reliance on the projection of past trends.
2. Commission a national audit of housing quality to enable qualitative measures to inform the assessment of housing needs.
3. Update the Industrial Strategy to plan for the kind of economy the regions and nations of the UK need and recognise the fundamental role housing plays in delivering economic growth and prosperity. Make explicit that Local Industrial Strategies (LIS) must support the delivery of the national Industrial Strategy including the planning and delivery of sustainable and thriving communities.
4. Update planning policy and guidance (NPPF and PPG) to require Local Plans to be based upon an integrated strategy for economic growth (as set out in LIS) and the resultant employment space, housing and other infrastructure needed to deliver that strategy.
5. A National Development Framework should be put in place for England, alongside the NPPF, the Industrial Strategy and the National Infrastructure Delivery Plan, to create an economy that works for everyone and addresses regional inequalities. This should build upon and strengthen the Northern Powerhouse policy, to set a clear and holistic positive growth agenda for the North.
6. The Treasury “Green Book” cost-benefit assessment for investment in infrastructure should be amended, as recommended by Metro Dynamics⁴, to ensure alignment with rebalancing policies.

³Professor Geoffrey Meen, University of Reading (3 September 2018) How should housing affordability be measured?

⁴Metro Dynamics sponsored by The Peel Group (2018) Investing in the Future; <http://www.metrodynamics.co.uk/blog/2018/11/27/investing-in-the-future-prioritising-infrastructure-spending-vital-to-grow-and-rebalance-the-economy>





1 Regional imbalances in population growth and housing provision

1. Regional imbalances in population growth and housing provision

This chapter analyses the growing imbalances in population growth and housing provision that are evident within England.

Not enough homes

1.1 It is widely recognised that “for decades housing supply has not kept pace with the increasing demand from our growing population. The economic and social consequences of a failure to supply enough houses have affected millions through lower growth and fewer jobs, families living in cramped conditions and young people with little hope of ever owning their own home”⁵.

1.2 Across England it is estimated that the delivery of housing has fallen at least 1.6 million homes short of need over the period from 1994 to 2012⁶. Figure 1.1 shows that nationally England is only just approaching the peak in housing delivery seen prior to the recession, which was acknowledged to still fall far short of the full need⁷. Latest evidence indicates that at least 300,000 homes are needed each year to meet future demand, clear the backlog and moderate house prices⁸.

It is clear there is a need to significantly increase levels of housing provision in all parts of the country.

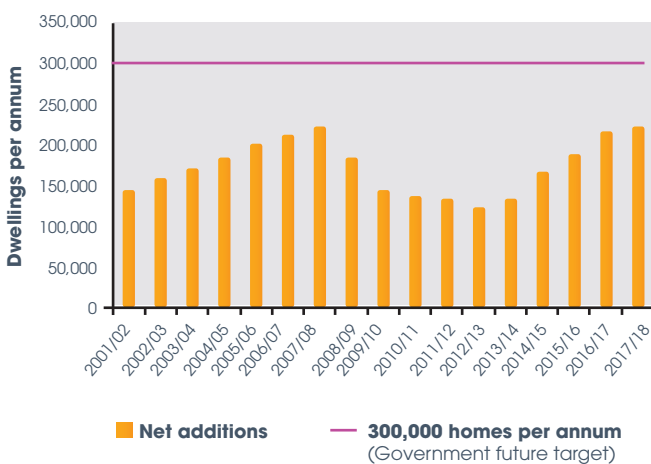


Figure 1.1: Comparing net additions to housing stock with evidenced need

Imbalanced population growth

1.3 Looking back from the latest estimates in 2017 to the Census year 1991, there is a clear imbalance between the rates of population growth seen across the different regions in England.

1.4 This is shown at Figure 1.2 which compares regional performance with the 16% growth recorded nationally across England over this period.

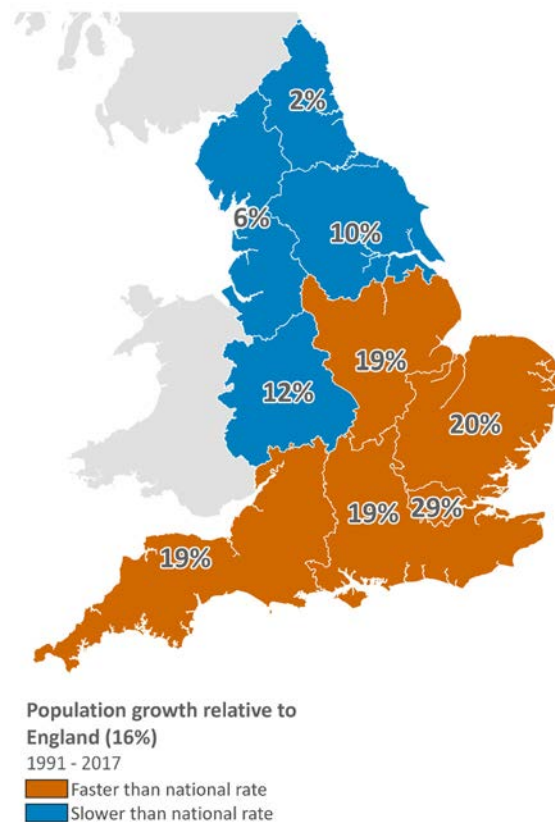


Figure 1.2: Regional population growth compared to England (1991 – 2017)

⁵Infrastructure and Projects Authority (2016) National Infrastructure Delivery Plan 2016 – 2021, paragraph 11.3

⁶Paul Cheshire (2014) Turning houses into gold: the failure of British planning

⁷HBF (2014) Barker Review – a decade on

⁸House of Lords Select Committee on Economic Affairs (July 2016) Building more homes, 1st report of session 2016-17

1.5 The overall effect of this uneven rate of growth is starkly illustrated when comparing the population of the Southern regions⁹ – which have all grown at a faster rate than recorded nationally – with the combined population of the North and Midlands¹⁰. Although there was a broad balance between their respective populations in 1991, the gap had widened by 2017 such that the Southern regions were collectively some 14% larger than the North and Midlands in population terms¹¹.

1.6 An even more imbalanced picture emerges where comparison is made between the rates of growth of London and several of the Northern city regions¹² (Greater Manchester; West Yorkshire Combined Authority; Liverpool City Region; and Sheffield City Region). Over this period the regeneration of these city regions has represented an important priority for successive Governments, most recently articulated in the Government’s Northern Powerhouse Strategy. However, when benchmarking success in terms of the rate at which they have attracted and retained people, it is clear that the UK remains a largely mono-centric nation.

1.7 Figure 1.3 reveals that while these Northern city regions collectively saw their populations decline until around the middle of the last decade, London has been on a steady upward curve of population growth since the mid-1990s. Between 1991 and 2000, London’s population grew by 6% whereas the Northern city regions experienced a 2% decline in population. Even over more recent years – where the Northern city regions have seen their populations grow – the rate of growth falls considerably short of that seen in London (15% growth in London between 2007 and 2017 compared to 6% in Northern city regions).

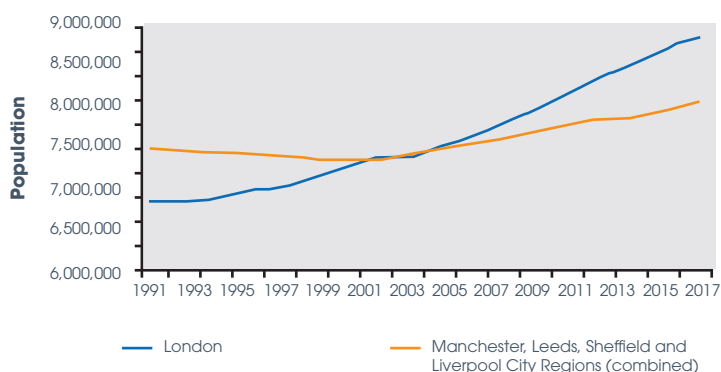


Figure 1.3: Rates of growth – Northern City Regions vs London (1991 – 2017)

⁹London, South East, South West and the East of England

¹⁰North East, North West and Yorkshire and the Humber; and the East Midlands and West Midlands

¹¹The Southern regions were 3% larger than the total population of the Northern and Midlands regions in 1991

¹²These combined authorities contain the four largest core cities in the North by population

¹³Centre for Cities (2016) The Great British Brain Drain: where graduates move and why

¹⁴Infrastructure and Projects Authority. (2016). National Infrastructure Delivery Plan 2016 – 2021, paragraph 11.1

1.8 Population imbalance is a driving factor in other socio-economic inequalities. For example, there is an even more pronounced difference in the size of the growth of the working-age population. Whilst the South and London has seen the number of people aged 16 - 64 grow by 20%, across the North and Midlands growth was a much more modest 8% (1991 – 2017). Again the difference is more pronounced when comparing the same indicator for London (32%) with the Northern city regions presented above, which collectively saw their working age populations grow by a quarter of this rate (8%).

1.9 One factor in particular contributing towards this trend is the net flow of graduates towards London¹³. Such a pattern of movement exacerbates regional disparities in the skills and qualifications of residents with clear negative impacts on economic prospects. At the 2011 Census, adults in the North and Midlands were more likely to have no qualifications than a degree (26/24%). In contrast, almost a third (31%) of adults in the South and London had a degree-level qualification, exceeding the proportion without a qualification (20%) by some way.

1.10 The availability of skilled labour is evidently a critical factor in supporting a growing business base and economy. As the National Infrastructure Delivery Plan states: “The availability of housing in the right places means the supply of workers to firms where they are needed the most: areas of economic growth and high labour demand. Housing is therefore vital to our competitiveness and attractiveness to business”¹⁴. **This spatial concentration of population (and thus housing) growth in certain regions of England has important ramifications for the economic attractiveness of places as well as their resilience to change in the economy. By basing forward projections on these past trends current policy perpetuates these growing imbalances.**

1.11 The failure to provide the homes the country needs has had many consequences. For example, a shortage of housing in proximity to newly created jobs has required longer distance commuting, resulting in ever increasing pressure on infrastructure and the environment. This is shown, for example, by growth in the average size of Travel to Work Areas, and the 12% increase in the average distance travelled to work across England and Wales between the latest Census years¹⁵ (2001 – 2011).

1.12 It has also caused unprecedented increases in house prices, as supply has patently lagged behind demand or need. The scale and pace of the worsening affordability crisis are most starkly evidenced by the affordability ratio between homes and earnings¹⁶. The proportion of the population of England living in areas with an affordability ratio of four or less fell from 47% (23 million people) in 2000 to less than 1% (395,000 people) in 2017. This includes a period of house price deflation following the financial crisis. Over the same period the number of people living in areas where the affordability ratio exceeds eight increased from 6% (2.8 million people) to almost 50% (28 million). This is most obvious in but by no means confined to London and the South as illustrated by the ratio between median house prices and incomes (Figure 1.4).

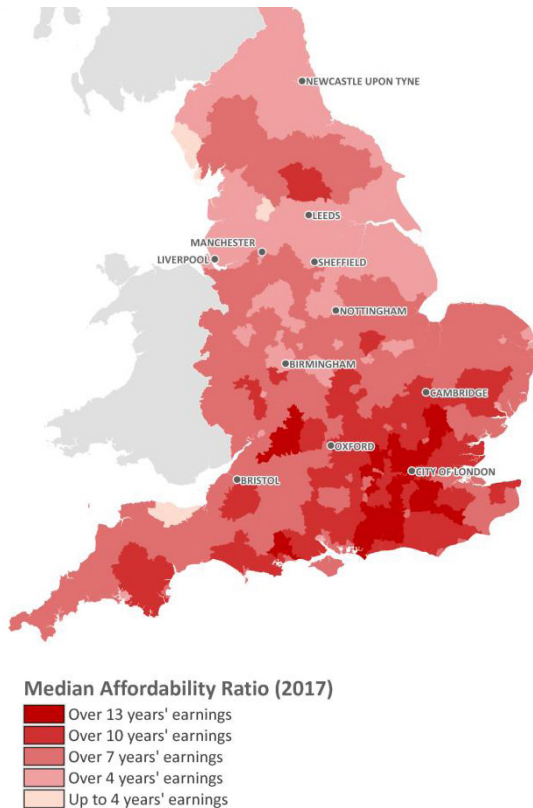


Figure 1.4: 2017 Affordability ratios (median)

¹⁵ONS (2016) Travel to work area analysis in Great Britain; ONS (2014) 2011 Census Analysis – Distance Travelled to Work

¹⁶The ratio between average house price and average earnings. An affordability ratio above four indicates that an average worker using a conventional mortgage multiplier of 4 x earnings could not afford an average home

1.13 There are, however, other consequences associated with the failure to provide the homes needed.

1.14 The provision of new housing is a critical factor in addressing deficiencies in the size and quality of the housing stock.

1.15 The North and Midlands continue to be characterised by the prevalence of lower value homes. Table 1.1 uses Council Tax bands (as a proxy for the size and quality of homes) to illustrate the disparities that exist between regions, based on data from the Valuation Office Agency. It shows that two thirds of all homes in the lowest Council Tax bands (A/B) are located in the North and Midlands. In contrast, over three quarters (77%) of homes in the highest Council Tax bands (G/H) are located in the South.

	All properties	Properties in Band A/B	Properties in Band G/H
North and Midlands	47%	66%	23%
South and London	53%	34%	77%
Total	100%	100%	100%

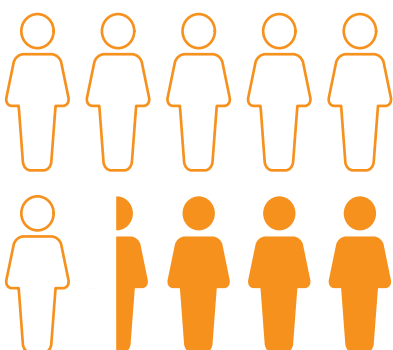
Table 1.1: Regional disparity in Council Tax bandings (2017)

1.16 Limitations in the size and quality of the housing stock and associated quality of place have been proven to act as a disincentive to business investment. Within the context of its Northern Powerhouse Strategy, the Government has highlighted that getting the 'housing offer' right is critical to attracting and retaining skilled workers¹⁷. These skilled workers are in turn critical to the economic and social regeneration of communities. There has been longstanding recognition through initiatives such as the Northern Way and the Manchester Independent Economic Review¹⁸ that its 'economic success will depend, in part, upon whether the North offers many communities which are desirable places to live and invest in'¹⁹.

1.17 In turn, the absence of sufficient quality housing to support the attraction and retention of people has served to reinforce the clear locational inequalities which have arisen. More than three quarters (77%) of the most deprived neighbourhoods in England are located in the North and Midlands. More than half (54%) are located in the North alone. In contrast, almost two thirds (64%) of the least deprived communities in England are in the South²⁰.



77% most deprived neighbourhoods are in the North and Midlands



64% least deprived communities in England are in the South

1.18 In more recent years these challenges in the North have been compounded by the recession and reduced public sector investment which inhibited regeneration and triggered a particularly marked downturn in the rate of housing completions. This has placed the North at a competitive disadvantage in relation to other parts of England, particularly London.

1.19 This is shown in Figure 1.5 which highlights that completions in the North remain 10% below the level achieved in 2007/08, contrasting with the recovery seen elsewhere in England.

1.20 It is clear that to secure a significant boost to housing delivery and narrow the economic and social disparities between regions a structural change in policy approach is required.

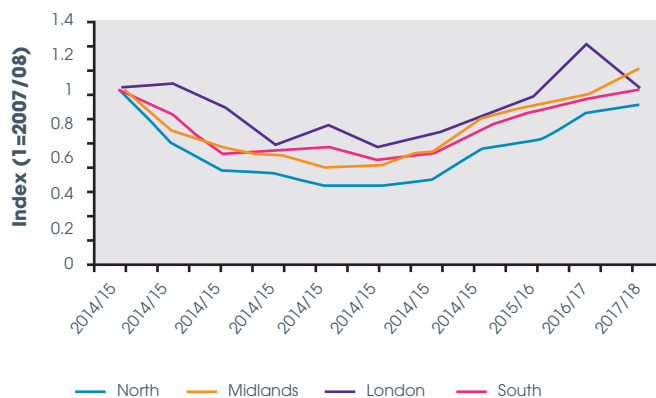


Figure 1.5: Indexed housing completions to pre-recession peak (2007/08) – regional differences

¹⁷HM Government (2016) Northern Powerhouse strategy, paragraph 3.17

¹⁸Manchester Independent Economic Review (2009) Sustainable Communities

¹⁹The Northern Way (2004) Truly Sustainable Communities, paragraph 1.1

²⁰MHCLG (2015) English indices of deprivation; based on 10% most deprived and 10% least deprived LSOAs in England





2

Will current approaches be successful?

2. Will current approaches be successful?

The previous section shows the stark imbalance in population growth over the last quarter century between regions. It also presented the long-term issues associated with housing quality and choice and the limiting effect that this has had on addressing regional economic inequalities.

2.1 In this context, any solution must seek to achieve a structural break with what has happened in the past. It will not be sufficient to continue to seek to apply reactive measures and plan for the future based on what has happened in the past. In current parlance, it is necessary to identify and implement disruptors to the status quo.

2.2 This section of the report examines the planning and strategic approaches that the Government is implementing, and the extent to which they are likely to address the imbalances identified in the previous section. In particular it considers the recent reforms to national planning policy; the introduction of national and local industrial strategies; and Government's planned funding for housing.

National planning policy

2.3 The planning system has been regarded for many years as a barrier to the attainment of higher levels of housing delivery. Through successive reforms Governments have sought to ensure that the planning system enables the supply of new homes to be boosted. Central to planning reform recently has been a desire to fix the minimum amount of housing that local authorities should be planning for and to ensure that cumulatively this adds up to the 300,000 homes required annually at a national level.

2.4 At the outset it should be noted that the Government does not have a national spatial plan or development framework for England (unlike in Scotland and Wales) and therefore has elected to have relatively little control over the distribution of resources, such as housing, by a regulated laissez faire approach to planning. The absence of a national plan or framework limits the Government's ability to effectively address the challenge of facilitating a more balanced rate of growth across England to address both the housing crisis and socio-economic inequality.

2.5 The National Planning Policy Framework (NPPF)²¹ sets out its expectations of local authority plan-makers in contributing to a strong and competitive economy and delivering a sufficient supply of housing. This includes a requirement to establish the size, type and tenure of homes needed to meet local needs²².

2.6 Although there are over 350 plan-making authorities in England, only 192 Local Plans have been adopted since the former NPPF was published in March 2012, with only 232 plans submitted for Examination²³. Government's commitment to a plan-led system is being undermined and local authorities are failing to meet the needs of their communities. This remains a key challenge at the national level in meeting the overall need for housing. There does not appear to be a major imbalance in plan coverage across different regions of the country, but a particularly high proportion of outdated plans exist in metropolitan areas with tightly drawn Green Belt boundaries, these of course also correlating with high housing demand.

2.7 In respect of how Local Plans provide for housing, the Government has introduced a standard methodology through which each local authority in England can calculate the minimum number of homes needed in their area. This formed a central component of Chapter 1 of the Housing White Paper which was titled: 'Planning for the right homes in the right places'.

2.8 The methodology has been explicitly designed to be simple and formulaic; the intention being to enable plan-makers to focus on delivery and good place-making. Simplification and speeding up of the plan-making process is undeniably a worthy objective, however, the spatial implications of the reforms appear to act counter to the aims of rebalancing and creating opportunities for everyone.

²¹MHCLG (February 2019) National Planning Policy Framework

²²Ibid Paragraph 61

²³Planning Inspectorate (October 2018) Core Strategy progress

2.9 Of particular concern is that the calculation of future need is fundamentally driven by a trend-based projection of past demographic change. This is a backward-looking approach as it entirely ties future need to how areas have performed in the past. Rather than introducing a structural policy change to reverse past trends it locks them in to future housing provision. **Given the regional inequalities that exist (and have done for decades), planning for a pattern of growth that is informed by historic trends will only serve to perpetuate widening regional disparities and create an increasingly imbalanced economy.**

2.10 It is of equal concern, in the context of the evidence presented in the preceding section, that the only other adjustment applied is one which is formulaically calculated on the basis of affordability. Put simply the method serves to proportionally increase projected need where affordability is currently most acute. Whilst the affordability adjustment is of itself a sound principle – to prevent a worsening of affordability in those areas where the problem is most acute – the absence of any other ‘balancing’ components will only serve to mitigate the symptoms of the housing crisis rather than provide a long-term solution which attempts to rebalance provision.

2.11 Such an approach does not provide a logical basis from which to create a shift in the provision of homes that will address regional inequalities or do anything other than react to the trends and symptoms of housing market pressures as they have developed to date.

The consequences of a backwards looking approach to housing provision

2.12 Figure 2.1 illustrates this by showing what a continuation of historic population trends means for different parts of England. At an aggregated regional level, it compares the long-term rate of growth suggested by the 2014-based and 2016-based sub-national population projections to 2032, as well as national aviation forecasts²⁴ produced both for this period and to 2051. Aviation forecasts are used as a comparator dataset as these clearly determine how and where some of the country’s largest infrastructure projects are planned and delivered.

2.13 Figure 2.1 reveals a marked imbalance in rates of population growth. The North and Midlands are expected to grow by between 6% and 7% and the South and London by 11% to 14%. This pattern would clearly exacerbate current inequalities in terms of future rates of population growth.

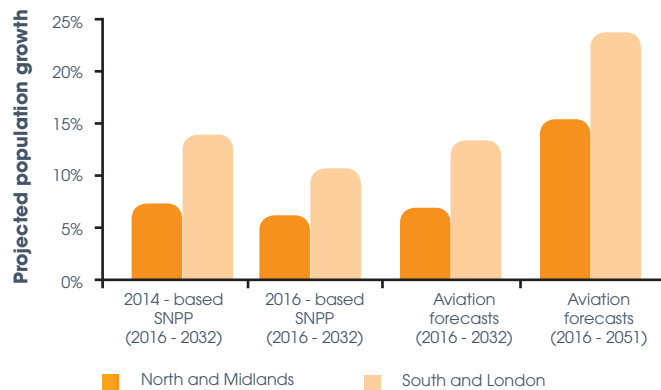


Figure 2.1: Projected population growth (2016 – 2032/51)

2.14 If this pattern of growth were to come to fruition, it would result in the South and London accommodating a greater proportion – at up to around double the rate – of England’s population over the next 14 years than is currently the case, under each respective population projection. The aviation forecasts retain this increasingly divergent distribution to 2051.

2.15 This highlights succinctly what the implications of the Government’s standard method for calculating housing need²⁵ will be – namely a widening of the regional differences in population size and consequently the number of homes that are planned for in different parts of the country.

2.16 This is illustrated further at Figure 2.2 by indexing the implied future change in housing stock, benchmarked against the latest dwelling stock estimates published by MHCLG²⁶ and following the standard method.



Figure 2.2: Indexing future change in housing stock (2017 – 2032)

²⁴The latest UK Aviation Forecasts (October 2017) draw upon version 7.2 of the National Trip End Model (NTEM). The Planning Data report (February 2017) summarises population projections by region at its Table 4-2

²⁵Figures were calculated in November 2018 using the 2014-based household projections and 2017 affordability ratios

²⁶MHCLG (2018) Dwelling stock estimates in England: 2017

2.17 Collectively, the Southern regions of England would be required to plan for around 183,400 homes each year under the standard method. This compares to the delivery of around 123,200 homes achieved in 2017/18, and would require a 49% increase from current levels to deliver the scale of growth envisaged²⁷. This is almost equivalent to providing three houses for every two delivered across the South last year.



For every 2 homes delivered - 2017/18



3 required under standard method per annum

2.18 The required increase in housing delivery, by applying the standard method, is most pronounced in London as shown at Figure 2.3. While recently published data on housing completions suggested a 20% year-on-year fall in the rate of delivery in the capital, the standard method produces a requirement which is some 82% higher than even the highest level of annual delivery recorded in London since 2001. The South East and East of England would each be required to surpass recent annual delivery peaks by 24%. Delivering at this scale is without recent precedent.



Figure 2.3: Comparing standard method with current delivery in Southern regions

²⁷MHCLG (2018) Table 122 Net additional dwellings by local authority district

2.19 Figure 2.4 also shows that in the North and Midlands, in the most recent year and during the years immediately prior to the recession, delivery of new homes exceeded the minimum level required by the standard methodology. This has been achieved despite the lack of local plan coverage and ongoing economic challenges in many areas. It is worth noting here that under the previous guidance, the cumulative amount of housing need evidenced across the North and Midlands was around 102,000, some 22% higher than the standard methodology.

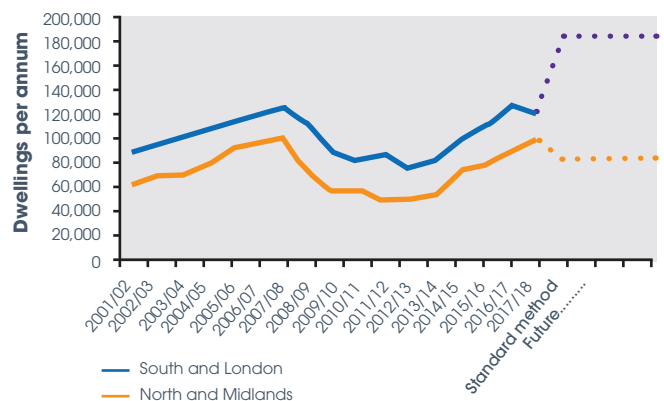


Figure 2.4: Comparing standard method with recent delivery

2.20 The above analysis clearly shows a distortion created by the standard methodology which places a far greater requirement on the South and London, where delivery would need to increase by nearly 50% over recently recorded levels. In the rest of the country the standard method indicates a minimum need below the level of recent delivery.

2.21 The standard methodology takes no account of the environmental, infrastructure and policy constraints that might limit development occurring in areas recording a high housing need under the standard method. In reality there are numerous examples of Local Plans over the years which have had to balance the provision of housing needs with environmental or other constraints that have limited development. The NPPF retains the need for this balance to be struck.

Will such an approach contribute to rebalancing the economy?

2.22 Centre for Cities²⁸ has highlighted the ways in which housing delivery influences the pattern of economic growth in the UK, with:



Labour market implications

– lack of available labour, the inflexibility of supply and affordability pressures prevent labour mobility;



Infrastructure implications

– areas of high demand for housing often generate strains on infrastructure, whereas areas of lower demand often experience issues of labour force immobility due to poor infrastructure; and



Business implications

– areas of high housing demand and escalating prices can contribute to wage and rental level increases for businesses. Areas with a poor choice of homes can experience difficulties in attracting people with the right skills to maintain a dynamic economy.

2.23 The Northern Powerhouse Independent Economic Review (NPIER) demonstrated that population growth beyond ‘business as usual’ will be required to achieve its stated aim of ‘transformational growth’ in the North. The same is also true when compared with the official 2014-based population projections, which underpin the standard method. Figure 2.5 illustrates the difference between the current official projections, the business as usual and transformational growth scenarios. The growth trajectory creates an ever-increasing deficit against the projected growth under the official projections.

2.24 Whilst the NPPF and PPG are supportive of authorities planning for levels of housing provision above the calculated ‘minimum need’ it is essentially entirely optional and at local political discretion. There is clear and growing evidence of authorities seeking to take the opportunity to lower their housing requirement, since the policy’s introduction.

2.25 These failings make achieving the Government’s target of delivering 300,000 homes per year a remote prospect and will undermine the role that those areas in the North and Midlands in particular can play in contributing towards addressing the housing crisis and laying the foundations for a more balanced economy. This undermines the stated aims of the Northern Powerhouse, including the related Strategic Transport Plan of Transport for the North, and poses a fundamental risk to the Government’s national Industrial Strategy. This limitation of the standard method was recognised by the National Audit Office (NAO) in February 2019. The NAO’s report²⁹ identified that its implied reduction in the number of new homes needed across regions in the North and Midlands could “hamper local authorities’ plans to regenerate and stimulate economic growth. While local authorities can support the delivery of more new homes than the standard method calculates, in some areas it may be difficult to get local support for this given the Department’s method gives lower numbers”.

Industrial strategies

The National Industrial Strategy

2.26 The Government published its Industrial Strategy in November 2017, with the overall aim being that of creating an economy that boosts productivity and earning power throughout the UK. Productivity is subject to regional variations with the North and Midlands generally lagging behind London and the South. The Industrial Strategy accepts that these disparities are greater than in other European countries³⁰. Despite this it makes no spatial differentiation. **In line with the objectives of the Northern Powerhouse Strategy, the Industrial Strategy should establish rebalancing of the economy as an objective of policy and funding interventions.**

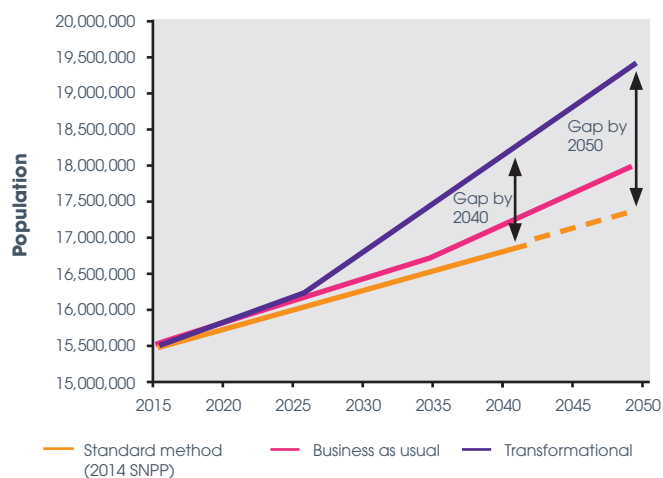


Figure 2.5: Disconnect between standard method and transformational growth in the North (population)

²⁸Centre for Cities (2008) Housing and Economic Development: Moving Forward Together

²⁹National Audit Office. (February 2019) Planning for New Homes.

³⁰HM Government (2017) Industrial Strategy page 216. Drawing on Martin et al (2015) ‘Spatially rebalancing the UK economy: the need for a new policy model’



CASE STUDY: Greater Manchester Local Industrial Strategy

The Greater Manchester Local Industrial Strategy was launched in June 2019, and is 'designed to deliver an economy fit for the future, with prosperous communities across the city-region and radically increased productivity and earning power'³³. It is described as 'an ambitious plan' that will contribute towards the prosperity of Greater Manchester and achieve the aspirations of the national Industrial Strategy, and recognises that the success of the city region is 'central to the government's vision of a prosperous Northern Powerhouse'. The strategy is largely thematic and descriptive, with a limited quantification of its ambitions.

Despite longstanding evidence of the relationship between housing provision and the economic prosperity of Greater Manchester, the LIS makes no reference to the role of housing in supporting or constraining growth and investment. Early iterations of the evidence base had anticipated that the Greater Manchester Spatial Framework (GMSF) would assess the housing needed to support the economic ambitions of the city region, but the housing policies of the Revised Draft – published in early 2019, before the LIS – plan for the minimum housing requirement permitted by the Government's standard method. Such an approach is firmly rooted in sustaining past trends and appears at odds with the 'ambitious' and 'bold' vision of the LIS.

Realising the ambition of the LIS self-evidently requires a departure from past trends. The lack of any meaningful relationship between the Revised Draft GMSF and the LIS on this issue is therefore a significant concern.

This illustrates the importance of effectively co-ordinating Local Industrial Strategies and statutory planning documents. For Greater Manchester, which experiences both quantitative and qualitative shortages of housing, the lack of appropriate recognition for housing as an economic enabler is a worrying omission, particularly because 'a lack of staff or skills' is identified by businesses as one of the main barriers to growth³⁴. Good quality and sufficient housing supply is integral to its attractiveness for investment, and as a place to live³⁵.

³³HM Government and Greater Manchester Combined Authority (June 2019) Greater Manchester Local Industrial Strategy

³⁴Greater Manchester Business Survey (November 2017) p7

³⁵Manchester Independent Economic Review (2009) Reviewers' report, p25

CASE STUDY: West Midlands Local Industrial Strategy

In the West Midlands, the emerging Local Industrial Strategy simply builds on 'existing and agreed priorities such as skills, transport and housing', and does not propose anything 'new' in this regard³⁶. This is despite recognition that:

"Changes in affordability and a lack of social housing risks holding back growth and impacting our communities. Housing costs are increasing faster than local salaries. Most WMCA areas are in the top fifth of house price increases nationally. The WMCA median increase is 6%, more than double the national average. This has been exacerbated by a lack of supply, quality, choice and mix of affordable and social housing – typically only 10% affordable housing is being delivered as part of city and town centre housing schemes..."³⁷

The West Midlands example highlights the reluctance of LEPs in challenging statutory planning documents.



³⁶West Midlands Combined Authority (2018) West Midlands Industrial Strategy consultation document, p5

³⁷Ibid, p15

Government funding for housing

2.37 Investment by the public and private sector is a key determinant of economic activity in different places. The extent to which an economic rebalancing can occur is therefore affected by the pattern of expenditure. Here we focus on public sector expenditure, particularly funding directed at addressing failures in the housing market, to consider the sufficiency of the Government's current approaches.

2.38 Whilst flagship programmes such as the Northern Powerhouse and the Midlands Engine make repeat appearances in the yearly budget statements, there is no evidence that forward funding in many significant investment streams is actively breaking the mould. Instead, there is an indication that they are directly fuelling imbalance as a result of defined funding criteria and allocation methodologies.

2.39 To date London and the 'Greater South-East' have been the biggest recipients of funding, as the distribution of Housing Infrastructure Funding (HIF) clearly demonstrates³⁸. A total of £866m was awarded through the HIF's Marginal Viability Fund and local authorities in London, the East and the South East received £434m, just over half of the allocated funding.

2.40 Up to three quarters of funds allocated under Homes England's £2bn infrastructure loans fund have also been awarded to projects in London and the South East, as of March 2018³⁹.

2.41 Going forward the Government has expressly set out that for five of the more significant funds aimed at boosting housing supply⁴⁰, this unequal distribution will be explicitly reinforced. A minimum of 80% of all funding will be directed at those areas demonstrating the highest affordability pressures⁴¹. The position is advanced that 'it is right that government funding is directed to address affordability where it poses the greatest problem for the country so homes can be built where they are most needed'. This is an overt manifestation of the single viewpoint the Government takes on the housing crisis which is reinforcing regional imbalances.

2.42 The application of formulaic approaches to the assessment of funding bids which favour certain areas of the UK is also manifest in the allocation of other funds. For example, in the case of the HIF Marginal Viability Fund, funding is awarded on the basis of benefit to cost ratios (BCR). These take account of land value uplifts attributable to the proposed intervention, the upshot being that areas with higher land values receive a higher BCR. As land values are generally higher in London and the South East of England, relative to other regions, it is clear that this methodology is spatially biased towards high demand, high value areas – these being the areas that can most afford to contribute to infrastructure through land value uplift.

2.43 Equally, within an independent report prepared by Metro Dynamics⁴², it was highlighted that in judging infrastructure schemes following the Green Book appraisal, similarly higher chances of receiving funding are achieved in London and the South. In this case this reflects enshrined economic thinking and assumptions which are underpinned by the principle that the Government should 'correct' markets rather than be a 'market-maker'.

2.44 Outside of funding directly aimed at housing it is of note that we are going through a period of change arising from our impending departure from the European Union. The Government's imminent consultation on the proposed UK Shared Prosperity Fund provides a potential opportunity to target funding effectively on the basis of local challenges linked to Local Industrial Strategies. This further reinforces the importance of these documents and of addressing their identified emerging limitations as well as an approach to distribution of funding which strongly recognises the ethos of rebalancing.

2.45 There is evidence of a hardwired bias towards London and the South built into Government's appraisal techniques related to the allocation of housing funding. Rather than disrupting market issues, this reinforces a clear conclusion that the Government's approach to date is reactive in nature. This will in turn fail to address increasing inequalities relating to population and household growth and result in a distribution of need which is not sustainable in the long-term.

³⁸Planning Resource (March 2018) 'Why the Greater South-East was the big Housing Infrastructure Fund winner'

³⁹Ibid

⁴⁰The Housing Infrastructure Fund (Forward Fund), Estates Regeneration Fund, the short term Home Building Fund, the Small Sites Fund and the Land Assembly Fund

⁴¹<https://www.gov.uk/government/publications/geographical-targeting-across-5-housing-programme-funds/geographical-targeting-across-5-housing-programme-funds>

⁴²Metro Dynamics (2018) Investing in the Future

Will the Government's approach be successful?

2.46 Simplifying and standardising the calculation of housing need, speeding up plan making and boosting housing supply are all worthy aims. However this review has illustrated that the planning reforms that the Government is implementing are likely to result in:

- A locking-in and continuation of regional imbalances owing to the backwards looking forecasting methodology for housing needs that relies on a perpetuation of historic population trends;
 - A greater reliance upon, and concentration of, housing delivery in London, the South East and the Eastern regions;
 - Housing delivery in London, the South East and Eastern regions which far exceeds recent peaks of delivery;
 - A perverse reduction in housing calculated as needed in the North and Midlands, compared to what has been delivered in recent years and what was previously being planned for; and
- An undermining of the Government's aim to see a rebalancing of the national economy. Local Industrial Strategies, based on current information, appear unlikely to counter this impact.

2.47 In overall terms it is clear that the policy approaches now being implemented will serve to entrench and intensify regional imbalances, rather than address them.

2.48 By not delivering enough homes or addressing longstanding issues of housing quality and choice current policy approaches will constrain economic growth in the areas which already experience the greatest disparities. They will also fail to address the long term trend of migration of the most talented and productive workers away from Northern city regions towards London and the South. These have long term negative impacts on the sustainability of communities. The current approaches to the allocation of funding and investment only serve to reinforce these issues given the spatial bias which is manifest in their methodologies.





3

Recommendations

3. Recommendations

“ We can’t solve our problems with the same thinking that we used when we created them ”
– Albert Einstein

3.1 This report has highlighted that the Government has very worthwhile aims to address the housing crisis and create an economy that works for everyone. Despite these laudable aims, aspects of its strategic and policy responses have been designed in a way that is likely to entrench rather than address these challenges.

3.2 In order to rise to the challenge we need strategic approaches and policy frameworks which break with an approach that simply repeats the mistakes of the past. Where the challenges are national in scale and arising from past mistakes and flawed approaches, then clearly the past is not the best guide to the future that we desire to create.

3.3 This entails doing things differently to achieve a different outcome, embedding new thinking, objectives and methodologies throughout the system of government and its interfaces with the market and allocation of funding.

Integrated policy making

3.4 Successive Governments have grappled with the balance to be struck between a top down and bottom up approach to developing strategy for delivering sufficient jobs and homes. **The current system of local assessments of need within the framework of a national method and policy guidance will not deliver the Government’s objective of 300,000 new homes per year. Changes are needed to address gaps and provide clear policy and guidance to local authorities on how to plan for the homes their areas need.**

3.5 These measures must address:

- Historic spatial and economic bias toward certain areas of the UK, which are reinforced by planning reforms which establish a spatial distribution of need based solely on trend-based projections and a simplistic measure of affordability;
- The nature of and lack of specificity in guidance provided nationally to support authorities to plan positively above and beyond the Government’s calculated ‘minimum’ need;

- Emerging evidence that local interpretation of guidance and political pressures are likely to counteract national aims; and
- Local constraints on delivery (e.g. infrastructure, funding, Central Government appraisal mechanisms).

3.6 Without a mechanism for reconciling strategic and local issues the country is unlikely to deliver against the wider housing and economic challenges that it faces.

3.7 Turley has devised six strategic recommendations for ensuring that national aims can be better addressed through revisions to the standard method for assessing local needs alongside a more integrated approach to industrial strategy and plan making. This framework recognises the interdependencies between national, sub-regional (combined authorities and LEPs) and local levels of strategy and plan making.

Making it happen

– six strategic recommendations

1. Revise the standard method for assessing local housing needs to remove over-reliance on the projection of past trends.

- Accept the need to depart from a reliance on trend based (historic) projections as a foundation for calculating future housing need
- Convene a short life panel of experts from the public and private sector to refine the standard method to help meet the objective of rebalancing and deliver 300,000 homes per year
- Commission locally specific data to provide a fuller understanding of the issues facing first-time buyers and low income households across the country. Take account of this nuanced affordability data in the refined standard method
- Amend Planning Practice Guidance (PPG) to provide clarity that in formulating future local housing policy, the need for different sizes, types and tenures of homes must be provided for. This must include taking account of the types of homes needed to support a changing economy and the current profile of stock

2. Commission a national audit of the quality of existing housing stock to enable qualitative measures to inform the local assessment of housing needs.

- Assemble a database on housing type and quality to help understand the different consequences of the housing crisis at a lower than national level and inform measures to address this
- Provide a clear set of regionally based housing issues for Local Plans and Housing Strategies to address

3. Update the Industrial Strategy to plan for the kind of economy the regions and nations of the UK need and recognise the fundamental role housing plays in delivering economic growth and prosperity. Make explicit that Local Industrial Strategies (LIS) must support the delivery of the national Industrial Strategy including planning and delivery of sustainable and thriving communities.

- Conduct a timely review of the national Industrial Strategy to ensure that it acknowledges inequalities in productivity and prosperity that exist across the UK and includes strategic level support for rebalancing the economy to address them
- Secure the involvement of City Mayors and elected representatives of Combined Authorities and other elected local leaders in the evolution of the national Industrial Strategy, to ensure that it is informed spatially by a range of leaders from around the country
- Amend the PPG to provide clarity on expectations for locally delivered economic growth
- LEPs to quantify their individual economic visions in order to provide clarity for other local strategies (e.g. statutory local plans and spatial frameworks)
- Link the award of funding to evidence of the productivity gap (vs national average), economic ambition, growth potential and delivery track record demonstrated through Local Industrial Strategies
- Task the Cities and Local Growth Unit to undertake an audit of Local Industrial Strategies to ensure that cumulatively and individually they contribute to meeting Government's national Industrial Strategy aims
- Engage the National Infrastructure Commission in supporting Local Industrial Strategies to identify and align infrastructure needs with national priorities

4. Update planning policy and guidance (NPPF and PPG) to require Local Plans to be based upon an integrated strategy for economic growth, housing and the other infrastructure needed to deliver them.

- Amend the PPG to require joint spatial plans for city regions and other functional economic areas to accord with the quantified vision of the Local Industrial Strategy
- Require the Local Plan evidence base to explicitly present evidence setting out local analysis of the needs of business, people and housing. These assessments should be informed by one another and identify local strengths and weaknesses and where available, draw upon supporting evidence produced for the Local Industrial Strategy
- Provide guidance to Local Plan examiners on the need to ensure that joint spatial plans provide the land supply that will help deliver place-making and attract and retain a talented workforce and associated business investment

5. A National Development Framework should be put in place for England, alongside the NPPF, the Industrial Strategy and the National Infrastructure Delivery Plan, to create an economy that works for everyone and addresses regional inequalities. This should build upon and strengthen the Northern Powerhouse initiative with policy, that a clear and holistic positive growth agenda for the North.

- Building on the work of the National Infrastructure Commission, BEIS and MHCLG, proactively define existing and future growth and rebalancing objectives in a spatial document that sets a clearer framework for all regions
- Ensure alignment between infrastructure investment priorities such as key transport hubs and corridors with priorities for economic development and housing
- Such a document would be both informed by and set the strategic context for regional and City Region spatial and infrastructure plans⁴³
- Fully acknowledge the delivery of the required amount and type of housing needed as a nationally significant strand of infrastructure

6. The Treasury “Green Book” cost-benefit assessment for investment in infrastructure should be amended, as recommended by Metro-Dynamics, to ensure alignment with rebalancing policies.

- Revise the Treasury Green Book cost-benefit appraisal methodology to give appropriate weight to the impact investments can have on the rebalancing of the economy and reducing regional inequalities⁴⁴

3.8 If we are to rise to the challenge of addressing the housing crisis and rebalancing economic growth across the country, we need to change the way that we are planning for the future. We need an integrated approach to planning for the homes and jobs that are needed. This must ensure that planned growth is not simply redistributed from one area to another. It should be capable of meeting the housing needs and affordability challenges in London, the south of England and all other regions. It is entirely within the gift of the Government and local partners to implement the recommendations contained in this report and to plan for a more equal and fair distribution of growth in the future.

⁴³Examples include those prepared by Transport for the North and MidlandsConnect

⁴⁴Metro Dynamics (2019) Investing in the Future



Turley