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### CPRE Hampshire Response MHCLG - Changes to the Current Planning System – August 2020

Dear Sirs,

Please find attached the comments from CPRE Hampshire on MHCLG's consultation on Changes to the Current Planning System (CCPS). CPRE Hampshire is a separate charity, although affiliated to CPRE nationally. We have 9,815 members and supporters and we are responding on their behalf.

PLEASE NOTE – CPRE Hampshire fully **endorses** the entire response of **CPRE** national charity, and our supplementary comments below are just to give further local flavour to CPRE's response with respect to Hampshire in particular. Our main concerns in Hampshire relate to the proposed new Standard Method (paragraphs 3-44). We recognise that the proposed new standard method may have resulted in unintended consequences, in terms of shifting numbers from urban areas to rural areas and in concentrating future growth in the South East of the country, and we urge the government to re-evaluate its approach. We do not accept the premise that this method will incentivise housebuilder or landowners in the way we assume the government intends, and perversely will cause land and house prices to remain as expensive as they are now, if not more so. We believe that constraints should be considered in any algorithm, as should a factor which relates to the proportion of already built-up land.

FURTHER PLEASE NOTE – Our answers may not fit neatly into one of the numbered questions posed as these are limited in nature and extent and do not cover the underlying principles, which in our view are misguided. However, we have put all our comments into one of the numbered questions (even if they do not fit) because we are not sure that they will be considered otherwise. We believe there are fundamental flaws with many of the statements in the consultation which appear to be taken as a given. This is classic *ipsedixitism* – a declaration that is made emphatically, as if no supporting evidence were necessary.

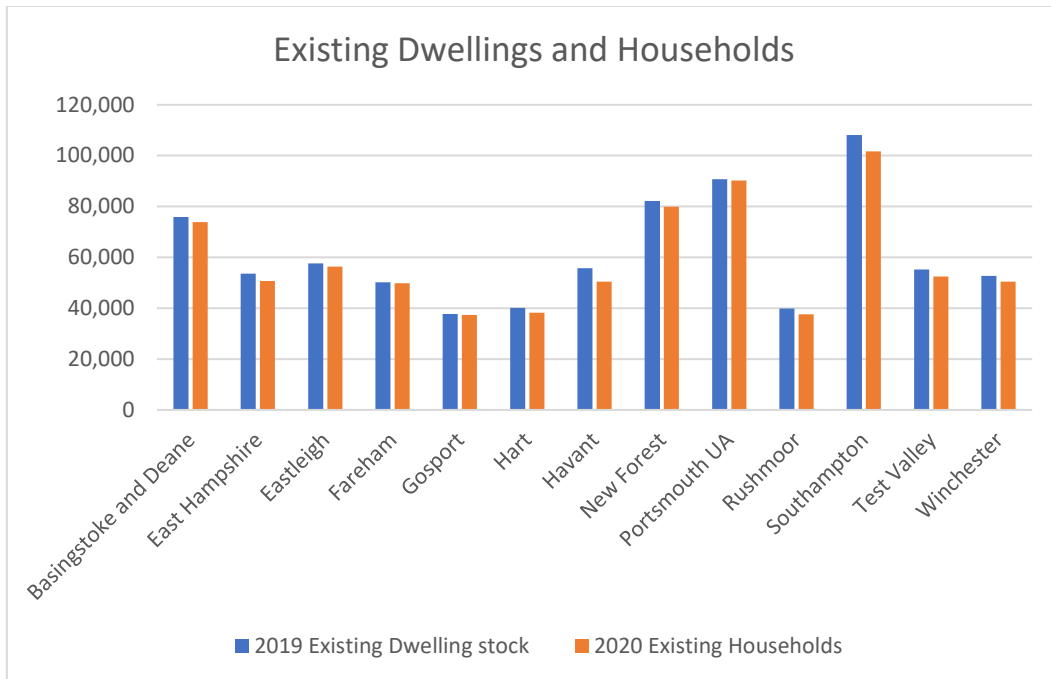
**Q1: Do you agree that planning practice guidance should be amended to specify that the appropriate baseline for the standard method is whichever is the higher of the level of 0.5% of housing stock in each local authority area OR the latest household projections averaged over a 10-year period?**

No, because we do not agree with the underlying premise that increasing market housing supply in Hampshire in the way proposed in paragraphs 3-28 will help provide housing that people can afford in the places where they are needed.

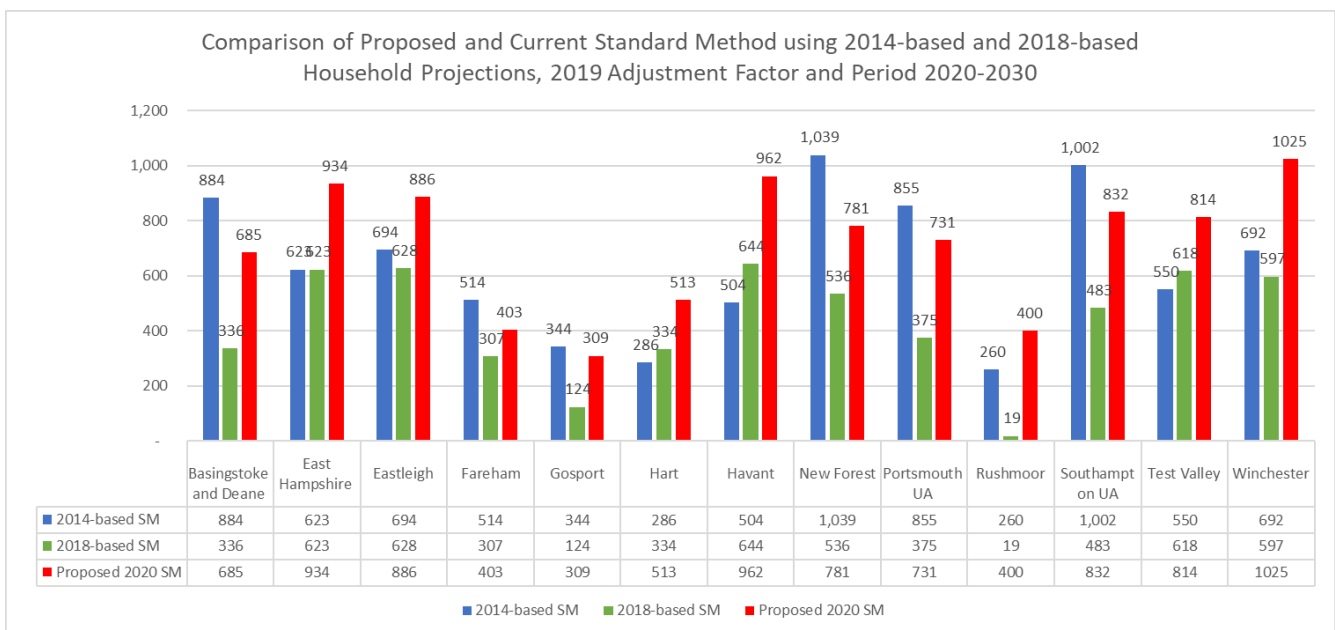
The new standard method would allocate 9,275 new homes every year to Hampshire, although the ONS projects only 4,097 new households will be forming.

Specifically, in answer to the limited remit of the question: No, we do not agree that the appropriate baseline should be the higher of either 0.5% of stock or the latest household projections averaged over a 10-year period. Stock levels are not a substitute for the proportion of urbanisation in an area.

In Hampshire there is not a technical shortage of dwellings, and whilst that is not to say that they are of the right tenure or price for residents, the dwellings do exist. Using stock levels would have to take account of 2<sup>nd</sup> homes, Airbnb and other uses to have any relevance. In authorities such as East Hampshire, Winchester and the New Forest there is a high proportion of short-term lets and second homes associated with their role as being within National Parks. In the New Forest second homes amount to nearly 2,000 dwellings (as at 2019). In Portsmouth and Southampton (and to a lesser extent in Winchester) student accommodation is also significant. All these “extras” would need to be stripped out to allow stock levels to be a meaningful baseline. The graph below shows that in every LPA in Hampshire, there are currently more dwellings than households.



The proposed new standard method results in a significant shift from the cities to the rural areas. For example, in Hampshire - East Hampshire housing targets would rise from the current figures by 50%, Winchester by 48%, Test Valley by 40% whilst Southampton would go down by 17%, Portsmouth by 15%. Havant and Hayling Island rises by a whopping 91%.



**Q2: In the stock element of the baseline, do you agree that 0.5% of existing stock for the standard method is appropriate? If not, please explain why.**

No, as discussed above, we do not believe that stock levels as currently measured are an appropriate baseline. A baseline using an average based on 10-years household projections should be sufficiently stable which is the reason given for using stock levels. Stock levels have no relevance for determining housing need as they take no account of what the actual demographic influences might be, and nor do they make any sensible adjustment for concealed households or the “extra” dwellings mentioned above. They do nothing more than mirror the existing settlement pattern. Locally assessed housing needs surveys would be a better way of evaluating the true need in each LPA.

Perhaps the government feels that stock levels act as a proxy for the proportion of urban areas, but they do not. It would be better to use a proportion of already built-up land per LPA. If this factor is used with the household projections, then the urban-rural distinction could be maintained.

**Q3: Do you agree that using the workplace-based median house price to median earnings ratio from the most recent year for which data is available to adjust the standard method's baseline is appropriate? If not, please explain why.**

No. The key issue is the weighting of the ‘adjustment factor’ in the algorithm. However, in Hampshire the use of dwelling-based median earnings may make more sense than workplace-based median earnings, in order to try to account for a high proportion of commuting (often into London) from some of the districts.

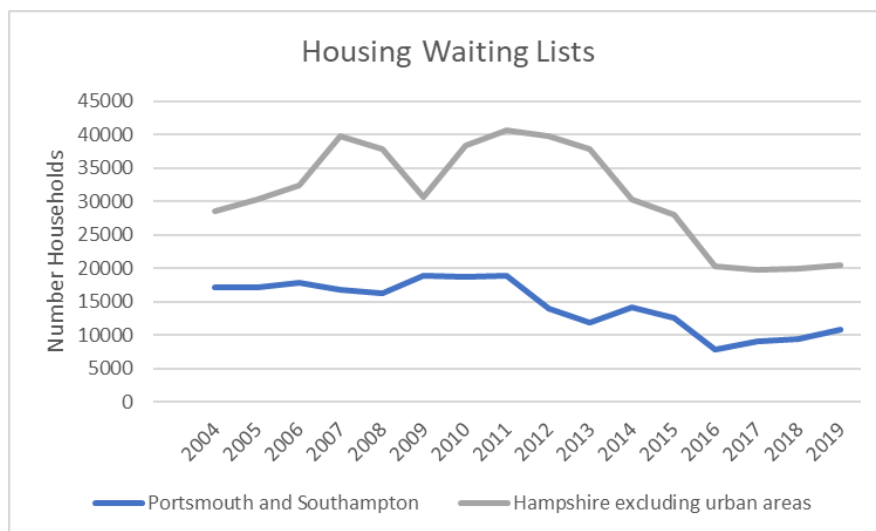
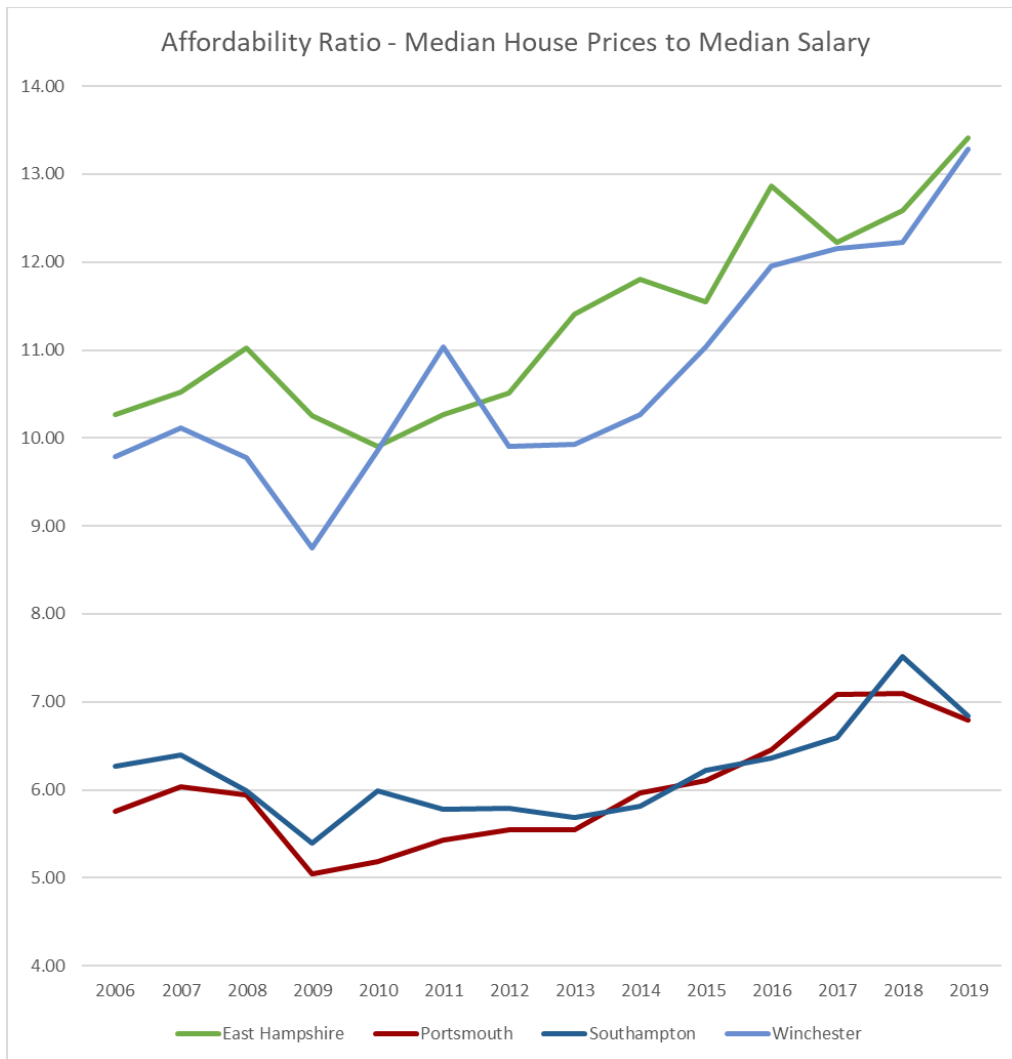
**Q4: Do you agree that incorporating an adjustment for the change of affordability over 10 years is a positive way to look at whether affordability has improved? If not, please explain why.**

No. The key issue is the weighting of the ‘adjustment factor’. However, there can be many reasons why affordability has changed over a 10-year period and these may not be related to supply. For example, within the 10-year period proposed, large portions of East Hampshire and Winchester districts were designated as part of the South Downs National Park in 2010. This can be seen in the change in the affordability ratio in those 2 districts from that date. By comparing these districts with the cities of Portsmouth and Southampton, this graph also shows that these districts with high landscape value and low-density housing have a fundamental difference in affordability ratios that is not accounted for in the proposed algorithm. Many of the rural districts in Hampshire have not been at a ratio of 4 since before records are available in 1997. There would need to be a catastrophic collapse in house prices to get back down to this level. Any such drop in price would itself be an enormous disincentive for developers to build new dwellings.

Essentially interest rates have been an increasingly important determinant of the demand for housing. A small fall in interest rates can trigger a large increase in the demand for property. Lower interest rates lead to lower mortgage rates and encourage new entrants as well people looking to buy second homes as an investment.

With low interest rates, people with excess funds to invest will get a better rate of return by investing in property rather than from a bank deposit account. This additional demand drives up house prices.

And yet even as the affordability ratio increased over the last 10 years, waiting lists for social housing in Hampshire have not escalated and have actually come down.



With regard to constraints such as National Parks, AONBs and Green Belt, we note that the CCPS makes no mention of these, but the Planning White Paper welcomes suggestions for how they might be considered in the distribution of housing needs (paragraph 2.29).

The 2010 National Parks Circular says in paragraph 78: 'The Government recognises that the Parks are not suitable locations for unrestricted housing and does not therefore provide general housing targets for them.'

The expectation is that new housing will be focused on meeting affordable housing requirements, supporting local employment...'.

We in CPRE Hampshire have always said that this means that any housing needs calculation should disaggregate the affordability ratios from the National Parks and the districts surrounding them. The New Forest is about 86% National Park or other landscape designation, whilst East Hampshire and Winchester are respectively 57% and 42% designated South Downs National Park.

Our argument is that the standard methodology (both old or new versions) is based on an affordability multiplier for districts which is unduly skewed by the pricing of housing within the National Parks. So, in the formula, the price derived uplift will be unreasonably impacted by the very existence of the National Park and by its accompanying constraints and implicit value. It would be unfair for the rump of the district (outwith the National Park) to take artificially inflated housing numbers based on a price differential which has been biased by the impact from the National Park that lies within the district. This is particularly important because National Parks are relieved of their obligation to take their own OAN (as per the 2010 Circular), and whilst we would argue that it should not fall on the neighbouring rump authority to take this need anyway, if they ARE required to take up any demographic slack, then it must NOT be inflated by excessive pricing based upon an exaggeratedly constrained supply. Both the New Forest and the South Downs National Parks are deemed to command a price premium of over £100,000 per average dwelling more than the surrounding areas, being the 1st and 2nd least affordable of all English National Parks. This pricing differential needs to be disaggregated from the calculation of the uplift imposed on the remainder of the district.

Para 11b of the 2019 NPPF allows for this when it says “strategic policies should, as a minimum, provide for objectively assessed needs for housing and other uses, as well as any needs that cannot be met within neighbouring areas (note 5), unless:

- i. the application of policies in this Framework that protect areas or assets of particular importance provides a strong reason for **restricting the overall scale, type or distribution of development in the plan area** (note 6); or
- ii. any adverse impacts of doing so would significantly and demonstrably outweigh the benefits, when assessed against the policies in this Framework taken as a whole.

***Q5: Do you agree that affordability is given an appropriate weighting within the standard method? If not, please explain why.***

No. These proposals do not give the appropriate weighting for affordability, they give far too high a weighting, and apparently put all the impact on affordability onto supply. Because the algorithm has a 2-part element, added together (plus the constant +1) both of which are based on the affordability ratio, the weighting is excessive. Furthermore, the second element does not have a divisor which the first element does which would add some control over the number. The resultant adjustment factor is well over 2 in a number of Hampshire districts, as high as 2.38 in East Hampshire and 2.71 in Winchester (remembering again that these districts have large areas within a National Park).

But affordability can be impacted by many other local or national reasons than lack of land supply. Furthermore, the proposals could actually serve to exacerbate and entrench the shortage of truly affordable houses available in Hampshire. The reasons for this are expanded below.

The proposed algorithm is based on median house prices and median salaries. The proposal works on the principle that once the multiple goes above 4 this will trigger concerns about ‘affordability’

At first glance this principle makes sense. It is roughly the multiple of salary that a mortgage provider would consider. So, for a given individual in a given district where the median salary is £30,000, the likely amount that could be borrowed would be £120,000. Assuming that there are two adults in the household, and both are on the median earnings, it is reasonable to conclude that the Government believes any house priced above £240,000 in this district is likely to be ‘unaffordable’. If the median house price in that district was £300,000

that would be a key indicator that action would need to be taken to ensure that the median house price in that district could be brought down to the affordable level of £240,000.

However, it does not take into account that mortgage lenders now require a significant deposit, so 4 x earnings will only apply to the remainder of the balance. A multiple of 5 x earnings might be more appropriate. But even more critically, the proposal does not consider that there may be two earners in a household, so a multiple of 4 as a trigger level certainly does not account for these cases. An affordability ratio of 6-8 would probably better account for a household with 2 earners.

The overall objective of the government is laudable, and we do not dispute that an action plan is needed that can deliver housing that is more affordable to the younger generation. The standard method should indeed take into account the affordability of homes locally, but the problem is that it provides no adjustment for other factors that may impact on affordability other than supply. And the accompanying Planning White Paper does not provide any mechanism for dealing with such factors.

It is the right diagnosis, but the proposal is the wrong medicine.

The plan proposed in the CCPS will not deliver against this objective. The key reasons for this are as follows:

- The increase in supply will not deliver the necessary reduction in price
- The algorithm proposed has a built-in mechanism to reduce affordability
- The developer's ability to manage absorption rates.

i) The increase in supply will not deliver the necessary reduction in price

In those districts where the median house price is £300,000, the objective is to reduce this to £240,000 (note that this is for 2 earners so the affordability ratio should be set as 8 rather than 4). That is a reduction of 20%. It is highly unlikely that with limited house price elasticity the planned supply increase of 1% pa will lead to a reduction in price of 20%. Developers have significant approvals for new dwellings which must surely be based either on the status quo in prices or on a further gradual increase. Developers have no interest in provoking what would amount to a collapse in house prices.

Furthermore, if house prices were actually to decrease by 20% across both new and old houses, then there would be significant numbers of current owner-occupiers who will be tipped into negative equity.

ii) The algorithm proposed has a built-in mechanism to reduce affordability

The algorithm is built around the relationship between the median house price and median earnings. The higher the multiple of the median house price to the median salary, the algorithm allocates a larger number of houses (based on the theory that the increase in supply will lead to a reduction in price).

However, because the algorithm allocates more land/housing where the multiple is high, it creates a situation whereby it will be in the best business interests of the building industry to continue to ensure that the median house price increases rather than reduces. Similarly, for land owners.

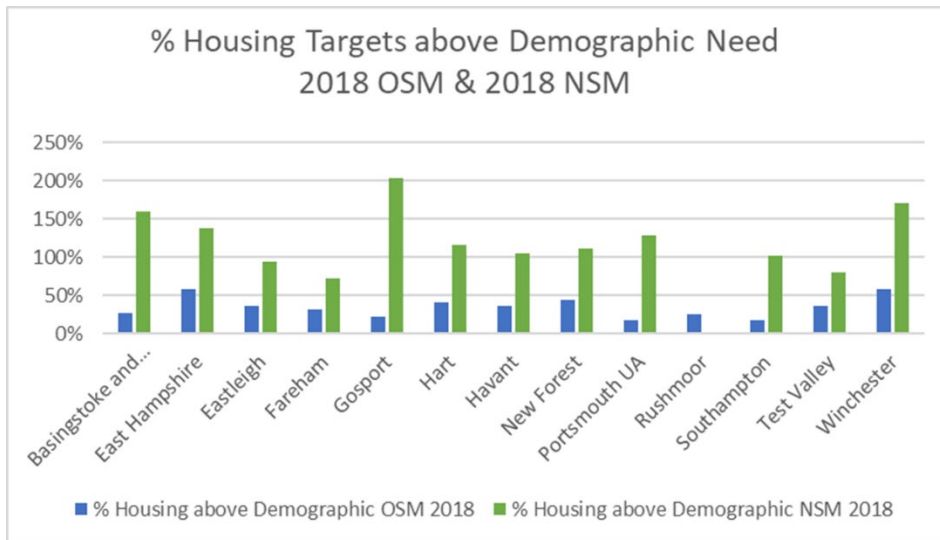
This leads to the perverse situation whereby the actual effect of this proposal will be the opposite of the one intended – it will reduce affordability.

iii) The developer's ability to manage absorption rates.

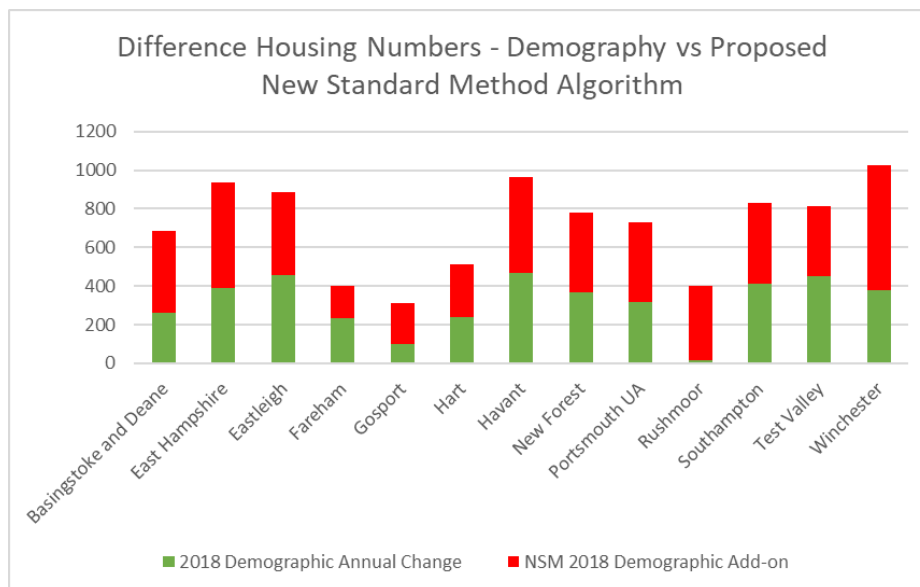
It is not in the business interests of the building industry for the prices in the market to go down. As more land has been released in the last few years, economic theory would suggest that competition in the industry would lead to a reduction in prices. However, there is clear evidence that this has not happened

- The number of planning permissions since 2010 has doubled. However, there are still 1,000,000 of these permissions that have not yet been built.
- The Letwin Report highlighted the problem of low absorption rates in the market.

The graph below shows the result of the new standard method for all Hampshire LPAs (and the old standard method but updated to 2018-based projections) compared with demographic projections. They are without exception considerably greater than the demographic projections, 171% in Winchester, 203% in Gosport, and Rushmoor cannot even be shown on this graph as the algorithm throws out a number 2588% in excess of its demographic projections. It is noted that the old standard method with 2018-projections still produces housing targets more than 50% above demographic projections in some districts, specifically those with high proportions within National Parks.



Another way of looking at the data is to look at the annual figures for demographic need and the new standard method, to see how the excess is distributed, and its magnitude.



Furthermore, this approach will entirely fail to deliver on the Government's agenda of 'levelling up'. This is because the Infrastructure Levy will be linked to the number of houses built. As the algorithm allocates a larger number of houses to districts where housing is less affordable (the richer areas of the country such as Hampshire), so the investment in infrastructure will be denied to the districts where the current price of housing is low (the more disadvantaged areas of the country). Once again, the algorithm is re-enforcing a current distortion that will have serious unintended consequences on the lives of many. In 2019, over 50% of all developer contributions were paid out to the South-East and London.

There is another issue with the disconnect between a mathematically derived figure and the reality of the development industry's capacity to deliver: i.e. the two don't match and the potential is that LPAs remain stuck in the housing land supply shortfall trap, which then ends up with less sustainable sites delivered by appeal.

Using the basic approach of the White Paper (i.e. median house price and median salary) we would suggest a more radical action plan.

Our proposal would be as follows:

Continue to use a version of the previous formula (the first element of the proposed 2-part formula) but use the latest household projections, this would currently be the 2018-based projections.

There must be a mechanism in the formula which accounts for the proportion of already built-up land in each LPA. This would switch the balance back to brownfield land and urban regeneration.

Then “a percentage [50%] of all the new houses that are allocated to a district should be put on the market at a price that is within reach of a couple who are at or below the median local income levels.” This fits with the Government’s agenda to encourage home ownership.

In the first instance this will be difficult to achieve in districts where demand is high because the ‘hope’ price of land is high. Economic theory would suggest that over time the price of land will reduce.

***Do you agree that authorities should be planning having regard to their revised standard method need figure, from the publication date of the revised guidance, with the exception of:***

***Q6: Authorities which are already at the second stage of the strategic plan consultation process (Regulation 19), which should be given 6 months to submit their plan to the Planning Inspectorate for examination?***

***Q7: Authorities close to publishing their second stage consultation (Regulation 19), which should be given 3 months from the publication date of the revised guidance to publish their Regulation 19 plan, and a further 6 months to submit their plan to the Planning Inspectorate?***

***If not, please explain why. Are there particular circumstances which need to be catered for?***

Q6, No. Q7, No. The publication of the Regulation 18 version of a local plan will have been the result of a substantial amount of technical work and analysis e.g. the SEA/SA process and the involvement of the public. To have to set aside that work to take account of the revised standard method will lead to unnecessary delays in the plan-making process and increase the vulnerability of local authorities to appeals due to existing adopted plans being regarded as out of date. A better approach would be to set any transition arrangements to enable those authorities who had reached the Reg 18 stage, such as a council resolution to publish or the plan had been published, to continue to examination and adoption. A review of the plan would be the forum to address any changes in housing numbers. An example of such a delay in Hampshire in an even earlier part of the process, is that Winchester CC have just “pulled” their Issues and Options consultation, which was imminent, on the basis that the housing numbers are about to change hugely as per this CCPS consultation. They will now be waiting for the outcome before proceeding.

For both questions 6 and 7, the proposals fail to recognise that one of the main reasons for the delays in developing plans is that the LPAs are frightened of legal challenges from developers and are indeed subject to challenges from developers at examination. If the ability of developers to challenge the Plans was curtailed in some way, then these timings would be sensible.

The proposals need to contain robust proposals to reduce the ability of developers to delay the process by constant recourse to appeal. A culture has developed recently where everything is challenged in the minutiae. Clearly there should appropriate safeguards against major breaches of the law – but they are firmly in place. The constant arbitrage on re-interpretations of the drafting of the words in policy statements must be stopped.

[An example is given here of a legal challenge to a refusal of a planning application in a Hampshire LPA that is deliberate in its obfuscation, and fundamentally undermines the democratic credentials of Neighbourhood Planning:

A planning application was rejected by East Hampshire DC. It was appealed by the developer. Part of the justification for the rejection by the LPA was that it was contrary to the Four Marks ‘made’ Neighbourhood



Plan. Policy 1 of the NP stated that ‘development proposals on land within the Settlement Policy Boundaries would be supported’.

At appeal, the developer made the point that this policy statement did not specifically exclude development outside the SPB.

The NP team explained that the reason for this was that guidance had been given that the NP should not repeat policies that were covered by the Local Plan. The NP team therefore removed the statement from the policy, but for the avoidance of doubt included the following statement in the supporting evidence:

*“3.3 land outside the SPB will be regarded as countryside and Policy CP19 will apply.”*

This point was rejected by the Inspector on the grounds that recent case law had indicated that any references or qualifications contained in the supporting statements carried no weight. So, Policy 1 of the Neighbourhood Plan was rendered largely irrelevant.]

***Q8: The Government is proposing policy compliant planning applications will deliver a minimum of 25% of onsite affordable housing as First Homes, and a minimum of 25% of offsite contributions towards First Homes where appropriate. Which do you think is the most appropriate option for the remaining 75% of affordable housing secured through developer contributions? Please provide reasons and / or evidence for your views (if possible):***

- i) Prioritising the replacement of affordable home ownership tenures, and delivering rental tenures in the ratio set out in the local plan policy.***
- ii) Negotiation between a local authority and developer.***

For i) The problem is not that 25% of affordable housing should be First Homes, or whether this is the correct percentage, but that the emphasis on home ownership as the focus of affordability is wrong. The real need is in the rented/ social housing sector. The Government should revisit and publish an analysis of the impact of the ‘Help to Buy’ scheme before finalising these proposals. At first glance it looks like much of the subsidy in fact escalated house prices and propped up profits for the large developers.

This policy gives priority to a substantial slice of the total affordable housing requirement being specifically designed to meet the Government’s objective of raising levels of home ownership rather than meeting actual housing need. The make-up of the forms of affordable housing should reflect local needs and be for the local authority to determine via its local plan policy. Para 64 of the current NPPF provides that flexibility, why change it?

For ii) Option 2 appears to contradict one of the key principles of these proposals – certainty. It generally seeks to remove the need for ‘negotiations’ – except where it is to the advantage of the building industry to include them.

***Q9: Should the existing exemptions from the requirement for affordable home ownership products (e.g. for build to rent) also apply to apply to this First Homes requirement?***

No, there are already too many exemptions.

***Q10: Are any existing exemptions not required? If not, please set out which exemptions and why.***

There are already too many exemptions.

***Q11: Are any other exemptions needed? If so, please provide reasons and /or evidence for your views.***

No, there are already too many exemptions.

***Q12: Do you agree with the proposed approach to transitional arrangements set out above?***

No. See comments on Q6 & Q7. The proposed transition period is too short, it would mean progress on well advanced plans would need to be halted to enable the necessary formal changes to be made and consulted on.

**Q13: Do you agree with the proposed approach to different levels of discount?**

No. The price of the houses should be set in relation to the amount that people can afford. As stated above, a couple on median salaries can afford a house priced at approximately £240,000. A discount of 30% on a house priced at £400,000 does not make it affordable to them.

**Q14: Do you agree with the approach of allowing a small proportion of market housing on First Homes exception sites, in order to ensure site viability?**

No. The whole point of these proposals is that

- i) the number of houses built will increase significantly and therefore this need will be met
- ii) once the number has been allocated everyone will have greater 'certainty' about the Plan

The thinking in this question appears to reflect the past rather than any 'radical reform'. A radical approach would be to say that all exception sites should be exclusively 'social housing'.

**Q15: Do you agree with the removal of the site size threshold set out in the National Planning Policy Framework?**

No, because it may have a significant adverse impact on rural housing.

**Q16: Do you agree that the First Homes exception sites policy should not apply in designated rural areas?**

Yes, probably because a First Homes exception site would probably be more financially attractive to a landowner than a traditional rural affordable exception site.

**Q17: Do you agree with the proposed approach to raise the small sites threshold for a time-limited period?**

No. It goes against the principle objective of bridging the generational divide. There must be better mechanisms to encourage SMEs.

**Q18: What is the appropriate level of small sites threshold?**

- i) Up to 40 homes
- ii) Up to 50 homes
- iii) Other (please specify)

Q18, iii) Zero. There should either be no change from current, or if anything it should be lowered to zero in rural areas. When the current limit was raised to 10 a developer in Hampshire who already had approval for 8 houses that would require a payment of circa £200,000 simply re-submitted the application with the location of houses moved by a fraction on the sitemap and thus avoided the payment.

**Q19: Do you agree with the proposed approach to the site size threshold?**

In line with Q18, the answer would be no.

**Q20: Do you agree with linking the time-limited period to economic recovery and raising the threshold for an initial period of 18 months?**

No. All the issues related to stimulating the economic recovery should be addressed by introducing measures that ensure that the outstanding 1,000,000+ planning permissions which have already been granted but not completed are built out within the 18-month time window.

**Q21: Do you agree with the proposed approach to minimising threshold effects?**

No.

**Q22: Do you agree with the Government's proposed approach to setting thresholds in rural areas?**

No, there should be no minimum threshold in rural areas.

***Q23: Are there any other ways in which the Government can support SME builders to deliver new homes during the economic recovery period?***

The creation of incentives to aid a specific category of builder will almost inevitably create distortions whereby larger developers will divide themselves up to appear smaller to take advantage of the aid. What about using non-planning initiatives to support the sector such as tax breaks? Or if the government is really looking at radical changes then perhaps there is merit in breaking up the big building firms.

***Q24-Q31: Permission in Principle***

The PiP approach appears to have little to offer either the development industry, the local planning authority or community in terms of delivering high quality sustainable development.