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Director of Regeneration

Arun DC

2 February 2016

Dear Mr Roberts

Arun Local Plan examination

This letter presents the Inspectors' conclusions on OAN following the hearing on 14 January 2016 (see part 1). Part 2 makes some observations on the issue of unmet need elsewhere in the HMA. Part 3 deals with the next steps and includes notice of formal suspension of the examination as discussed in the letter of 16 September 2015 (IDED14), pending completion of the Council's agreed work programme set out in the Council's letter of 10 September 2015 (ADCED 07&08).

1 Objectively Assessed Housing Need (OAN)

Introduction

1.1 Set within a context in which local authorities 'should' seek to 'boost significantly the supply of housing', the National Planning Policy Framework (NPPF) (at para 47) requires Local Plans to meet 'the full, objectively assessed needs for market and affordable housing in the Housing Market Area (HMA), as far as is consistent with the policies set out in this Framework....'.

1.2 Following a series of reports by GL Hearn & Partners on the housing needs of the Sussex Coast Housing Market Area and its constituent authorities, the Council (ADC) decided that ALP should be based upon an objectively assessed need (OAN) for housing in Arun of 580pa. However, prior to submission of ALP, ADC had already conceded at a planning appeal that it could not offer evidence to rebut the appellant's assessment in that case that the OAN was much higher (786pa). Hearn was therefore commissioned to undertake a new study, issued in March 2015; this estimates the OAN at 758pa.

1.3 In accordance with the outcome of the Procedural Meeting on 16 July 2015 the revised OAN was advertised for public comment in September-November 2015 and subsequently discussed at the hearing on 14 January 2016.

National Planning Practice Guidance (NPPG)

1.4 NPPG (2a-014) points out that establishing future need for housing is not an exact science; no single approach can provide a definitive answer. DCLG household projections for individual Districts are to provide the starting point. Adjustments may be made to reflect local demographic factors which have not been captured in past trends especially where these may have been historically

suppressed (2a-015). Employment trends, market signals and matters related to affordable housing are also to be considered. Potential therefore exists for many departures from the demographic inputs underlying the starting point of the national projections and these may then be modified by a range of judgements based upon these other factors. The effect of the judgements made about these different matters is amply demonstrated by the resulting wide spread of the suggested totals for OAN put forward in the representations, ranging between extremes of 365pa and 982pa. The former extrapolates population change over a 30 year period and household size over 20 years, against a trend-based employment background. The latter uses the DCLG demographically derived projection updated by a number of judgements for economic factors and market signals.

Demographic factors

1.5 The basic starting point of the new Hearn report is the most recent DCLG household projection for Arun, reflecting the approach in NPPG. Alternative projection scenarios based upon simple extrapolation of past trends, especially those reaching farther back into the past, depart too far from the Government projection model and can therefore be given very limited weight.

1.6 Hearn adjusts the DCLG projection for Arun by updating it to take account of the 2013 Mid-Year Population Estimates (MYE) and applying a vacancy rate of 5.6% derived from the 2011 Census. This comprises vacancies arising both from the 'normal' turnover of stock (2.5%) and from second home ownership (3.1%). This is the standard form of approach to the issue of vacancy. Although second home ownership is not a housing 'need', such dwellings are not available to meet the needs of Arun residents. Given the District's coastal location and consequent attraction to a certain level of second home ownership (and since ADC cannot prevent such purchases) it is reasonable to assess the overall level of need for new homes by assuming a continuing proportion of vacancy in the overall stock at the level of the last Census.

1.7 On this basis Hearn takes the 'starting point' of need to be 821pa. However, arguments have been put both that one year's increase of population does not provide a reliable basis for projection, and (on the other hand) that the 2014 MYE issued after the Hearn report show further population increases which should be taken into account. This point is returned to later.

1.8 Turning to other demographic factors, Hearn projects that the age structure of Arun's population will show increases in 2011-31 mainly among the over 60s and under 15s with a small decline in those aged 30-59. The age group 15-29 has shown substantial increase in 2001-13 but is expected to grow at a slower rate from 2011-31.

1.9 Migration presents the knottiest element in the demographic element of OAN in Arun. Against a period (2001/2-2012/13) in which recorded migration

has fluctuated considerably (Hearn Fig 8), the report places 'more weight' on the shorter 5 yr trend (1661pa) than the 12 yr trend (1912pa) despite recognising that the former included the recession, as well as some of the lowest recorded years of migration in the past 12.

1.10 In addition, there is the thorny subject of 'unattributable population change' (UPC). The Office for National Statistics (ONS) ignores UPC in national projections because it is unclear whether or to what extent it may relate to poor population recording in the Census(es) or the misrecording of migration, or both. A technical advice note by the Planning Advisory Service (PAS) records that aggregate UPC is positive by some 103,700 persons on a national basis and claims support from a recent ONS report that the main likely cause is misrecording of migration, probably international migration especially from the EU. PAS points to the difference which UPC can make to projected housing need, referring particularly to the context of large urban areas where projected need can be influenced in a negative direction. The advice note suggests that alternative scenarios may be tested, taking account of UPC and a view taken accordingly.

1.11 In Arun's case UPC between the 2001-11 censuses is stated as some 4051 persons. Its exclusion or inclusion thus makes a significant difference to the demographically based element of OAN. Comparing the Census records of dwellings in 2001 and 2011 Hearn concludes that UPC in Arun is 'more likely' to reflect issues with recording of migration and suggests that adjusting the migration rate by excluding 50% of UPC would be reasonable. However, ONS considers that migration errors would have had a bigger impact in the early 2000s because of improved methods of investigating this factor over time. In at least two cases (Eastleigh and Aylesbury Vale) Inspectors have not supported the concept of adjusting migration in respect of UPC.

1.12 A number of factors suggest a need for caution in the acceptance of the Hearn approach to migration issues in Arun. Firstly, ONS information postdating the Hearn report is that international migration to UK has been underestimated to a statistically significant extent and ONS population projections in 2014 indicate faster growth of population than the 2012 projections. Secondly, while the effects of these factors on Arun are unknown, it is clear that population growth in the District has already exceeded the 2012-Based SNPP judged by the 2013 and 2014 MYEs, including migration. Thirdly, work underpinning the London Plan concludes that net population outflows will take place from London into the wider South East of which Arun is part.

Employment issues

1.13 Forecast employment change in Arun has been materially reduced since the date of the Hearn report. Experian now forecasts that growth will be some 333 jobs pa (2011-31), ie 33% less than in its previous forecast, as used in the report. Decline in jobs in manufacturing and distribution is forecast to be almost

offset by some growth in office employment. Otherwise, the net growth in jobs would arise from non-B class employment areas. This includes a range of broadly service-related jobs, many demographically driven to a greater or lesser extent. The above (reduced) forecast still compares favourably with the long term trend in Arun of employment growth of about 140pa over the period 1997-2012 and will require contributions from new sites such as Enterprise Bognor Regis if it is to be achieved.

1.14 Hearn calculates that for the resident workforce to increase in line with the latest Experian forecast, homes would need to increase at 779pa at the current ratio of net out-commuting or 681pa if the in/out commuting ratio could be brought into balance. ALP aspires to reduce out-commuting and it would be beneficial if (through proposals in the plan and all other available means) the District could increase its attractiveness to employers and boost local job opportunities for residents. However, it seems less clear that it is practicable or desirable to attempt to influence the commuting ratio by restricting housing supply within an individual District in an area like the Sussex Coast where a relatively large number of often quite small authorities have complex social and economic interrelationships and interdependencies with each other (as well as with areas like Crawley/Gatwick and Greater London). An effect of such restriction could be to emphasise the potential for locals to be out-competed by migrants from elsewhere.

1.15 Economic and employment factors therefore do not point to any demonstrable need for uplift of the demographically based elements of the OAN. If anything they could be argued to exert some downward pressure upon the demographic elements of OAN.

Market signals

1.16 NPPG (2a-019) indicates that demographically-derived need should be adjusted to reflect appropriate market signals of various identified kinds, stating (2a-020) that a worsening trend in any of these indicators will require upward adjustment to planned housing numbers compared to those based solely on household projections.

1.17 The Hearn analysis of market signals indicates that median house prices in Arun increased by a marginally greater percentage than in the HMA or the South East generally over the period 1998-2007, but started from a generally lower base. More recently (2008-13) the median price in Arun and the comparator areas has been relatively flat (and has declined in real terms). For 3 out of 4 house types Arun has the lowest prices in Coastal West Sussex and the second-lowest for the 4th.

1.18 Lower quartile house prices in Arun (2013) were 9.6 times lower than lower quartile earnings, this being about average for Coastal West Sussex and slightly higher than for West Sussex County (8.9), albeit much higher than the

national average (6.5). Generally, the lower quartile affordability ratio has been stable over the past decade, indicating no worsening. However, affordability of market housing in Arun is strongly interlinked with residents' earnings levels. Lower quartile earnings in Arun are the lowest in Coastal West Sussex (just over £17,000) and compare with materially higher levels in West Sussex of £19,600 and England £19,300. Median earnings are also lower than these comparators. At the lower end of the market terraced houses and flats are notably less expensive than the average across the HMA.

1.19 The most recent data shows that Arun's median rental level (£695pcm) is lower than that for Coastal West Sussex (£775pcm) and the South East (760pcm), albeit higher than that for England as a whole (£595pcm). Rental levels have risen since 2011 at the same rate as in West Sussex but remain lower than the comparator levels other than in the South East as a whole. Compared with the Consumer Price Index Arun rents have risen by very little.

1.20 In 2001-2011 the percentage of overcrowded households in Arun increased somewhat, but at less than regional/national levels and overcrowding remains lower overall than in those areas. The proportion of Houses in Multiple Occupation increased slightly more than in other parts of the HMA but in total is less than in the South East or England.

1.21 Overall Hearn concludes that 'the analysis of market signals points to some *modest* affordability pressures in the District'. An adjustment is made though a 'sensitivity analysis' which adjusts household formation rates for the 25-34 age group to assist their return to the pre-recession levels of 2001 over the period to 2031. It is a relatively common element of OAN assessments to make this type of adjustment in order to avoid embedding into the future the recessionary trend which appeared to reduce household formation rates for this age group in the period 2001-11. It may be debatable whether or not this adjustment is logically more of a demographic factor rather than market signal-related. Nonetheless, it is appropriate to make it.

1.22 As shown by the information presented by other parties, evidence on market signals can vary, dependent upon the years and/or other areas selected for comparison. It has been suggested that similarly 'modest' affordability issues in Eastleigh justified a 10% uplift whereas the above uplift is less than 5% of Hearn's estimate of demographic-led needs.

1.23 On the whole, the evidence on market signals does not convincingly point to a need for significant further numerical adjustments. It may be that any market weaknesses in Arun are better addressed (in its circumstances) by policies identifying the kinds of housing most affordable to Arun residents below the median earnings levels and targeting appropriate proportions of new homes as much as possible at meeting those needs, possibly by building upon the basis of the strategic mix recommended in Hearn table 33, rather than making any further uplift.

Affordable Housing

1.24 Reflecting the general approach in NPPG, and using reasonably based data, Hearn assesses the net need for affordable housing at 480pa (table 21), taking account of the needs arising from newly forming and existing households minus expected supply from planned new-build and relets of the existing stock. This is the need which would arise if all households unable to meet their needs without financial support were to be provided with an affordable home.

1.25 Even under the Hearn approach of discounting 50% of UPC, the report concludes that the need for affordable housing nominally represents almost 60% of the need derived from the demographic projection. This is far greater than can be close to deliverable though market-housing led development or other current Arun initiatives to increase affordable home-building. NPPG 2a-029 advises that in such circumstances 'an increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of homes.'

1.26 Allowing for the 'existing household' element of those identified above (who, if moving into an affordable home, would vacate another probably within the private rented sector), Hearn estimates the net need for affordable housing at about 220pa, which is close to the quantum sought through the ALP policies. This may be pragmatically the case; however, there has been much recent debate about such reliance upon the private rented sector, since it is not part of the NPPF definition of affordable housing.

1.27 The report's conclusion is that there is no 'technical' need to increase OAN on the basis of affordable need but that there are choices to make concerning how such needs are to be met. The affordable housing evidence is said (4.41) to 'provide some justification for considering higher housing provision' in order to enhance its delivery' and that conclusion is carried through (7.21) as part of the uplift described above under 'market signals' concerning the household formation rates of younger households.

Overall conclusion on OAN

1.28 In our judgement a rounded figure of 820pa represents a reasonably broadly-based starting figure for the OAN, consistent with Hearn's demographic starting point. For reasons previously stated (1.11-1.12 above) we do not see a case to partly-discount UPC. The Hearn report's upward adjustment of 26-28dpa (rounded to 25pa) should be added to the 820pa to assist an increase in household formation for the key 25-34 age group, mainly as a demographic adjustment. This would result in a total OAN of 845pa. Overall it is not seen as necessary to make further adjustments to the OAN, since employment-related issues (modestly negative) are seen as generally balanced out by market signals and affordable housing pressures (both modestly positive).

2 Unmet need from elsewhere in the Housing Market Area

2.1 Although the local plans within the HMA are at various stages of evolution it is apparent that the needs of the area as a whole are not being met through the emerging plans being prepared by the constituent authorities.

2.2 ALP already recognises (paras 12.1.12 & 12.1.66) that it may have a role to play in meeting some of these needs, as was previously identified in Hearn's Housing Study (Duty to Co-operate) report of May 2013 albeit in a context in which the OAN of Arun itself was a significantly smaller number. ALP refers particularly to Worthing and sees the issue being tackled in a future review. However, the suspension may offer an opportunity to explore any potential scope for the content of ALP to achieve greater alignment with the requirements of relevant neighbours in order to address the issue more urgently. This objective should be pursued as far as possible in the forthcoming work.

2.3 To that end it would be useful to the progress and clear outcome of that work if sustainability appraisal of the forthcoming modifications to ALP were to test higher levels of provision against the sustainability principles of the NPPF, not only in a high-level sense but also with regard to potential area/site-specific solutions for meeting some of this need.

3 Next steps

3.1 The examination of ALP is today formally suspended, pending completion by ADC of the programme of work summarised in Appendix A of its letter to Mr Foster dated 10 September 2015 (ADCED 07&08) and agreed in principle by him on 16 September 2015 (IDED14). The outline programme indicates that (A) proposed Main Modifications to ALP will be put to public consultation in late 2016/early 2017 and (B) those modifications, along with the representations made about them, will be sent to the Inspector (then Mr Bore) in March 2017. Subsequently arrangements will be made through the Programme Officer for the resumption of hearings as soon as may be practicable.

3.2 The Council's programme of work will of course need to include consideration of a number of matters covered in Appendix 1 to the Inspector's letter of 30 July 2015 (IDED13), concerning Littlehampton Economic Growth Area, including West Bank (at paras 13-19), Enterprise Bognor Regis (at paras 20-27), the Barnham, Eastergate and Westergate strategic allocation (at paras 28-51) and 'Other Matters' (at para 52).

3.3 It may also be helpful at this stage to reiterate some points from IDED14 concerning sustainability appraisal. The paragraphs quoted below also draw upon the Inspector's conclusions in IDED13 (at paras 6-12):

I recognise that the proposed timetable is only in outline, but note that it makes no specific reference to the necessary new work on sustainability appraisal of the type referred to in appendix 1 to my letter of 28 July (paras 6-12) (IDED13). Such work will

clearly need to be included under the umbrella heading 'further work/updated and additional studies'.

I also consider it important to reiterate the point in paras 11-12 & 22 of my letter of 28 July (and para 12 of the appendix) – that the Council needs to be able to demonstrate that the issue of identifying 'the most appropriate strategy, when considered against the reasonable alternatives' (NPPF para 182) has been approached in an open-minded way. Reasonable alternatives for meeting the requirement which emerges from the forthcoming consultation need to be identified without risk of endangering the process by (a) any appearance of pre-determination or (b) over-reliance on the contents of the SA accompanying the submitted plan.'

3.4 Mr Bore will conduct the resumed examination. He will liaise as necessary with Caroline Pattenden, the Programme Officer, about ADC's progress with its timetable of work and any procedural matters as may arise before the proposed modifications are submitted. In the meantime participants should not submit representations or correspondence about the matters which ADC will now be pursuing since Mr Bore's active involvement in the content of ALP will not commence until the proposed modifications and the representations concerning them have been submitted and the examination has been reconvened.

Roy Foster, Inspector

Jonathan Bore, Inspector

Roy Foster

Jonathan Bore