

MID SUSSEX DISTRICT PLAN EXAMINATION

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Dear Mr Tunnell,

Mid Sussex District Plan 2014-2031 Housing requirement

As promised, I am writing to set out my interim conclusions on the housing requirement for Mid Sussex for the period 2014-2031. This and its various components have been covered in considerable detail through written evidence from the Council, the Developers' Forum and a range of individual parties, and have been the subject of discussion at the hearings held on 29 and 30 November 2016, 1 and 9 December 2016, 12 and 13 January 2017 and 8 February 2017.

I should like to thank the Council and, through this letter, all the participants, for their helpful and well-researched contributions to the hearings. I should also like to take the opportunity to record the considerable degree of local interest throughout the proceedings.

I have based my comments in this letter on the "Mid Sussex District Plan 2014-2031, Submission Version", which is Document BP1 and is dated August 2016. This version (with the exception of Policy DP29: Affordable Housing) represents the Council's latest position on the emerging plan, moving on from the original Pre-Submission Plan (Document BP2) and the Focused Amendments (Document BP3). Both BP2 and BP3 have been subject to consultation but BP1 contains some further amendments that the Council would like to make, which have not yet been consulted upon. The housing requirement and its various components, together with the key documents that underpin them, have evolved during the various stages leading up to the submission of Document BP1. They are in the Examination Library on the Council's website, and it is not necessary to list them here.

The Council's proposed housing requirement for the plan period of 2014 to 2031, as set out in Policy DP5 of BP1, is for 13,600 dwellings, at an average rate of 800 dwellings per annum (dpa). The figure of 800 dpa can be broken down into a starting point of 714 dpa derived from the 2014 household projections, an allowance of 16 dpa for vacancy rates, giving a base objectively assessed need (OAN) of 730 dpa, and a market signals uplift of 24 dpa, giving a full objectively assessed need of 754 dpa. The remainder, 46 dpa, is available to meet unmet need in neighbouring authorities.

Issues

The main issues raised in relation to the housing requirement during the Examination are as follows.

- The calculation of the full objectively assessed need (the OAN) for housing, with particular regard to market signals uplift, the need for affordable housing and employment projections.
- The degree to which the housing requirement should make an allowance for the unmet needs of nearby authorities, with particular regard to Crawley, Brighton and Hove and the other coastal towns.
- The extent to which environmental, infrastructure and practical delivery constraints should affect the housing requirement.

Calculating the Full Objectively Assessed Need for Housing

Household projections

The 2014 CLG household projections, released in July 2016, provide a starting point of 714 dwellings per annum (dpa) for the plan period on which the OAN calculation can be based. Applying a vacancy rate leads to a basic OAN figure of 730dpa. This is a generally accepted figure and is soundly based.

Market signals uplift

In response to market signals, the Council has applied a 24 dpa uplift to the figure of 730 dpa, leading to the conclusion that the full OAN in Mid Sussex is 754 dpa. This uplift is based on an analysis which shows that an average of 24 fewer households were formed per year between 2008 and 2012 within the age group 20-34, suggesting the suppression of household formation during the recession (Housing and Economic Development Needs Assessment (HEDNA) Update, Nov 2015, EP21).

This approach is said by the Council to be similar to analysis found sound at Horsham, Crawley, Chichester and Arun. I consider that Horsham and Crawley are the closest comparators, being in the same HMA (the Northern West Sussex Housing Market Area) as Mid Sussex. The Council's approach to the OAN uplift is understandable given that the same calculation has

been used elsewhere in the HMA. But circumstances in Mid Sussex are rather different now from when the examinations into the local plans for Horsham and Crawley took place and there are strong reasons why a different approach should now be taken.

The Horsham District Planning Framework and the Crawley Borough Local Plan were both adopted in late 2015, but the Examination hearings took place between 19 and 26 months ago, and the approaches towards market signals in both cases were clearly influenced by evidence derived from the recessionary and immediate post-recessionary periods. The Horsham Inspector's report referred to falls in house prices and flat indicators thereafter (para 36) and the Crawley Inspector's report refers to improved affordability and a fall in the proportion of households unable to buy without assistance (para 23).

However, time has passed since the recession. House prices have resumed an upward trend (NLP submission, Appx 8) and affordability has markedly worsened. In Mid Sussex, the housing affordability ratio (the ratio of lower quartile house prices to lower quartile earnings), after a fairly modest deterioration from 9.76 in 2009 to 10.1 in 2013 (MSDC2, 2.26), sharply deteriorated to 12.6 in 2015 (DCLG, published July 2016). These are the most recent circumstances and they require a new approach from that taken at Horsham and Crawley. The figures cannot be regarded as a cyclical spike: it is worth noting that in 1997 the affordability ratio stood at 4, and in 2000, 6.91. There will always be short term fluctuations in the housing market (such as the current slackening off), but the long term trend is plain. Based on the latest affordability ratio, Mid Sussex is the 22nd least affordable local authority in England outside London.

Since the affordability ratio is based on the relationship between lower quartile earnings and prices, it is not sufficient to explain the deterioration by suggesting that it simply reflects the desirable nature of the locality and the local housing market profile: there are very clear market signals in terms of a serious and growing affordability problem for those in the lower quartile income bracket.

The Council places much reliance on the relative position of Mid Sussex vis-à-vis other districts in the HMA and in Sussex. It believes that if house price trends and related signals in Mid Sussex are broadly aligned with those in nearby authorities, which by and large they are, it should not be necessary to make a significant uplift to its OAN to reflect market signals. The flaw with this is that if each authority simply had regard to similar trends in neighbouring authorities, and each plan were to replicate the OAN approach of its neighbours, the cycle would be perpetuated and there would be no adequate response to continually worsening affordability.

Such an approach fails to take into account Planning Policy Guidance (the PPG). The PPG indicates that comparisons should be made with longer term trends, both in absolute levels and in rates of change; similar demographic and economic areas; and nationally. The more significant the affordability

constraints, as reflected in rising prices and rents, and worsening affordability ratio, the larger the improvement in affordability needed and the larger the additional supply response should be. Planned supply should be increased by an amount that, on reasonable assumptions and consistent with the principles of sustainable development, could be expected to improve affordability.

It is necessary to look at absolute as well as relative conditions, and take a wider view as well as a local view. In the case of Mid Sussex both the long term affordability trend and the recent sharp deterioration point to the necessity for effective action to increase planned supply to improve affordability.

The Council said in the HEDNA Update of November 2015 (EP21, 5.23) that the proposed 24 dpa uplift "could be expected to improve affordability and assist with this age group". However, there is no evidence that the 24dpa uplift would improve affordability either generally, or for the 20-34 age group on which the uplift is targeted, and indeed the Council has more recently asserted that there is little evidence to suggest that even a significant uplift would improve affordability (MSDC1 and MSDC4). The affordability modelling by NLP (ED8) suggests that with a 24 dpa uplift, the affordability ratio would continue to deteriorate to between 13.59 and 14 by the end of the plan period.

The Council suggests that, instead of a further increase in housing provision, it might consider a "targeted approach" whereby it would increase the proportion of affordable housing on its housing sites, perhaps to 40%. I make no comment here on the viability or deliverability aspects of that idea. However, as a general observation, such an approach would not be an adequate means of addressing market housing affordability since it would only deal with a minority part of overall housing need, would accept as inevitable the continuing deterioration in the affordability of market housing, and (all other things being equal) would reduce the amount of new market housing that could be delivered.

In MSDC4 the Council highlights what it sees as the risks in applying a higher market signals uplift than 24 dpa. It considers that an authority such as Mid Sussex cannot improve affordability by itself, and that any proportionately greater stock growth in Mid Sussex compared with other authorities would simply be filled through in-migration, resulting in an inelastic price response to increased supply. However, these concerns are founded on the assumption that, if Mid Sussex were to make a substantial market signals uplift, it would be acting in isolation. That overlooks the fact that it is government policy to boost housing supply through the plan-led system, which will result in the raising of the housing requirement by other planning authorities. Looking beyond Horsham and Chichester, there is evidence of action being taken across a broad range of authorities in response to worsening affordability, with market signals uplifts, mostly of 10% to 20%.

For all the above reasons I do not consider the submitted plan to be sound. A significant uplift should be made to the OAN in response to market signals, to the point where it could be expected to improve affordability, in accordance with government policy. The Developers' Forum has put forward a number of approaches to assess the degree of uplift that should be applied to the base OAN (ED8, NLP, 7 December 2016). Of these, I consider that the approach with the greatest value is that based on the OBR house price forecast and University of Reading model updated to account for the OBR's November 2016 economic outlook. The Forum's calculations suggest that 918 dpa would be required to hold the affordability ratio constant until 2021, all other things being equal, including all housing needs being met in neighbouring areas. The separate sensitivity exercise by the Council, based on the same model but using some localised inputs from the Oxford Economics forecasts, suggests that a housing provision of 854 dpa would improve affordability. I acknowledge the Council's criticisms of the model but it is the best analysis available in the circumstances; the range it points to, 854 dpa to 918 dpa, has a sense of realism about it; and it correlates reasonably well with other forecasts and with a comparative analysis of other authorities (see below).

Before concluding on the OAN, I will turn to two connected points, affordable housing provision as a component of the OAN, and the relation with economic growth.

Affordable housing and the OAN

The local plan should meet the full objectively assessed need for both market and affordable housing, as far as consistent with the policies in the Framework. The Statement of Common Ground of 7 February 2017 (Appendix A) indicates that affordable housing need (based on a 15 year period) would be 258 dpa in respect of reasonable preference groups and 331 for the total waiting list. Taking into account housing commitments, net need plus committed housing would result in a need for a range of 1,120 dpa to 1,363 dpa at an affordable housing rate of 30%. These figures again point towards a higher OAN than indicated in the submitted plan. However, they are much higher than the realistic figures suggested by household projections and market signals uplift, and there is doubt as to whether such amounts could be delivered. An OAN of between 854 dpa and 918 dpa referred to above would allow a substantial proportion of the affordable housing need to be met.

Economic forecasting and the OAN

On the subject of projected jobs growth, there are considerable differences in estimates (ED8 Appendix 3) and figures as high as 687 jobs per annum have been put forward. It is nonetheless agreed between the Council and the Developers' Forum, based on PPG guidance, that the range of job growth to be considered for the purposes of establishing OAN should be 424-514 jobs per annum. The Council states that their proposed housing requirement of 800 dpa would provide 420 jobs per year (MSDC3, Appx D,

para 10). A range of scenarios using the 424-514 range are tested in Appendix B of ED8 based on work carried out by Barton Willmore using the PopGroup demographic model employed by the Council. These translate to a range of 862 dpa to 945 dpa. These figures again point to a higher OAN than that referred to in the plan and broadly lend support to the range 854 dpa to 918 dpa derived from the affordability analysis.

Conclusion on the OAN

Having regard to all the evidence I consider that conditions justify a significant uplift in Mid Sussex in response to market signals. The affordability analysis indicates that the OAN is in the range 854 dpa to 918 dpa with the analyses of employment growth and affordable housing suggesting figures in the upper part of the range. A comparative analysis (ED8 Appendix 3) demonstrates that a number of other authorities have responded to affordability issues with uplifts of 10% to 20%, and in one exceptional case, 30%. 10% would give just over 800 dpa which, in the light of all the evidence, is not sufficient. 25%, as suggested by the Developers' Forum, would broadly coincide with the top of the range but would be a higher percentage than most of the market signals adjustments in other authorities and would not fit well with the comparative evidence of affordability. An uplift of 20% from the basic OAN figure of 730 dpa would give 876 dpa. From all the material that has been submitted this figure is in my view the most well-founded and most realistic, being compatible with the greatest part of the evidence base. Evidence indicates that it would counter worsening affordability and would accommodate most of the affordable housing need for reasonable preference groups. It would also align with the range of employment forecasts, and whilst recognising that each authority is different, it would be comparable with the range of market signals uplifts accommodated by many other local authorities in broadly similar circumstances.

Having regard to all the evidence I consider that the full objectively assessed need for housing is 876 dpa, an uplift of 146 dpa (20%) over the base OAN figure of 730 dpa and 122 dpa over the Council's currently suggested full OAN.

So far I have dealt with the calculation of the objectively assessed need for housing, which paragraph ID: 2a-004 of the PPG makes clear should be based on facts and unbiased evidence and should not be subject to the application of constraints. The OAN does not include either an assessment of environmental or infrastructure constraints or an allowance for meeting the unmet needs of other authorities. I shall come on to the issue of unmet need next.

Unmet housing need in other districts

Crawley

Paragraph 47 of the Framework indicates that the full OAN should be met in the housing market area, subject to consistency with other Framework policies. Crawley, like Mid Sussex, is in the Northern West Sussex Housing Market Area and is unable to meet its housing need within its boundaries. Written into its plan is an obligation to work closely with neighbouring authorities to explore all opportunities for meeting its need in sustainable locations. Its shortfall is in the region of 335 dpa, of which 150 dpa is being taken by Horsham, leaving a residual unmet need of 185 dpa.

The proposed Mid Sussex housing requirement of 800 dpa would leave only 46 dpa to meet this need. Given the position of Mid Sussex immediately adjacent to Crawley, and within the same HMA, this aspect of the plan is not sound. Mid Sussex is the only authority other than Horsham that can make a significant contribution towards accommodating Crawley's unmet housing need. Opportunities in other authorities are very limited. It is reasonable for perhaps 35 dpa to be catered for elsewhere. The Mid Sussex District Plan should therefore include a contribution of 150 dpa, the same as that of Horsham, to meet this need.

Coastal West Sussex

The Coastal West Sussex Housing Market Area overlaps with the southern part of Mid Sussex District and is relevant to plan preparation in the District. Brighton and Hove's total housing need amounts to 30,120 of which the agreed plan target is 13,200, leaving a shortfall of 16,920 or 56% of the total. There are also large amounts of unmet housing need in other authorities including Adur and Lewes. However, the coast has different characteristics and patterns of migration, and any plan to satisfy this level of need will require input from a number of local authorities and necessitate a sub-regional approach of the kind referred to in paragraph 179 of the National Planning Policy Framework. Several local authorities, including Mid Sussex, are collaborating on a study, but it is in its early stages and there is not enough evidence available now to ascertain the proportion of this unmet need that ought to be accommodated in Mid Sussex.

It follows that there is no strong basis at the present time to make a numerical addition to the housing requirement of the Mid Sussex District Plan to address this need. But the cross-boundary study should be progressed as quickly as possible to bring an end to the uncertainty over how the unmet need is to be provided for. The District Plan should make a commitment that the Council will co-operate with Brighton and Hove and the relevant authorities in the Coastal West Sussex HMA to bring forward the study within a short space of time, and that it will be taken into account in the next review of the District Plan. A commitment to a plan review in two years' time, advocated by some at the hearings, is too onerous given the scale of the task, but a review is unlikely to be more than 5 years away.

Meanwhile the Council should consider whether the matter should have some influence over the pattern of smaller site allocations either in the present plan or in the subsequent site allocations plan.

Elsewhere

There is unmet housing need in Surrey authorities including Tandridge, but the first priority should be the unmet need in the same HMA as Mid Sussex. London has also been mentioned, but the issues are on a very much larger scale. Attempting to address elements of London's unmet need outside the Greater London area would involve multi-authority regional-level policy decisions. It would not be appropriate to include an explicit additional allowance for unmet need from London within this plan.

Sustainability and developability

Development constraints – the general picture

The Council states that the proposed housing requirement of 800 dpa is the point above which the advantages of additional housing provision are significantly outweighed by the disadvantages. The Sustainability Appraisal (SA) (BP5) concluded that higher level provision would be likely to have severe negative impacts on environmental sustainability objectives. The evidence base includes the key LUC reports "Capacity of Mid Sussex to Accommodate Development" (EP47) and "Sustainability Appraisal of Cross Boundary Options". The District has a number of nationally important designations, including the South Downs National Park, the High Weald Area of Outstanding Natural Beauty (AONB) and various heritage designations, and is within the zone of influence of Ashdown Forest, which is a Special Protection Area (SPA), and much of the remainder of the District is rural. The LUC reports also highlight heritage, environmental, biodiversity and other constraints, access to services and the capacity of the landscape to accommodate development. The highways network is under pressure in some places, notably East Grinstead.

The SA and the Strategic Site Selection Paper (EP23) assessed a number of strategic site options using a threshold of about 500 dwellings for a strategic site and rejected all but three contenders. The conclusion was that there were no options for allocating a further strategic site at this stage. As for smaller sites, 182 were found suitable, available and achievable in the Strategic Housing Land Availability Assessment (SHLAA), with a potential yield of 11,988 dwellings, and the Council argues that to meet 800 dpa every one of these sites will be required, and perhaps more, to ensure the 5 year housing supply is robust. To meet a higher requirement would require re-visiting sites that have been rejected.

I recognise the difficulties inherent in the precise definition of strategic sites, and will come back to the point later. The problem with the Council's approach is that the SA and SHLAA do not in themselves provide an adequate basis for supporting the Council's conclusion regarding the setting

of the housing requirement at 800 dpa, and indeed there is a degree of circularity about the Council's argument.

Limitations of the Sustainability Appraisal

Dealing first with the SA, this study makes generalised and in some cases questionable assumptions about the connection between levels of housing provision, benefits and impacts. Any reasonable consideration of the relevant analysis in the SA (paragraph 7.84 on) bears this out. For example, in the appraisal, the benefits arising from the provision of a decent and affordable home do not increase for options above 800 dpa, whereas more weight should be given to higher levels of provision if there is greater housing need. There are also a number of unjustified conclusions for a housing requirement above 800 dpa in respect of access to education and health, the creation of cohesive, safe and crime resistant communities, and flood risk.

The SHLAA

The SHLAA rejects a number of sites on the basis of availability, transport access, sewerage, landscape capacity, heritage assets, ancient woodland and so on. These are important issues but what the analysis does not do is to consider the extent to which they might be resolved or mitigated through highways and footway improvements, sewerage infrastructure, selective development of parts of sites, the incorporation of green buffers and other measures. In some cases the absence of evidence counts against a site without any further assessment. Moreover, more consideration should have been given to the potential for new freestanding developments as opposed to settlement extensions. I have no doubt from the site exercise carried out for the hearing on 8 February that there are sites rejected through the SHLAA process which, through their characteristics or location, might remain unacceptable. But other representors have given examples where relatively minor infrastructure or mitigation measures, different site boundaries or developable areas, might enable sites to come forward, and have cited other examples where identified constraints in the SHLAA have not proved obstacles to the subsequent allocation of sites, or to the grant of planning permission.

There are some constraints in certain localities, such as sewerage and highway capacity, which may be partially dependent on the programmes of other bodies to resolve. But housing provision is a government priority and should be reflected in the programmes of other public bodies. It is also the case that both site-related development contributions and CIL will assist in future in addressing such constraints.

Site and land identification

On the question of site identification and availability, Document MSDC5 suggests that to meet a requirement of 900 dpa, 12 sites totalling more than 300 units would be likely to be required in the AONB. But like the SA

and the SHLAA, it only takes the analysis so far; it does not take into account policy choices that might be made to redirect development away from sensitive areas or practical action that might mitigate its effects. It falls well short of demonstrating that harm would be caused to the AONB or other important designations through a higher housing requirement.

Large areas of the District are not covered by national designations. The LUC study EP47 which suggests that much of the District outside the national designations has “low landscape capacity for development” does not recognise that the scale of development required to meet housing needs will inevitably result in some landscape impact, and that such impacts are capable of a degree of mitigation. None of this evidence demonstrates that significant and demonstrable harm would arise from housing provision above 800 dpa.

In respect of site availability, the Council places a lot of weight on whether a site is actually being promoted by developers or landowners now, but the Framework only indicates that there should be a reasonable prospect of availability, which is a different thing, and allows for judgement and discretion in the identification of potential future land. It is important to recognise that the District Plan has a further 14 years to run and if the Council is unable to identify every particular site, paragraph 47 of the Framework leaves the option open to set broad locations and set a housing figure without having to be specific on all sites.

Setting the housing requirement

I consider that both the full OAN of 876 dpa and 150 dpa of Crawley’s unmet need can and should be accommodated in the District Plan, and that this can be achieved sustainably without conflicting with policies in the Framework. The evidence also demonstrates that the market can sustain such figures.

That leads to a minimum housing requirement for the plan period of 1,026 dpa, or 17,442 dwellings over the 17 year life of the plan.

The way forward

Further work will be required to identify sites or broad areas of land for potential development. At the hearings the Council expressed a strong preference for undertaking this work now. In conjunction with other public bodies and the development industry, there needs to be a positive and pro-active re-assessment of known sites and the identification of potential areas of growth. The self-imposed threshold for strategic sites should be lowered significantly from the current 500 dwellings. This will not only help with the identification of sites, it will enable a range of sites of different sizes to come forward at different times, and will limit exposure to delivery issues that can arise from the identification of only two or three very large sites, a subject which is particularly relevant to 5 year housing land supply. For the same reasons, as well as identifying strategic sites, the Council is strongly advised

to bring the Site Allocations Plan forward to an earlier date – although that might not be so important if the strategic sites threshold is dropped substantially and a range of sites and locations is identified now.

As part of this work, the spatial strategy should be clarified by establishing the approximate number of dwellings expected in each settlement or groups of settlements. The District Plan is a strategic plan and should contain this information. As submitted it is not sound because it provides inadequate guidance to neighbourhood plans and to the future Site Allocations Plan on the amounts of housing development they should aim to accommodate. Up to now, neighbourhood plans have been produced without sufficient guidance of this sort and indeed without the knowledge of the OAN and housing requirement. Future plans, both neighbourhood plans and the Site Allocations Plan, must take account of both the housing requirement and the numbers of new homes expected in each settlement otherwise they could well be at variance with the District Plan's spatial strategy and be unsound themselves. The District Plan must state that all future rounds of planning at the level below the District Plan must take into account the District Plan's spatial strategy and the amounts of development it expects at particular settlements.

The 5 year housing land supply will need to be calculated against the minimum housing requirement of 1,026 dpa once the site and land identification process has been undertaken. The methodology and trajectory can be discussed again at that time.

I shall look forward to seeing you at the hearing on 28 February to discuss selected topics that we have not already covered. We are then due to meet at a further hearing on 3 March to discuss the implications of this letter for future work. However, I will not enter into discussion on this letter's conclusions at either of the forthcoming hearings. Housing matters have been thoroughly researched and discussed and I do not consider that the outcome of either of these hearings will affect my interim findings on the housing requirement to any significant degree. The purpose of the hearing on 3 March is to talk about the further work programme and timescale required to make the plan sound, and to that end I invite you to send to me relevant headings for that discussion once you have considered the contents of this letter.

On receipt of this letter, the Council should immediately make it available to all interested parties by adding it to the Examination website.

Yours sincerely,

Jonathan Bore

INSPECTOR