

NORTH ESSEX AUTHORITIES**Strategic (Section 1) Plan****Inspector:** Mr Roger Clews**Programme Officer:** Andrea Copsey**Tel:** 07842 643988**Email:** copseyandrea@gmail.com**Address:** Examination Office, Longcroft Cottage, Bentley Road, Clacton-on-Sea, Essex CO16 9BX

To:

Emma Goodings, Head of Planning Policy & Economic Development, Braintree District Council

Karen Syrett, Place Strategy Manager, Colchester Borough Council

Gary Guiver, Planning Manager, Tendring District Council

27 June 2018

Dear Ms Goodings, Ms Syrett and Mr Guiver

EXAMINATION OF THE STRATEGIC SECTION 1 PLAN**Meeting the Need for New Homes (Plan chapter 4)**

1. As indicated in my letter of 8 June 2018 (*Advice on the Next Steps in the Examination*), I am now writing to give my views on chapter 4 and policy SP3 of the Section 1 Plan [“the Plan”], which cover the Plan’s housing requirements. I am not inviting comments on this letter, but please contact me via the Programme Officer if you have any queries on it.
2. This letter should be read in conjunction with my letter of 8 June. The views expressed in it are based on the evidence currently before me. I reserve the right to modify these views in the light of any further evidence that may come forward before the examination ends.
3. As noted in my letter of 8 June, in document SD002a¹ the NEAs have suggested modifications to address some of the issues of soundness that

¹ *Suggested Modifications to the Publication Draft Braintree, Colchester and Tendring Local Plans: Section One* (Feb 2018)

have been identified during the examination. These include modifications to policy SP3 and its reasoned justification. Accordingly, the main purpose of this letter is to consider whether the housing requirement figures contained in submitted policy SP3 are soundly based.

Housing need in North Essex

4. Submitted policy SP3 sets out housing requirement figures for the Plan period for each of the NEAs². They equate to the objectively-assessed housing need [OAHN] for each NEA as calculated by the *Objectively Assessed Housing Need Study, November 2016 Update* [the OAHN Study]. The OAHN Study covers a housing market area [HMA] that includes the three NEAs plus Chelmsford. While consideration of a HMA also including Maldon would have been valid too, the exclusion of Maldon makes no practical difference to the conclusions of the study for the NEAs.
5. The Government intend to introduce a new standard method for calculating housing need. However, it has not yet been introduced and the current national guidance on assessing housing need is contained in national *Planning Practice Guidance* [PPG].
6. PPG recommends using the latest official national household projections as the starting-point for assessing housing need. For Braintree and Colchester the OAHN Study takes the latest 2014-based projections as its starting-point. Having considered the thorough analysis contained in the study, and the other relevant evidence presented, I am satisfied that there are no local demographic factors or evidence of suppressed household formation rates that might require adjustments to those projections.
7. For Tendring, however, the OAHN Study takes a different approach to the starting-point figure in order to correct what it sees as an inaccuracy in the official projections originally manifested in Unattributable Population Change [UPC].

UPC in Tendring

Should account be taken of the factors giving rise to UPC?

8. UPC is the term given to the discrepancy between population change between 2001 and 2011 as measured by the Censuses for those years, and population change over the same period as calculated in official Mid-Year Estimates [MYEs]. At a national level the discrepancy is relatively small but

² The three NEAs in the context of this letter are Braintree District Council, Colchester Borough Council, and Tendring District Council.

locally it can be substantial. Tendring's UPC is a positive figure of around 10,500 and is one of the biggest of any LPA in England.

9. UPC is the result of inaccuracies in the Census, or the MYEs, or both. To the extent that it is due to inaccuracies in the MYEs, those inaccuracies are likely to relate to the way in which migration trends are calculated, since the other components of MYEs – records of births and deaths – are highly reliable. Any inaccuracies in the calculation of migration trends, if uncorrected, may in turn affect the accuracy of the official population and household projections for future years.
10. PPG does not explicitly refer to UPC but it does acknowledge that local changes to the official household projections may be justified by local circumstances if they are supported by robust evidence. Such local circumstances might include factors affecting migration trends such as changes in employment growth, a large employer moving in or out of the area, or a large urban extension in the last five years.
11. Notwithstanding the general position on UPC taken by the Office for National Statistics [ONS] and the Local Plans Expert Group, I see nothing in national planning policy or guidance to prevent local changes to official household projections also being made to take account of the factors that gave rise to UPC. To justify such changes for Tendring would, however, require robust evidence that those factors continue to have a substantial distorting effect on the migration trend rates used in the official population and household projections for the district.

Evidence on the factors giving rise to UPC

12. Evidence on the factors that gave rise to UPC has evolved over time. Consequently it would no longer be appropriate to view the 2016 OAHN Study as providing the principal justification for the NEAs' view that 480 dwellings per annum [dpa] should be taken the demographic starting-point for assessing housing need in Tendring, rather than the officially-projected growth figure of around 670dpa³. It is necessary to engage with more recent evidence that is before the examination, including evidence produced originally for two planning inquiries in 2017⁴, and papers dealing with the implications of the 2016-based sub-national population projections [SNPP]⁵.

³ The 2014-based household projections give a figure of 625 households per annum, which translates to almost 670dpa with an allowance for vacancies and second homes.

⁴ PINS references APP/P1560/W/17/3169220 and APP/P1560/W/17/3183678, 3183626 & 3183695

⁵ EXD/037 & EXD/038

13. In July 2017, inquiry evidence by consultant Neil McDonald concluded that adjusting the latest (2014-based) household projections to correct for the inaccuracies in the migration flow data suggested a demographic housing need of between 420dpa and 540dpa. Those figures correspond to a range of between 60% and 40% of UPC in Tendring being attributable to inaccuracies in estimating migration. Advice from ONS indicates that some 47%-57% of the UPC figure for Tendring is attributable to inaccuracies in migration trend rates. Mr McDonald's evidence demonstrates that the NEAs' starting-point figure of 480dpa – which lies at the middle of his range – is consistent with the ONS advice.
14. In reaching his conclusions Mr McDonald considered a suggestion that the errors in migration flow estimates were likely to have been concentrated in the early part of the decade 2001-11, and therefore to have had little or no effect on the latest household projections⁶. However, he demonstrated convincingly, both through a detailed analysis of migration flows between 2001 and 2016, and subsequently by comparing household growth as indicated by MYEs with the actual number of dwellings added to the housing stock, that in Tendring's case that suggestion is not borne out.
15. ONS introduced improvements to estimates of international migration and foreign armed forces dependants when preparing the base data for the 2016-based SNPP. But those factors make a much smaller contribution to population and household change in Tendring than internal (within-UK) migration, estimates of which are not affected by the ONS improvements. Having considered all the conflicting evidence on this point, I consider it is highly likely that errors in migration trend rates continue to affect the official household projections for Tendring in the way that Mr McDonald indicates. As the 2016-based SNPP will also have been affected by those errors, they provide no basis for taking a different view.
16. Indeed, later evidence from Mr McDonald suggests that errors in migration flow estimates may have an even greater distorting effect on household projections, and that when taken together with adjustments to mortality rates made by ONS, they mean that Tendring's demographic starting-point should be within a range from 380dpa to 460dpa. However, the NEAs prudently propose no change to their original figure of 480dpa.
17. Rebasings the household projections to reflect the 2016 MYEs, as was also suggested, would be inappropriate as it would ignore the persuasive evidence that the errors that gave rise to UPC continue to distort migration trend rates for Tendring. Nor do I agree that household formation rates should be adjusted from those used in the latest official household

⁶ Since ONS's migration trend rates are based on the previous five years (for migration within the UK) or six years (for international migration).

projections, notwithstanding that this has been done in other plan examinations. A number of cogent studies now indicate that household formation rates lower than those experienced before 2008 are not a temporary phenomenon but reflect longer-term changes in economic and social circumstances⁷. There is no substantial evidence to show that Tendring is an exception to those changes.

Conclusions on the factors giving rise to UPC

18. Drawing all these points together, I find that the evidence before me supports the NEAs' position that 480dpa is the appropriate demographic starting-point for assessing housing need in Tendring. A departure from the official projections is justified in this case by both the scale of the difference between this figure and the figure derived from the official household projections, and the robustness of the evidence that the difference is due to the continuing effect of factors that gave rise to UPC.
19. UPC in Chelmsford and Braintree was very small: less than one-tenth of that experienced in Tendring, on a percentage basis. It was more significant in Colchester (though still much lower than in Tendring), but as in Tendring it was negative, making it highly unlikely that UPC involved misallocating part of Colchester's population to Tendring. I therefore see no cause for concern that adjusting for factors that gave rise to UPC in Tendring only would increase housing need in other parts of the HMA.

Employment trends

20. The OAHN Study compares two economic forecasts of job growth and associated dwelling requirements for Braintree and Colchester. In each case the higher of the two dwelling requirement forecasts (from the East of England Forecasting Model) indicates that an increase in the starting-point figure for housing need is required if labour supply and economic growth are not to be constrained. The respective increased figures are 702dpa for Braintree (against a starting-point of 623dpa) and 920dpa for Colchester (starting-point 866dpa). Sense-checks indicate that trends implied by the model for factors such as unemployment, economic activity rates, double-jobbing and commuting are realistic.
21. For Tendring the OAHN Study takes the view that a standard economic forecast would not be reliable because of the distortions introduced by UPC, as discussed above. A bespoke forecast commissioned from Experian, however, indicates that housing provision of 550dpa would meet future

⁷ See, for example, Simpson, *Whither Household Projections?* in *Town and Country Planning* Dec 2014, and McDonald & Whitehead, *New Estimates of Housing Requirements in England 2012 to 2037*, TCPA, Nov 2015..

labour demand in full. Moreover, Experian's forecast growth figure of 490 jobs per annum is significantly higher than past trends would suggest. While scenarios drawn up on a different basis suggest that higher levels of housing provision would be needed to sustain lower rates of job growth, I find nothing to indicate that they are more robust than the Experian forecast.

22. The evidence before me therefore gives no cause for concern that economic growth in North Essex will be hampered by lack of housing. Having said that, the interrelationship between housing and job growth is complex and I would recommend that the NEAs monitor it carefully during the Plan period, not just in Tendring but in all three districts.

Market signals

23. As advised by PPG, the OAHN Study analyses trends in housing delivery, house prices and rents, and affordability for each of the NEAs. While it focusses on absolute levels when considering those indicators, an alternative analysis of rates of change does not reveal any marked differences in their relationship to national and regional trends. In broad terms, affordability issues are greatest in Braintree, while Tendring shows evidence of significant past under-delivery. In Colchester, on the other hand, affordability indicators are generally below the regional average, and past delivery has generally met plan targets.
24. On that basis the OAHN Study recommends an upwards market signals adjustment of 15% to the starting-point figures for housing need in Braintree and Tendring. No market signals adjustment is recommended for Colchester. The recommended uplifts for Braintree and Tendring are substantial in both percentage and absolute terms, and in my view can be reasonably expected to improve affordability and housing delivery in those two areas. A suggested alternative approach, using uplift factors derived from national studies on the need for housing growth, does not reflect PPG's emphasis on how market signals adjustments will affect the local housing market.

Need arising in London and elsewhere

25. The analysis in the OAHN Study indicates that any increase in net migration to the NEAs based on forecasts prepared by the Greater London Authority [GLA] in 2013 would be very limited. The other evidence before me does not justify any additional adjustment to the housing need figures for North Essex to account for need arising in London, and no such adjustment has been requested by the GLA. No meaningful conclusions can be drawn from the evidence being prepared for the forthcoming examination of the new

London Plan until that examination has concluded. There is no evidence of any unmet need arising elsewhere that ought to be met in North Essex.

Affordable housing need

26. Affordable housing need in North Essex is calculated in accordance with PPG in the *Strategic Housing Market Assessment Update* December 2015 [SHMA]. The resulting figures are 212dpa for Braintree, 267dpa for Colchester and 151dpa for Tendring. These figures represent, respectively, around 30%, 29% and 27% of the overall housing requirement for each district as recommended in the OAHN Study.
27. The SHMA assumes that households are not regarded as needing affordable housing unless the cost to them of renting (or buying) in the private market would exceed 35% of gross household income. That 35% threshold reflects the existing situation in the housing market area, as demonstrated by evidence from household surveys and letting agents. However, it is relatively high in a national context, as evidence from other examinations shows. Thresholds of 25% to 30% are more common unless there is local evidence to show that a higher threshold is appropriate.
28. An appropriate measure is to compare the residual income available to lower-quartile income households when different thresholds are applied. Income levels in Braintree and Colchester are significantly higher than the national average. On the 2015 figures shown in Figure 2.9 of the SHMA, lower-quartile income households spending 35% of their gross household income on rent would be left with a residual income of £11,825 in Braintree and £11,017 in Colchester. At a national (England and Wales) level, those levels of residual income would equate, respectively, to expenditure of 24% and 29% of gross household income on rent. Against that national comparison, I consider that the local evidence supports a 35% threshold in Braintree and Colchester.
29. By contrast, income levels in Tendring are significantly lower than the national average. On the same 2015 figures, spending 35% of their gross household income on rent here would leave a lower-quartile income household with a residual income of only £8,582, some £1,500 below the corresponding figure for England and Wales. I consider that this discrepancy justifies use of a lower threshold of 30%, consistent with national benchmarks, for market housing affordability in Tendring. In view of existing local market conditions it would be unrealistic to set a lower threshold. This adjustment has the effect of increasing affordable housing need in Tendring to 278dpa⁸.

⁸ SHMA, Table A7.1d

30. Policies in the Section 1 and Section 2 plans set affordable housing requirements of 30%-40% in Braintree, and 30% in Colchester, Tendring and at the proposed GCs. Some additional affordable housing is likely to come forward on exception sites, or directly from affordable housing providers. On this basis there is a good prospect that affordable housing need will be met over the Plan period in Braintree and Colchester if their overall housing requirements are met in full, even after allowing for the fact that a proportion of sites will be exempt from the policy requirements.
31. In Tendring, however, affordable housing need of 278dpa represents around half the objectively-assessed need figure of 550dpa. Even after allowing for other sources of provision, that will not be delivered by an affordable housing requirement of 30%, and there is no evidence to show that a higher percentage requirement would be viable. In these circumstances PPG advises that an increase in the overall housing requirement should be considered where it could help deliver the required number of affordable homes.
32. However, Tendring's OAHN of 550dpa already requires annual housing delivery to more than double from the annual delivery rates experienced between 2010 and 2016. The need to make up the large shortfall in provision since the start of the Plan period will produce a substantial further increase in the required annual delivery rate, at least in the early years of the Plan period. Meeting that higher delivery rate will itself increase affordable housing provision significantly above that which would be derived from the OAHN alone. Moreover, given the scale of the uplift in delivery already required, it seems very unlikely that there would be effective demand for an even higher level of overall housing provision.
33. In these circumstances I consider that increasing the housing requirement for Tendring above 550dpa would be both unnecessary and ineffective in securing additional affordable housing provision in the foreseeable future. However, the need for such an increase should be considered again at the Plan's next review, based on up-to-date evidence of affordable need and an analysis of market and affordable housing delivery in the early years of the Plan period.

Review and recovery mechanisms

34. In view of my conclusions on the proposed GCs, it would be premature to reach any conclusions at this stage on whether review and recovery mechanisms need to be built into the Plan to deal with any future delays or shortfall in housing delivery.

Conclusions on housing need and requirements

35. The OAHN Study concludes that housing need for Braintree and Colchester is 716dpa and 920dpa respectively. For Braintree, 716dpa represents a 15% market signals uplift on its starting-point figure. As this exceeds the housing need figure of 702dpa derived from the EEFM, the OAHN Study assumes, correctly, that no additional adjustment is needed. The market signals uplift will itself provide enough dwellings to meet future labour demand. For Colchester, 920dpa is the figure derived from the EEFM economic model, with no further market signals adjustment required. I endorse those figures as representing the objectively-assessed housing need for Braintree and Colchester.
36. I have concluded above that 480dpa should be taken as the starting-point for assessing Tendring's housing need. Applying the 15% market signals adjustment recommended in the OAHN Study produces a round figure of 550dpa, which I conclude is the objectively-assessed housing need for Tendring. For the reasons given above I find no need to increase that figure to meet future labour demand or help deliver a higher proportion of the affordable housing need, although the need for such an increase should be reconsidered when the Plan is reviewed.
37. The housing requirement figures for each of the NEAs set out in submitted policy SP3 are the same as the figures which I have concluded represent their respective objectively-assessed housing needs. Accordingly, submitted policy SP3's housing requirements are soundly based.

Yours sincerely

Roger Clews

Inspector