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NPPF Revisions: the wrong direction?

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The proposed changes to the NPPF don't match the government's ambitions

After several aborted efforts at reforming the planning system over the last three years, the Government published its draft revisions to the National Planning Policy Framework (NPPF) at the end of December 2022. This is the first in a series of anticipated reforms to be introduced through the Levelling Up and Regeneration Bill, which is expected to become law later this year. The consultation states that the changes are designed to

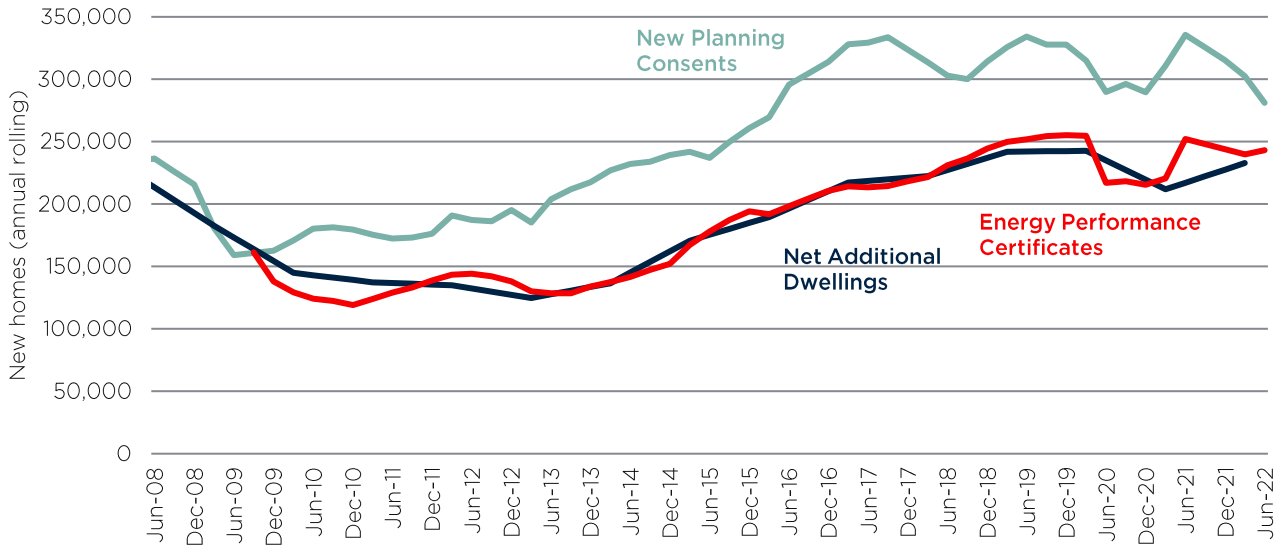
- Clarify how housing need figures should be derived
- Improve the operation of the housing delivery and land supply test
- Increase build out rates
- and increase incentives to adopt and maintain local plans

In the consultation papers, the Government reiterated its commitment to increasing housing delivery to reach the target of 300,000 homes per year. However, our analysis of the proposed changes suggests that they will not produce the desired results, either through encouraging a higher level of plan making with suitable house targets, or through holding local planning authorities (LPA) to account to ensure they deliver the number of homes they should be planning for. The optics of the reforms appear to facilitate greater local decision making. But the proposal that the standard method for calculating need becomes a "advisory starting point" will likely result in more LPAs adopting lower housing targets. Changes to the operation of the Housing Delivery Test and 5 year housing land supply (5YHLS) requirements will limit the potential for developers to bring forward sites under the presumption in favour, even when LPAs may not be delivering enough homes. The conundrum also remains of unmet housing needs, notably those of the 20 largest urban areas.

Why are changes needed?

Following the introduction of the NPPF in 2012, combined with the market recovery from the global financial crisis, the number of planning consents being granted in England climbed steadily, from around 175,000 consents in 2011 to 330,000 consents per year in 2017. However, progress has stalled since then, and the number of consents granted in the year to June 2022 was the lowest level since March 2016. This has fed through to a levelling off in housing delivery at between 220,000 – 240,000 new homes per year since 2019, well short of the Government's 300,000 homes per year aspiration. A shortage of available land in the market contributed to a 13.3% rise in land values in the year to September 2022, and planning delays have been recorded as the most significant constraint on development in all but one of the last 12 HBF quarterly surveys.

Figure 1: Consents and net additional dwellings



Source: Glenigan, DLUHC

Up to date plan making?

The proposed revisions to the NPPF aim to make the planning system work more effectively with local communities, with a higher level of democratic engagement. Government is seeking a higher frequency of local plan making, and in return will strengthen the weight given to adopted plans when considering speculative planning applications.

In theory, this should result in more proactive plan making, and a level of housebuilding in line with housing need in the most sustainable locations. Despite the NPPF being in place for over a decade, 1 in 5 LPAs are still yet to adopt a post NPPF plan, and the rate of adoption has slowed over the last year to just 15 new plans. Incentivising plan production should be a positive step, provided those plans meet needs, and include sufficient contingencies to incentivise adequate delivery.

However, evidence from the last decade suggests that simply having an up to date plan in place has not resulted in housing delivery in line with adopted annual targets. Since 2013, 54% of LPAs have failed to meet their annual delivery requirement in the five years following the adoption of a local plan. This suggests that giving more weight to an adopted local plan and limiting the potential for speculative planning applications arising from regular monitoring of delivery is likely to result in a fall in housebuilding. It also suggests that plans are being adopted without sufficient buffers above need, and a sufficient mix or variety of site allocations.

Planning for the right number of homes

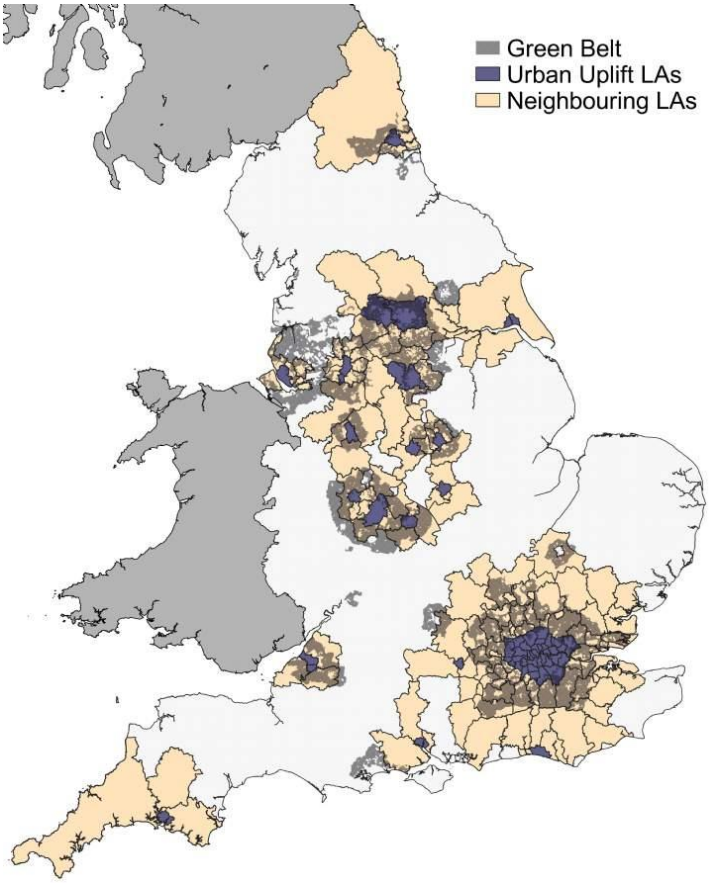
Currently, LPAs are supposed to set their housing targets using the standard method of calculating housing need, which was introduced in 2018 in an attempt to make the planning system more responsive to the housing market. The current method, excluding the 35% urban uplift requirement produces a combined housing need for England of 267,000 homes, well short of the 300,000 target.

Although no immediate changes to the standard method of calculating housing need are proposed, caveats are introduced which make the standard method figure an "advisory starting point" for setting the housing target for each LPA. There is still a requirement to meet housing needs "so far as possible", but this is open to interpretation and in practice sets a lower bar than the previous requirement to use the standard method figure, to meet identified needs, and only use an alternative method in exceptional circumstances.

We anticipate that making this requirement less stringent, alongside the proposed removal of the 'justified' test of soundness, will result in local authorities planning for housing targets that do not meet need. Even under the previous exceptional circumstances test, 56 of the 99 local plans adopted since the standard method was introduced in 2018 have adopted targets that are lower than their standard method need figure. Even more concerning is that all of these LPAs have a house price to income ratio above the England average; they are among the least affordable locations in the country and therefore are the types of market that have the greatest need for more housing.

Many of the LPAs that have adopted lower targets have to manage the challenge of land constraints. Of the 56 LPAs, 21 are authorities containing Green Belt land. Of those, 4 (4%) are districts with more than 75% Green Belt. Being a predominantly urban LPA also appears to be a significant constraint on the ability of LPAs to adopt Local Plans with housing targets that meet their need figure. Of the 12 LPAs that are more than 75% urban and have adopted a Local Plan since the standard method was introduced, nearly all adopted housing targets lower than SM housing need, with just one LPA (Watford) adopting a higher target.

Figure 2: Urban areas and Green Belt



Source: Savills Research

This would be less concerning if there was a robust mechanism that ensured any unmet housing need arising in constrained LPAs could be accommodated elsewhere. But the proposed revisions in the Levelling Up and Regeneration Bill include the intention to remove the Duty to Co-operate, but does not specify any replacement mechanism. Analysis of the 20 largest cities which should have a 35% uplift to their housing need shows that 11 of them are not part of a strategic planning mechanism. Of these urban LPAs which are within a statutory strategic planning arrangement, only Liverpool City Region is currently progressing with a joint plan. Previous research by Savills has demonstrated the difficulties of planning for the 35% urban uplift without co-operation with neighbouring authorities. This is likely to become even more challenging as the consultation proposes to make clear to local planning authorities are not required to review and alter Green Belt boundaries to meet housing need in full, even though this is a major constraint for many urban areas. A future consultation draft NPPF, will surely have to properly address the need for some form of 'larger than local' strategic planning mechanism.

Identifying enough land

A similar issue is likely to arise with the suggested changes to the requirement for a 5YHLS. LPAs with an up to date local plan will no longer have to demonstrate a continually deliverable 5YHLS. This is again aimed at increasing the incentive to adopt a local plan, and to give sites identified in the local plan process greater priority over speculative

applications. In addition, the requirement to include a 5% buffer on land supply as a minimum or 10% or 20% if specific criteria are met is proposed to be removed.

We anticipate that removing this requirement will also result in a fall in housing delivery. Since 2018, 35% of LPAs that had published a land supply statement of over five years did not meet their annual target over the following five years. Just under 40% of those failing to meet their target also had an up to date plan in place. Therefore, considering that even those LPAs that claim to have identified enough land are struggling to deliver enough homes to meet need, removing the requirement to demonstrate a 5YHLS seems counterproductive.

The removal of the requirement to have a 20% buffer in 5YHLS if meeting less than 85% of need under the Housing Delivery Test will have a lesser impact. 95 LPAs have adopted a local plan in the last five years and are not currently reviewing their planning policies. Of these, 34 (36%) were unable to prove five years' worth of housing land as of December 2022 and 22 (23%) are expected to fall short of their housing targets in the 2023 Housing Delivery Test, under current rules.

If an LPA records a Housing Delivery Test measurement lower than 85%, they are required to add a 20% buffer to their 5YHLS requirement. At present, 64 LPAs are subject to the 20% buffer. Savills analysis of published land supply figures found that 40 LPAs subject to the 20% buffer failed to prove their 5YHLS requirement in 2022 . If the buffer did not apply, the number of LPAs that would remain the same, at 40. 33% of the LPAs were in the South East, the largest share.

Taking these changes to the local plan housing requirement and 5YHLS in combination, while more up-to-date local plans may be produced, it will likely be at the expense of housing targets that fully meet need, particularly in the most unaffordable locations. Furthermore, having an up to date local plan or published 5YHLS has been no guarantee of delivery that meets targets in the past; limiting the ability to bring sites forward outside of these processes is likely to further reduce the development pipeline. Previous analysis by Savills showed that 66% of all units permitted at appeal (equivalent to around 10% of annual consents) were due to a local authority being unable to demonstrate a deliverable 5YHLS.

Accounting for over delivery

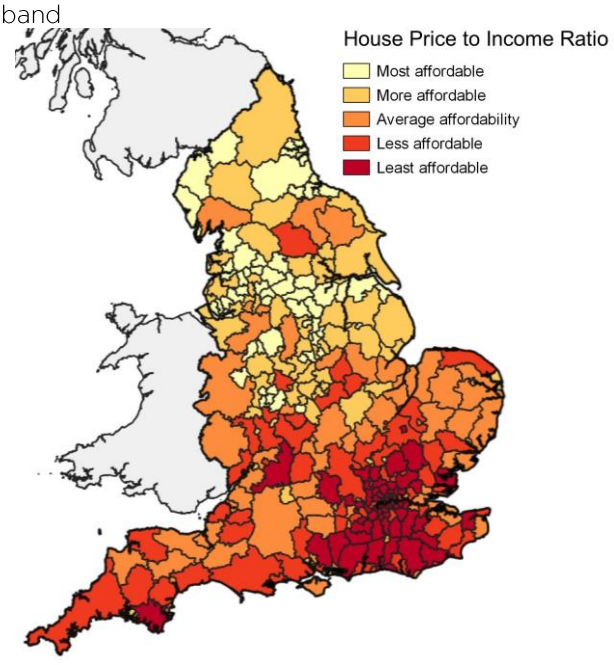
It is also suggested in the consultation that LPAs with out of date local plans should be able to adjust their 5YHLS to account for historic oversupply of homes. This aims to prevent penalising LPAs that overdeliver their housing requirements early in the plan period, and again limit the circumstances when the presumption in favour could apply if the LPA cannot demonstrate a 5YHLS when it can show historic over delivery.

To measure the effect of "over-delivery", we compared housing delivery over the five years to March 2022 with both Local Plan targets and Standard Method need for housing need over the same period. Against plan targets, 172 LPAs (56%) met or surpassed the target, with 121 (39%) surpassing plan targets by 115% or more. There is a slight regional element – in the South East, only 47% of LPAs met 100% or more of planned need, compared to 67% in the North West.

However, as noted above, plan targets can often understate need. Therefore, it is useful to compare delivery against objectively-assessed need, using the Government's Standard Method. This shows a clear trend both by region, and by the affordability of housing markets. In London, 31 out of 33 LPAs failed to meet even 85% of their standard method housing need, along with 53% in the East and 67% in the South East. In these regions, this change would have little impact. By contrast, 75% of LPAs in the North East and 69% in the North West surpassed their need figure by 115% or more. Of the LPAs that delivered 100% or more of their standard method housing need, 29% were among the most affordable quintile, vs 7% in the least affordable. This change is therefore unlikely to have significant consequences across the wider South East, but will have more significant impact on the North East and North West of England.

Figure 3: Delivery against Standard Method need by affordability band

	Over 115%	100% - 115%	85% - 100%	Under 85%
Most affordable	12%	1%	2%	5%
More affordable	10%	1%	1%	7%
Average affordability	6%	3%	4%	8%
Less affordable	5%	2%	2%	10%
Least affordable	2%	1%	1%	17%



Source: Savills Research using DLUHC and ONS

Ensuring that planned development is delivered

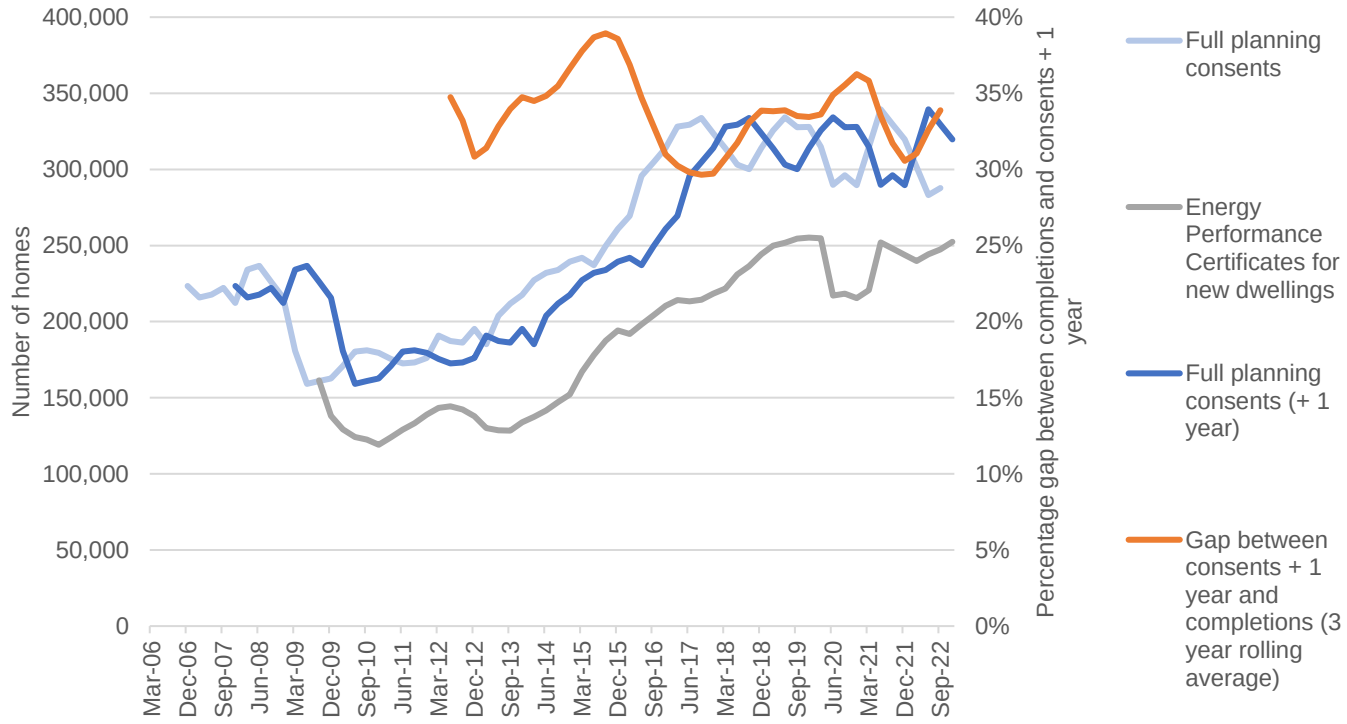
Moving from planning to delivery, the Government is proposing changes to the Housing Delivery Test, first introduced in 2018. If a LPA is granting sufficient permissions, but the permissions are not built, the presumption in favour for LPAs delivering less than 75% of need would not apply. The Government does allow for some contingency, setting a buffer of consents as 115% of the housing requirement.

In the three years to March 2022, only 40% of LPAs granted consent for 115% or more homes than required of their local plan target. That figure was lower when judged against the latest Standard Method figures for housing need – only 36% granted consent for more homes than were required over the same period.

For LPAs that have consented 115% or more of their target, the average non implementation rate between consented units and homes delivered was -23%, compared to -7% for all LPAs across the country. 27% of LPAs fell short of their local plan delivery target even when they have given consent to 115% or more homes than required. However, only 9 LPAs consents in excess of 115% of their housing target and saw delivery of less than 75%, suggesting this change to how the presumption in favour operates will apply in very few cases.

This proposal does however pose some challenging questions about what an appropriate level of "excess" consents is to ensure LPAs meet housing targets. This goes to the heart of whether plan-making and housing delivery should include an appropriate buffer. If the Government want policy to reward LPAs for surpassing targets then it should recognise the level of planning permissions required to meet 300,000 new homes per year. Assuming a 1 year period between consent and completion, there has consistently been a 30-35% gap between consents and completions since the completion level reached around 250,000 homes per year in 2019.

Figure 4: The relationship between consents and completions



Source: Savills Research using Glenigan and DLUHC

Therefore, while the 115% threshold may be high enough for LPAs to deliver over 75% of need, a considerably higher number of consents need to be granted to ensure LPAs consistently meet their housing need targets. Only 30% of LPAs granted consents in excess of 130% of need in the three years to March 2022. This highlights the importance of retaining a 'buffer' in either the 5YHLS, or in respect of positive plan-making for housing above need.

The Government should also consider the appropriate timing for the consents against delivery test. We have assumed 1 year in the exercise above, but this will not be a realistic time period in many cases, particularly for larger, more complex sites. Since 2014, there has been a growing proportion of larger sites coming through the planning pipeline. In 2022, more than 30,000 homes were consented on sites of more than 1,000 homes. This compares with 4,600 in 2016.

Previous analysis of delivery rates of large sites by Savills since 2010 found that the average time from approval of reserved matters to starting on site was just under 6 months, and that delivery in the first year of construction averaged 65 homes. At these rates, large consents for sites with capacity for hundreds of homes would take many years to build out completely, and the full number of homes should not count towards a deliverable land supply over a fixed period, rather be monitored annually. This places in question the Government's proposition to 'fix' the land supply over set five year periods. Thus, up to date plans, should still be regularly reviewed and always monitored.

This issue is indicative of the core issue surrounding the NPPF revisions. While encouraging local decision making and proactive planning, it should not come at the expense of the ability to test the deliverability of plans and land supply. To be effective plans need regular review, against annual monitoring of delivery. Given the time taken to produce and review local plans, retaining ways to challenge undeliverable land pipelines and bring forward sites through the presumption in favour of sustainable development in cases where a local plan is not meeting housing need should be a key consideration for Government if it really hopes to achieve the objectives set out at the start of this paper.

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