

Locally derived housing need – considering an alternative to the “standard method”

October 2022

1. This note sets out a potential approach to locally derived assessments of housing need within a framework of a simple and proportionate minimum baseline which reflects the agreed objective of continuing to boost the delivery of new homes.

We all agree we need to build more homes

2. The necessity of increasing supply to address a worsening housing crisis, arising from persistent under-delivery, is accepted by the main political parties. **The ambition to deliver 300,000 homes per annum in the Conservative manifesto was born from an acceptance of this issue and its importance.** Recent years have seen an encouraging and sustained increase in new homes delivered. An average of 228,139 homes have been delivered nationwide over the last five years for which data is currently available (2016-21).
3. Despite this there is clear and widespread evidence that the **housing affordability crisis has continued to worsen.** Efforts to boost the supply of new homes must continue. Any revised policy approach to the assessment of housing needs must focus on further increasing the delivery of high quality, well designed and energy efficient homes in the places where people want to live.
4. All available levers must be used to sustain, and increase, this rate of housing delivery. This should include **retaining a national housing ambition that the planning system and industry will strive to deliver.**

A clear and consistent approach to need and ‘the presumption’ have helped to boost supply

5. The introduction of the National Planning Policy Framework (NPPF) in 2012 brought a positive expectation to significantly boost the supply of housing. Its presumption in favour of sustainable development (“the presumption”), which includes meeting our communities’ needs for good quality homes in places they want to live, is an essential policy platform for communities and our industry. It **helps to provide certainty for developers and ensures all new development complies with the NPPF’s clear commitment to sustainability.**

6. The standard method was subsequently introduced in 2018 to cut through difficulties and delays in adopting up-to-date Local Plans often caused by protracted debates about housing need. It admirably aimed to provide a simple approach that stopped any gaming of the system, or ducking of difficult decisions. **The time between a Local Plan being submitted and found sound has reduced by 13% since the standard method was introduced for plan-making in January 2019¹.**
7. In combination these measures have boosted the delivery of new homes to its highest level in a generation.
8. Figure 1 (next page) powerfully illustrates the impact of these measures working in parallel. It shows **that housing delivery, as a rolling three-year average, reached its highest level for at least thirty years over the three years to 2020².** This can be sustained despite the dampening effect of the COVID pandemic on home building.

Reactionary reforms are not part of the solution

9. Industry is in agreement that **the removal of targets without a mechanism to sustain housing delivery will lead to an immediate collapse in housing permissions and as a result supply.** This would prevent another generation from having the opportunity to access homes which meet their needs; result in the loss of hundreds of thousands of jobs; and fundamentally undermine any attempt to drive a supply-led approach to economic growth.
10. The HBF’s letter to the Office for Budget Responsibility estimates that the removal of a national housing ambition would see the annual number of new homes delivered fall to just 140,000. This is 100,000 fewer than the number the industry is on track to deliver this year and a return to the lowest levels seen following the last recession. It estimates that this **would result in £17bn less economic activity generated, £5bn less spent on supply chains, £2.8bn less investment in affordable housing and £1.2bn less government tax receipts³.** This is a reflection of the significant economic footprint of the homebuilding industry.

¹ Monitoring by the Planning Inspectorate indicates that the twenty sound plans submitted since the standard method was formally introduced on 24 January 2019 took an average of 20 months to be found sound, compared to an average of 23 months for the plans submitted in the preceding year

² MHCLG (2021) Housing supply; net additional dwellings, England: 2020-21, Table 1

³ <https://www.telegraph.co.uk/business/2022/10/22/end-house-building-targets-will-deal-17bn-blow-economy-obr-warned/>

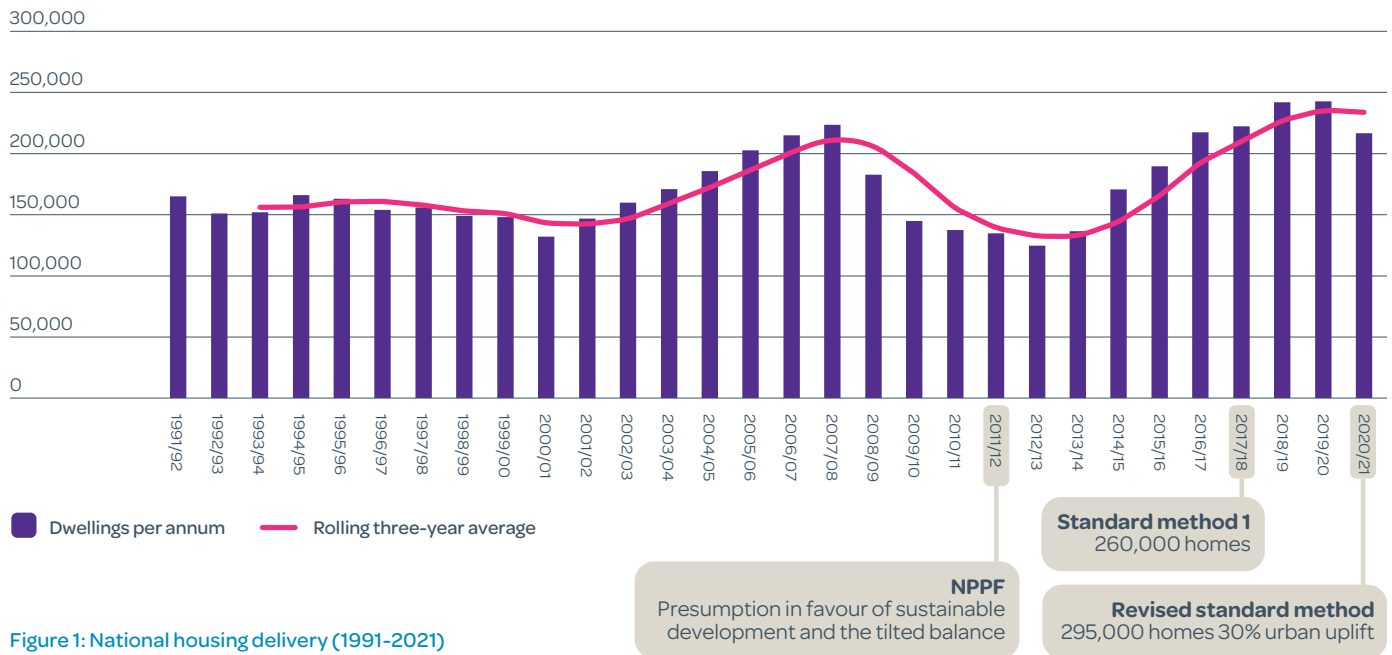


Figure 1: National housing delivery (1991-2021)

11. The potential economic impact of a collapse would also have wider consequences. Job losses in homebuilding would be significant and widespread. The absence of new housing where it is needed would reduce labour mobility, hamper employers' ability to attract the talent they require, and reduce the benefits new more efficient homes can have on carbon efficiency and rising energy costs⁴.

Plan-making must be prioritised to establish local responsibility for housing provision

12. The plan-making process provides a local democratic means of arriving at a housing requirement. Plan-making must therefore continue to be prioritised to realise any commitment to account for local drivers in planning for growth.
13. Past experience proves the need for an agreed starting point from which to plan if there is any chance of the ambition to boost the supply of housing to be realised. The rising number of local plans being withdrawn or delayed in the few months since the prospect of the standard method being reviewed is testament to the impact of uncertainty in this regard. Research by *Planning* identified 19 plans being stalled as at September 2022 and this number continues to grow⁵.
14. Certainty and consistency in plan-making are essential within planning reform which seeks to stimulate long-term economic growth and investment. Having an ambitious national baseline avoids what can be a "lowest common denominator" approach to housing need at a local level.
15. **Retaining and strengthening the national presumption in favour of sustainable development is therefore a vital policy lever** to encourage authorities to ensure their plans are up-to-date and make provision for the housing needs of their communities.

What are the limitations of the current approach?

16. The current approach⁶ is vulnerable to criticism for its reliance on increasingly dated and largely backward-looking demographic projections and because it projects forward many of the trends which have contributed to the current housing crisis.
17. The volatile and unpredictable nature of the available demographic projections has itself proven the limitations of the current approach. It immediately came under scrutiny when it was found, only shortly after its introduction, to be incompatible with more recent projections.
18. As Figure 2 (next page) demonstrates, in anticipating only 158,286 extra households per annum over the next decade, the most up-to-date 2018-based projections would – without adjustment – reduce national housing delivery to its lowest rate since the depths of the recession that followed the 2008 financial crisis. This arises because of the cyclical nature of such trend-based projections, where they bake in historical under-delivery and project the consequences forward.
19. Whilst the most recent demographic projections are not compatible with the national ambition to address the housing crisis, **the datedness of the higher 2014-based projections means that they are becoming more vulnerable to criticism.** These projections were widely considered to have been misestimating population growth even before the more definitive findings of the 2021 Census started to become available in June of this year. Initial Census data has confirmed that 129 local authorities had an average of 2.4% more residents than the 2014-based projections expected in 2021. The remaining 180 had an average of 3.2% fewer. It will be early 2024⁷ before the Census findings are factored into official projections.
20. The introduction of the cities and urban centres uplift into the method almost two years ago did not address its underlying weaknesses nor allow for a rebalancing of need. It instead provided an unjustifiably simple uplift to an arbitrary number of larger urban areas, any positive effects of which cannot hope to be realised in the short-term.

⁴ https://www.hbf.co.uk/documents/12053/HBF_Energy_report_-_Watt_a_save_-_Oct_2022.pdf

⁵ <https://www.planningresource.co.uk/article/1802582/council-delays-local-plan-work-housing-need-national-policy-uncertainties>

⁶ Which uses the 2014-based household projections as its starting point

⁷ ONS (April 2022) Guidance on the continued use of 2018-based subnational population projections, England

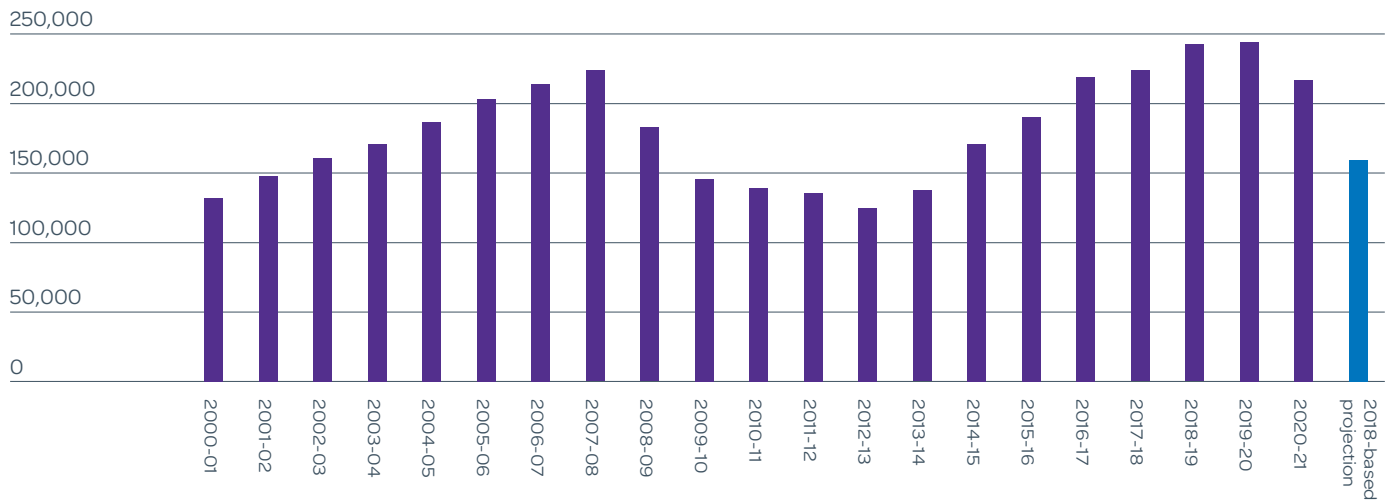


Figure 2: Benchmarking 2018-based household projections against past delivery (Source: DLUHC; ONS)

Volatile economic forecasts should not form part of a national baseline

21. **Off the shelf economic forecasts⁸ are unlikely to provide the stable foundation required at a national level.** The inclusion of such forecasts in any national housing baseline would arguably have already been complicated by their proprietary nature, with no sign that public bodies like the Office for Budget Responsibility will start to produce long-term forecasts at the local level. There is also widely accepted to be a need to feed economic forecasts into sophisticated demographic models to understand associated housing requirements. These issues are only compounded by the increasing volatility of the forecasts themselves, as forecasters have had to attempt to consider the local impact of Brexit, COVID-19, the war in Ukraine and surging inflation. The challenges involved have meant that in the past even *'state-of-the-art techniques'* have significantly underestimated job growth in parts of the country⁹.

Improving the current system by adding stability, simplifying, and using up-to-date data

22. The existing housing stock of an area is a reliable starting point and retains a tangible relationship to the size of a community. An **agreed minimum annual stock growth rate would set a floor or baseline for every authority** to work from in deriving their need and target.
23. The existing stock of an area reflects housing provision, need and demand over a much longer-term period. Larger settlements would see the more pronounced levels of need, complying with the principles of achieving sustainable development that are embedded in the NPPF. The Government has previously considered the use of housing stock within the calculation of need, where it was identified as offering *'the stability and predictability which has been absent when solely relying on household projections'*¹⁰.

24. As illustrated in Table 1, testing of different rates suggests that a minimum growth rate of 0.8 – 1.0% should be used. This would establish local baselines which collectively amount to a national floor of c.200,000–250,000 homes per annum. This is close to recent delivery rates and would allow further consideration of factors that may be driving higher housing need at a local authority level to support the objective of increasing delivery over the medium and longer-term. To illustrate, it would represent one additional home per annum for every 100-125 existing, or 80-100 new homes in a settlement with 10,000 homes.
25. **A stock-led baseline will distribute new housing more evenly and equitably across the country**, addressing concerns expressed by MPs in the south¹². It will **enable levelling up in a sustainable way and will optimise the capacity of the construction industry**. Its simplicity and fairness will foster greater understanding and acceptance by communities and councillors.
26. Data on housing stock, its age, type and condition is readily available and an important component of any assessment of the amount and type of housing needed by communities. It is an objective measure and provides a stable baseline that is not susceptible to fluctuations in the short-term.

Stock growth rate	National total	Authorities with higher figures than current method	Authorities with figures higher than peak delivery ¹¹
0.5%	124,360	43/309	0/309
0.75%	186,539	88/309	12/309
0.8%	198,975	103/309	16/309
1.0%	248,719	147/309	51/309
1.2%	298,463	194/309	104/309

Table 1: Testing stock growth rates

⁸ Of the kind available for purchase from leading forecasters such as Experian, Oxford Economics and Cambridge Econometrics

⁹ Cambridgeshire and Peterborough Independent Economic Review, final report (September 2018)

¹⁰ Ministry of Housing, Communities and Local Government (August 2020) Changes to the current planning system: consultation on changes to planning policy and regulations, paragraph 20

¹¹ Since 2001

¹² Table 1 confirms that 206 authorities would see their housing need reduce through this approach compared to the current method, this including 160 authorities in the East of England, South East, South West and London



Making assessments more attuned to local drivers

27. **The use of a simpler baseline increases the emphasis on locally applied adjustments to arrive at a representative assessment of housing need.** It is right that local evidence and knowledge is used to determine an appropriate target, as this can provide a mechanism for addressing a wide range of local issues.
28. Where the baseline need on its own falls short of the housing needed to address the consequences of historic under-delivery and support the country's economic growth, **local positive adjustments will be required to achieve a level of delivery nationally which will sufficiently boost supply.**
29. Planning Policy Guidance (PPG) should therefore stipulate factors that could create local pressures beyond the calculated baseline, and thus need to be considered. These could include:
 - A particularly sizeable need for **affordable housing**, and/or a rapidly growing housing waiting list;
 - A need to address **economic opportunities or pressures arising from major investments**;
 - A recognised need to increase delivery to prevent **worsening in the balance between house prices and earnings**;
 - A need to **redress the profile of housing available**, if there is a particular shortage of starter, aspirational, or specialist housing for older people or where rates of second or holiday homes are higher for example;
 - A need to tackle any growing local **imbalance between jobs and labour**, routinely and simply measured by the ONS using its "jobs density" metric for example;
 - A need to better **attract and retain skilled labour**, to support economic ambitions;
 - A need for investment in new housing to **drive regeneration and improve conditions for those living in relatively deprived areas**, with poor health and lower educational attainment for example; and
 - A significant local interest expressed on registers for **self-build or custom-build housing**.
30. Local authorities will be best placed to assess these factors and judge whether they prompt an adjustment above, or in exceptional circumstances, below the baseline need based on current housing stock.
31. **The current PPG** does not explicitly prevent these factors from being taken into account, but it **lacks a comprehensive framework** as to how plan-makers should do so and for local communities to easily understand the reasoning behind adjustments.

32. Some of the local factors are widely measured in ways that lend themselves to formulas, which **could be applied by plan makers where the scale of the issue warrants it.** A baseline could be adjusted to directly and proportionately reflect any worsening in the ratio between house prices and earnings, for example¹³. The jobs density figure could alternatively be divided by one hundred and itself multiplied by stock if the resulting figure is higher than the minimum growth rate¹⁴.
 33. Not all issues can be measured and treated in this way, however, so **a markedly simpler approach could see local authorities applying proportionate and stipulated uplifts to address any and each one.** Generated simulations – all beginning with the premise that each area annually grows its housing stock by a minimum of 0.8% - 1.0% per annum – suggest that this could produce a national figure of circa 230,000 homes if up to three 10% uplifts were applied at the local level, rising to around 255,000 homes if up to four were applied and to circa 270,000 homes if up to five were applied.
- A simplified approach could be implemented swiftly whilst a commitment is made to debate and agree a method which has greater longevity**
34. If the decision is made to drop the current standard method, the **proposal to retain a calculated floor – ensuring a consistent rate of stock growth – could be immediately applied in guidance**, emphasising its role as a baseline rather than a target.
 35. In order to build from this baseline starting point existing **guidance could also be amended quickly to enable local assessments to be undertaken using a clearer framework** to generate adjustments to the baseline.
 36. Collectively this will **create the certainty required for plan-making to continue** and address the negative perception of out-of-date "top down targets". For the reasons set out above this must be a priority.
 37. In recognition of the importance of the issue and the value in agreeing a process for assessing and providing for housing need, a parallel process could be launched to **initiate a debate around a method that can be agreed as having greater longevity.** This could potentially be led by an independent expert panel with alternative informed proposed approaches subject to consultation. This would give communities the opportunity to contribute to an assessment method.

¹³ A baseline equivalent to 0.8% of the existing housing stock, adjusted to reflect proportionate change in the median affordability ratio over the past five years, would currently produce a national total of circa 224,741

¹⁴ Multiplying the existing housing stock by the higher of 0.8% or jobs density (/100) produces an estimated national total of 228,922 homes