

BRIEFING

A 'standard method' that works for all

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Introduction

The standard method for calculating local housing need could be a powerful planning policy tool to address the national housing crisis. It can help to avoid contentious and time consuming arguments during the plan-making process and speed up Local Plan adoption. It is welcomed in principle.

In its current form, however, the standard method has serious shortcomings. It perpetuates the issues that have created the current housing crisis; it will not deliver the 300,000 new homes per year that are needed; and it frustrates the Government's "levelling up" agenda.

This briefing summarises the shortcomings of the current method and demonstrates how, with revision, it can be made more effective in addressing the housing crisis, and in doing so support economic recovery.

Shortcomings of the current standard method

The shortcomings of the method are widely recognised by practitioners and the development industry. They can be summarised as follows:

- a. It will **not deliver enough new housing to address the housing crisis**. Government knows that over 300,000 new homes are needed every year and has set this as its target but the standard method sets a "starting point" well below the required need (only c.266,000 new homes).
- b. **It is based on backward-looking demographic trends** contained in the Subnational Household Projections (SHP), which are completely inappropriate and outdated, and have absolutely nothing to do with actual housing needs. All they do is project forward past trends of household formation which have gone into sharp decline in recent decades. The reasons for this can be summarised in the following way:
 - i. Household formation rates have been suppressed by a constrained planning system for at least the last four decades. As the supply of new homes fell in the 1980's, house prices rose and housing became increasingly unaffordable for many;
 - ii. This trend has continued persistently so that, house prices have now escalated out of control, despite several recessionary periods. The position is so acute that even large recessions have acted merely as "bumps in the road" in the persistent long term escalation of house prices;
 - iii. Over the longer term house price inflation has far outstripped growth in average earnings. So much so that in some parts of the country median house prices are now over 15 times higher than median incomes;
 - iv. All of this has led to a severe and persistently suppressed household formation rates which are perpetuated in trend-based projections. This fundamental problem has been exacerbated in recent iterations of the Household Projections, which only look back 10 years when household formation rates have been at their lowest¹;

¹ This affects the 2016- and 2018-based Household Projections, which were produced by ONS rather than by MHCLG. The ONS has sought to maintain the "purity" of recent statistical trends, but this simply brings the problem of the household projections into even sharper focus, and demonstrates why they cannot provide a suitable basis for planning to address the housing crisis.

- v. This fundamental problem has been exacerbated by the decision of Government to move the household projections from the MHCLG to the ONS, because the latter has insisted on a trend which only looks back 10 years, when household formation rates have been at their lowest levels (as opposed to looking back in part at long term trends since the 1970s). This has contributed towards drastic reductions in the 2016- and 2018-based Household Projections;
 - vi. The ONS wants the “purity” of a recent statistical trends but this simply brings the problem of the household projections into even sharper focus, and cannot provide the basis for planning to address the housing crisis;
- c. It calculates a “minimum” housing need figure which **takes no account of planned economic growth**. Guidance suggests that Local Authorities should plan above the minimum including where higher economic growth is expected, but in practice local political pressure too often applies heavy downward pressure on housing provision. The result is that housing targets in Local Plans rarely exceed the “starting point” provided by the standard method and housing shortages are exacerbated.
- d. It is **not responsive to signals of higher housing need** that is driven by the economic performance and potential of an area. This is a particular shortcoming where investment in growth or infrastructure delivery in future years will increase the need and demand for new homes.
- e. It creates an **unfair and unsustainable distortion in housing provision** across the country. It results in:
- Unrealistically high figures in parts of the South of England, where extensive constraints make these undeliverable; and
 - Unsustainably low figures in the North and Midlands which fall below past rates of building and clear evidence of demand².

Case Study: Greater Manchester Spatial Framework



Greater Manchester (GM) is the second largest economic area in England. The current standard method calculates that only 10,534 new homes annually are needed in GM. This is almost 1,000 homes less than:

- A 2016 estimate by the GMCA that at least 11,360 new homes annually were needed in the conurbation.
- The number of homes actually delivered in GM last year (11,525 dwellings in 2018/19).

In 2019 the draft Greater Manchester Spatial Framework (GMSF) – the future development plan for the conurbation – reduced the amount of housing it was planning for by over 26,000 new homes in response to the publication of the current standard method.

A method that supports recovery...

These shortcomings can be quickly addressed to ensure that every area of the country is playing its part to address the housing crisis and to support a national recovery effort. This can be achieved through revision of the standard method and enhancement of the guidance on its application as set out in this briefing. It is essential that this change is implemented now so that increased housing delivery and better regional balance can play their full part in economic recovery.

The standard method can be revised to provide stable, fair and deliverable housing need figures for every local authority. This will ensure that the supply of new homes is highest in the areas where they are needed most – not only where prices are highest but also where populations and economies are expected to grow the fastest. It will distribute need fairly across the country, focussed principally on the biggest cities and towns.

This revised method is an essential ingredient now to set a positive national framework to properly tackle the housing crisis, and to support recovery after the social and economic disruption caused by the COVID-19 pandemic. It will be particularly powerful if implemented alongside other planning reforms, such as the Government’s proposed deadline for every authority to adopt a Local Plan by 2023 and investment in infrastructure.

The objectives of a revised standard method which provides a positive basis for future planning should be to:

- a. Support the Government’s target for delivering 300,000 new homes every year nationally;
- b. Address regional imbalances and in particular to “level up” the North and Midlands;
- c. Respond to increased housing need driven by economic growth in specific local areas;
- d. Ensure that all areas of the country contribute to addressing the housing crisis in a fair and proportionate manner – holding local politicians to account for meeting the needs of their areas;
- e. Maintain a simple method which uses objective data, to ensure that there is speed and transparency in the plan-making system; and
- f. Form a stable basis for plan-making, such that it is not susceptible to large fluctuations in the short-term

² Many authorities in the North reduced the number of new homes they are planning for when the standard method was introduced, contrary to the ambition for a Northern Powerhouse and the Government’s commitment to “levelling up”.

In proposing a revised standard method, Turley has applied the following principles:

- a. The Sub-national Household Projections are no longer an accurate or sustainable baseline of future housing need in an area. Their continued use does not meet the Government's housing target (300,000 homes per annum) and will frustrate the attempts to "level up";
- b. Existing occupied housing stock provides a reliable and stable indicator of where housing need, will arise. It should comprise a significant input to baseline need;
- c. To allow for differential rates of economic growth and plan for labour mobility, the standard method must be responsive to evidence of labour-force pressures – more homes will be needed in and close to areas where new jobs are being created. The ratio of jobs to working age residents – i.e. jobs density – is a clear signal of the need to provide more homes to support sustainable economic growth³.
- d. Affordability remains an indicator of a particular imbalance between the supply of and demand for homes. Housing need will be higher where homes are least affordable.

We have considered and tested numerous alternative revisions to the standard method in line with the objectives and principles set out above. A preferred four step approach has emerged from this work. It is set out in **Figure 1** and explained in a separate accompanying Technical Note.

The preferred approach set out in Figure 1 is considered to be the optimum approach to achieve a significant boost to housing delivery which asks more of those areas where demand and need are greatest (as reflected in affordability) whilst ensuring a balanced distribution across all parts of the country. **It results in a standard method which overcomes the shortcomings of the current method, can deliver 300,000 homes per year, focuses on sustainable growth in urban areas, and levels up the current regional disparities.**

... and levelling up

Table 1 (overleaf) compares the broad regional spread of housing needs which the proposed revision present with that of the current method. The proposed revision results in a significant boost to housing numbers in the North and Midlands but ensures that these requirements are realistic relative to previously achieved delivery. It results in a modest further increase in the South of England, which saw some of the highest proportionate increases under the current method but where affordability challenges are acute. The minimum need for London, while slightly lower than that produced by the current method, remains ambitious and is significantly higher than recent delivery and the housing target in the emerging London Plan. The capital is an obvious example of where there will continue to be a need to plan for a housing need above the minimum figure.

Figure 1: Proposed revised standard method for assessing minimum local housing need

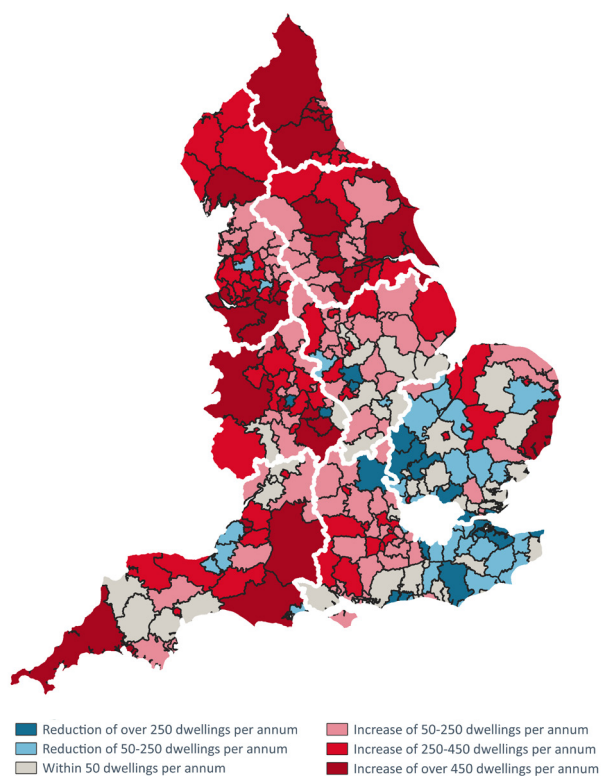
- **Step 1 – Setting the baseline:** each authority is assumed to grow its housing stock at a rate of 0.75% per year, as a minimum.
- **Step 2 – Adjusting for employment:** areas with a current job density of 0.75 or above need to grow their housing stock at a higher rate, with the required growth rate increasing in proportion with the jobs density figure.
- **Step 3 – A refined affordability adjustment:** need is adjusted upwards following a comparable calculation to that in the current standard method where the affordability ratio is 3 or above.
- **Step 4 – Capping the level of any increase linked to affordability:** the increase in the housing need figure under step 3 is 'capped' at 50%, following an approach comparable to the current method (i.e. the housing need figure does not increase by more than 50% in any area in response to affordability pressures).

³ Using job density avoids the subjectivity of economic forecasts and their susceptibility to change rapidly at different points in an economic cycle. Its inclusion as part of the baseline (rather than as an optional later stage) enables the method to anticipate and address a key cause of rising demand rather as well as responding to the symptom of extreme affordability pressures.

Table 1: National distribution of minimum housing need arising from the proposed revision of the standard method

	Proposed revision to the standard method	Current standard method	Peak delivery since 2010
England	300,555	265,707	245,663 ⁴
North	71,594	43,256	60,109 (18/19)
Midlands	50,119	39,027	47,266 (18/19)
South	119,431	112,206	97,799 (18/19)
London	59,411	71,218	39,560 (16/17)

Figure 2: Change from current method



Within reasonable parameters, the elements of the proposed revision to the standard method – such as the affordability cap – could be ‘flexed’ if Government considers it necessary to calculate a higher housing need figure which ensures that its 300,000 homes target is achieved (see separate Technical Note)⁵. This flex could alternatively be used to ensure that the revised method is resilient if other inputs (e.g. jobs density) reduce in future years. Figure 2 shows the extent of change compared to the current standard method.

Still only the starting point

The standard method is a national method. There is no ‘one-size fits all’ approach which can factor in and address every issue within a particular local area. For example:

- It does not reflect the size, type or tenure of homes which may be required and how these will be achieved; or
- The increased demand which might be associated with infrastructure investment or future economic growth ambitions.

The revised standard method will therefore remain as the minimum “starting point”. It will still allow and encourage authorities to set a higher housing requirement, having regard to other factors to deliver the new homes needed in full in their area. Proposals for targeted amendments to the national Planning Practice Guidance (PPG) which make this clear are set out in the accompanying Technical Note.

Benefits of the revised method

The swift introduction of this new approach will have the following short term benefits:

- For the first time ensure that the Government’s target to deliver 300,000 homes per annum will be reflected in the baseline assessment of needs which Local Plans are based on. Increasing delivery from the recent peak of 241,000 in 2018/19 to **300,000 homes could generate and supply an additional 65,000 jobs per year and add an additional £3.3 billion to the value of the UK economy.**
- Achieve a spatial distribution of homes which is fairly and evenly spread across England, giving people in all parts of the country access to the homes they need and **fulfilling the Government’s ambition to “level up” the country.** This would strengthen the case for infrastructure investment in those areas whilst delivering significant socio-economic benefits.
- Provide stability in the housing need figures** and remove uncertainty about the standard method, which will, along with a clear deadline for Local Plan adoption, ensure that local authorities accelerate the preparation of Local Plans.
- Create a positive framework for investment in every area of the country,** including by housing providers and businesses which need comfort that the labour force they need will be available and has access to suitable housing.
- Stimulate the land and housing market nationally and **support economic recovery.**
- Accelerate the delivery of new homes in the short-term,** which can itself stimulate economic growth and generate approximately £107 million for local authorities through additional Council Tax payments.

⁴ Aggregate when summing the respective regional peaks, which did not all occur in a single year.

⁵ For example, increasing the affordability cap from 50% to 60% or 70% would increase the national housing need figure above 300,000 new homes per annum, principally through increases in the numbers for London and the South where affordability pressures are highest.