Future Housing Need in Swale

1. Introduction

1.1.   Swale benefit from a relatively recent development plan with a sound housing target of 776 dwellings per annum (dpa). But Councils are required to review their local plans at least every 5 years and since the 'Bearing Fruits' Local Plan was adopted national planning policy has been subject to a significant change.

1.2.   Any new Local Plan now needs to use the 'Standard Method' for determining Local Housing Need. This is a 'simplification' of the old objectively assessed need (OAN) process whereby professional judgement has been removed and replaced by a formula which uses only household projections and local affordability data[1].

> i   The first step is to apply the current official household projections (2014 based at this time); taking the per annum average from the next 10 years (starting from the current year) to arrive at the demographic starting point
>
> ii   The second step is to increase this number for market signals using a formula based on the most recent affordability ratio. This is the ratio of median house price to median workplace-based earnings as published annually by ONS. An adjustment factor must be applied as follows:
>
> $$Adjustment\ factor = \left(\frac{Local\ affordability\ ratio\ -4}{4}\right) x\ 0.25 + 1$$
>
> iii   The third step is to cap the level of any increase where homes are more than four times local workplace earnings until capped at 40% above demographic need (or in some cases a recent housing target depending on its current status)

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[1] NPPG Paragraph: 002 Reference ID: 2a-002-20190220

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1.3.   This technical assessment of the Standard Method does not address supply side, capacity issues or infrastructure constraints. It is understood that there are some concerns that Kent cannot absorb the level of growth identified by the Standard Method, but it is not the purpose of this strictly technical review to consider this. Councils are required to treat this as the starting point for their local housing need figure unless there are exceptional circumstances that justify an alternative approach. The 'bar' for exceptional circumstances is set very high and, has been considered in the independent work undertaken by demographer John Hollis in the report appended to this note. Having assessed historical data for births, deaths and migration flows it concludes that there are no errors in the data and no exceptional circumstances that would justify departing from the Standard Method formula.

1.4.   In order to inform the preparation of the Local Plan Review, it is necessary to consider what the local housing need is likely to be at the time it is submitted, which will probably be sometime during 2022. John Hollis has assessed the likely future demographic projections underpinning the method and considered the implications of using the 2018-based or 2020-based household projections.

1.5.   The approach and projections identified help identify a range of housing numbers that may arise through the standard method in the future. They do not purport to be the final and accurate number, but rather are used to develop a range of scenarios that can be tested through the Local Plan evidence base. The detailed findings are set out in the attached report and indicate that the Local Plan should consider testing a possible housing target of between 980 and 1,153 dwellings per year, based on the current Standard Method. This is within 10% of the current Standard Method figure of 1,050 dpa.

1.6.   The LHN does not become set in stone until the draft plan is formally submitted to the Secretary of State. This means that the Council will need to respond to any ONS data releases, and any changes to the Standard Method. The approach set out above, which provides a range, has been prepared to help the Council avoid being unprepared for any consequences if and when the standard method is revised.

1.7.   The later projections carry more uncertainty, because they include more assumptions about migration flows and there is some evidence to suggest that, at least in the last couple of years, estimated population growth has been lower than the level of housebuilding would suggest. As with any estimated population there is a risk that the ONS may revise these population estimates and so these 2020 based projections need treating with extra caution.

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2. Alternative assumptions

2.1. Although the Standard Method is described as a simplification unfortunately there is a large amount of uncertainty around what the final number will be. This is because the number is only fixed at the time the Local Plan is formally submitted. Until that point the Council's evolving policies are vulnerable to shifts in the data feeding into the method, and possible changes to national policy. The Government has announced that they want to increase the national delivery of new homes up to at least 300,000 per annum but have not yet said how (or where) this will be achieved.

2.2. Therefore, it is sensible to test alternatives. Using these starting point projections it is useful to sensitivity-tests the potential implications for local housing need that would result from future changes to:

- the borough's affordability ratio;
- and what may happen if the Government seeks to align the method to its 300,000 homes per annum target.

2.3. The Standard Method affordability adjustment increases housing need by 32% above demographic need. This is because the latest 2018 ratio of median house price to median workplace-based earnings as published annually by ONS is 9.14. For comparative purposes the national average is 7.8.

2.4. It is possible that affordability may worsen over the next few years. At the moment the affordability uplift is capped at 40% above demographic need. Because there is a risk affordability will worsen over time we have sensitivity tested a 40% uplift on both the 2018 and 2020 based demographic projections. In addition, John Hollis has explored the changing trend in the affordability ratio and tested what this increase might mean for Swale using both a three and five year trend.

2.5. There is another (more complex) element to the cap which uses existing Local Plan targets. This is not relevant at this time. However, it would become relevant once the Local Plan is more than five years old in July 2022. This would set the cap at 40% above the current Local Plan target which would be 1,086 dpa.

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2.6.   We expect changes to the Standard Method to align delivery to the 300,000 target within the next 12 months or so. At the moment the method provides for around 266,000 new homes. But this is based on the 2014-based projections and national demographic need is falling; so to reach 300,000 in the future the uplift on demographic need may need to be more aggressive. Applied to the (currently set aside) 2016 based projections a 41% uplift is needed to reach 300,000 nationally. Because we expect future rounds of national projections to be lower than the 2014-based projections and the demographic factors driving the lower 2016 based projections are unlikely to dissipate (including adjustments to older age mortality – which is no longer decreasing to the same extent as older projection rounds and lower migration) it is reasonable to sensitivity test the projections with a +41% option.

2.7.   It is not possible to predict how the national total would be distributed between local authority areas, so the scenario assumes a simple pro rata adjustment. In this simple approximation, all local authorities including Swale get the same adjustment.

2.8.   To test the impact of these assumptions, several scenarios, using the projections are developed to identify the local housing need produced by the Standard Method:

- Scenario A, derived from the ONS 2014-based household projections
- Scenario B, derived from the predicted 2018-based household projection
- Scenario C, derived from the predicted 2020-based household projection

2.9.   In line with the National Planning Policy Guidance (NPPG), the scenarios cover a 10-year period, starting in the year in which the new Local Plan may be submitted; 2022. Several variants are provided, relating to the affordability adjustment (B1, B2, C1 and C2) and relating to the increase in the national total of houses (B3, C3).

2.10.   For each of the alternatives the local housing need is expressed as a range, based on the two alternative approaches used to calculate the trend projections as explained in the report at the appendix. It should also be recognised that the forecasts are based upon a large number of assumptions and so are liable to considerable uncertainty.

2.11.   The results are shown in the table below:

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Scenario		Start year 2022
		Dwellings per year
Current baseline position	A: 2014-based projections	1,031
For use between May/Sept 2020 and Aug 2022 (Standard method using 2018-based household projections)	B: 2018-based projections	1,079 - 1,153
	B1: Worse affordability (0.4)	1,144 - 1,222
	B2: Worse affordability (trend)	1,199 - 1,239
	B3: Standard method changed	1,520 - 1,624
For use between May/Sept 2022 and Aug 2024 (Standard method using 2020-based household projection)	C: 2020-based projections	980 - 1,079
	C1: Worse affordability	1,039 - 1,144
	C2: worse affordability (trend)	1,066 - 1,101
	C3: Standard Method changed	1,380 - 1,520

3. Summary

3.1.   If no changes are made to the Standard Method, and it continues to use the 2014-based projections the Council's new minimum target would be around 1,031 dpa. However, this is unlikely because we expect both policy changes and new demographic projections to render any 2014-based assessment out of date.

3.2.   The two other baseline scenarios (B and C) show that the changes are likely to be within 10% (above and below) the current Standard Method number (1,050 dpa). If the Local Plan is submitted after the 2018-based projections are released in late 2020 (assuming September 2020), but before the 2020 based projections are released in 2022 then the Council may be expected to provide for a minimum of around 1,079 dpa (Scenario B). However, in the worst case scenario and if the Government responds to the relatively low projections nationally by amending the standard formula, seeking to align the method to 300,000 homes national, a figure of up to 1,624 dpa (Scenario B3) is possible.

3.3.   If the Local Plan is submitted after the release of the 2020-based household projections then the need reduces to a minimum of 80 dpa, because these result in a Standard Method number similar to the current 2014-based projections, which are slightly lower than the 2018s. If the Standard Method is increased to align with 300,000 homes this could result in a need of 1,520 dpa (C3).

3.4. It is unclear whether any revision to the Standard Method would retain a 'cap', however it is likely that it would need to be revised to provide for any national increase in housing delivery. However, were it to be retained in its current form, it would limit the housing requirement to either 1,086 dpa or 1,222 dpa (40% above the local housing need figures).

4. Conclusion

4.1. The figures derived from the three different projections are largely in the same ballpark as the current Standard Method number of between 980 and 1,153 dpa, which is within 10% of the current local housing need figure if calculated today. This provides a useful corroboration and provides an element of stability for Local Plan making. But there is huge uncertainty in the data and it would be unwise to be overly specific when citing numbers. But in the round the analysis suggests the evidence base for the Local Plan ought to test:

- A low minimum target of around 1,000 dpa based on the current 2014-based projections and the forecast 2020-based projections, and assuming the method is not changed to meet the national total of 300,000 (i.e. around A, C, and C1).

- A middle target of around 1,250 dpa based on the 2018-based projections which is the most likely scenario if the Council submits prior to the publication of the 2020-based projections.

- A high target of 1,500 dpa based on the Local Plan being submitted after the publication of the 2020-based projections and with the Standard Method changed to reach the desired national total of 300,000 dpa.

Glossary

Affordability Ratio: These ratios are calculated by dividing house prices by gross annual earnings, based on the median and lower quartiles of both house prices and earnings. The earnings data are from the Annual Survey of Hours and Earnings which provides a snapshot of earnings at April in each year. The house price statistics come from the House Price Statistics for Small Areas, which report the median and lower quartile price paid for residential property and refer to a 12-month period with April in the middle (year ending September). Statistics are available at country, region, county and local authority district level in England and Wales and published annually at end March. The latest 2018 ratio of median house price to median gross workplace-based earnings is to be used in the standard method calculation.

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Exceptional circumstances: If an alternative method for assessing housing need is use,d then this will be scrutinised closely at examination. The NPPG says at paragraph reference ID: 2a-003-20190220 that any other method will be used only in exceptional circumstances. This means there will need to be clear evidence to justify any departure. As part of demonstrating any exceptional circumstances the population and household projection data will need to be scrutinised to assess whether any of the components; births, death, migration, unattributable population change and household formation rates contain errors or anomalies that are sufficiently large to constitute exceptional circumstances for departing from the Standard Method.

Household projections: These figures produced by the Office for National Statistics start from the base year (2014, 2018, 2020) and project forward 25 years. They are an indication of the likely increase in households given the continuation of recent demographic trends.

Local housing need: The number of homes identified as being needed through the application of the Standard Method set out in national planning guidance (or, in the context of preparing strategic policies only, this may be calculated using a justified alternative approach as provided for in paragraph 60 of the National Planning Policy Framework).

Local Plan: A plan for the future development of a local area, drawn up by Swale Borough Council in consultation with the community. In law this is described as the development plan documents adopted under the Planning and Compulsory Purchase Act 2004. A local plan can consist of either strategic or non-strategic policies, or a combination of the two.

Mean: The mean of a set of numbers is the sum of the numbers in the set, divided by the number of numbers in the set. For example, in the data set (1,1,2,3,6,7,8), the sum of numbers is 28, the number of numbers is 7, and the mean is 28/7 = 4.

Median: The median of a set of numbers is the middle number in in the data set. For example, in the data set (1,1,2,3,6,7,8), the median is 3, because there are equal numbers of numbers greater than 3 and smaller than 3.

Objectively Assessed Need: This was the old process used to identify the housing target to be included in a Local Plan. It was a complex process open to interpretation and professional judgement but which was largely established by a Strategic Housing Market Assessment, which identified the housing market area, tested the robustness of official population and household projections, considered the necessity of uplifting the figure for market signals adjustments, ensured that it provides enough labour supply and possibly boost the supply of affordable homes.

Standard Method: This is the new method for calculating local housing need. It sets out a strict formula to be followed through a three-stage process and includes no judgement or discretion. This was introduced by the 2018 National Planning Policy Framework. The current version is set out in an update to the Planning Practice Guidance issued on 20 February 2019 at paragraph 004 Reference ID: 2a-004-20190220.