

# Housing Need and the Standard Method



## A new look for the Standard Method housing need formula

The Standard Method for calculating Local Housing Need, introduced to the planning system following the 2017 Housing White Paper, was intended to simplify and speed-up the process of deciding on a housing requirement for Local Plans. But changes in the underlying demographic projections quickly exposed weaknesses in the formula and led to a Government commitment to look again at its methodology. A revised standard method is now overdue, but progress was promised in the Government's Planning for the Future document, released on Budget day 2020. A White Paper is expected to set out proposals during 2020.

Now is, therefore, a good time to start thinking about what Standard Method 2 might look like, with the recent publication of the latest population projections and the forthcoming release of new household projections. In this paper we have examined the latest demographic projections and re-publish an approach to assessing housing need that we first put forward

when the original Standard Method was being formulated. Our suggestion has several advantages over the current formula:

1. It adds up to approximately 300,000 homes, the Government housebuilding target for the mid-2020s;
2. It is less susceptible to changes in the demographic projections;
3. It takes a clear approach to addressing housing affordability by ensuring that the least affordable places have housing need numbers that would lead to the largest increases in total housing numbers.

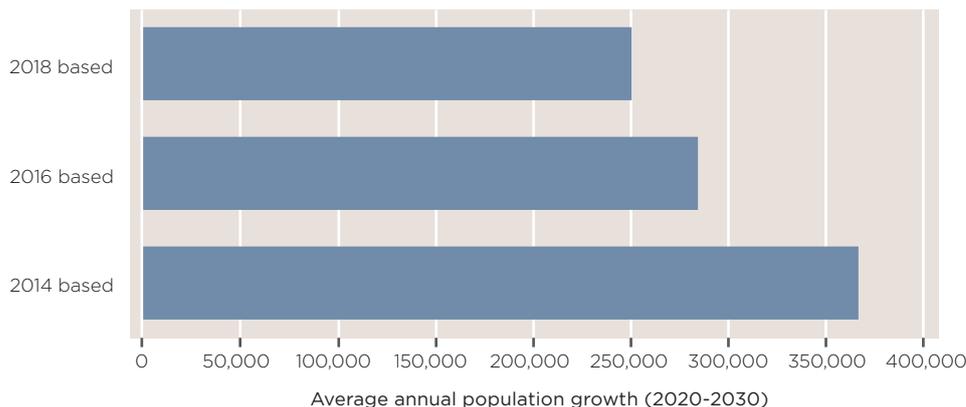
It, therefore, provides the greater stability and predictability craved by both Local Planning Authorities and the housebuilding industry. Bringing land forward for development is a long and often risky process for landowners and developers. A more stable planning environment would reduce the risk involved in land promotion and lessen the chances of conflict between land promoters and Local Planning Authorities.

## National population projections

In March, the ONS published 2018-based population projections, the second update since the Standard Method was introduced. These show a further decline in the projected growth of the population, which is now expected to grow by 250,000 each year over the next decade, compared to the 285,000 per year projected in the previous, 2016-based, projections.

This is the second successive reduction in projected population growth: the 2014-based population projections anticipated an annual population increase of 365,000. The result is that the total population of England in 2030 is now expected to be around 59.2 million, down from the 60.5 million suggested by the 2014-based projections.

Figure 1 Population Projection Changes, England



Source ONS

### KEY TAKE-OUTS



#### The Standard Method...

aimed to provide a simple housing need calculation that reduced the conflict between Local Planning Authorities and developers, and made plan-making more efficient. Unfortunately, its effectiveness has been eroded by shifting demographic projections.



#### We expect...

the 2018-based household projections to provide an even lower demographic baseline than the 2016-based projections, which were in turn lower than the 2014-based numbers on which the Standard Method was originally based.



#### MHCLG are working...

on a new Standard Method. We believe this should reduce the role of the household projections and deal more directly with the mismatch between demand for housing and the amount of housing available in an area.



#### We suggest...

that Standard Method 2 should still include household projections, but also contain an additional factor based on the amount of existing housing and the affordability of housing in a local authority.



#### Our analysis shows...

that this would reduce fluctuations between releases of household projections, add up to around 300,000 homes per year (the Government target) and address more directly the affordability challenge.



#### But the Standard Method...

can never tackle every housing issue. In many areas, a more important driver of housing need than affordability may be the need to improve the type and quality of housing available, or respond to high levels of employment growth.

The reasons for the continued fall in the future population growth projection are shown in Table 1. Although international migration is now expected to be slightly higher than before, this is simply a consequence of the levels seen within the 25 year trend that is used. In contrast, the 2018-based projections anticipate fewer children and that people will not live as long, compared to the 2016-based projections. This continues a trend from the 2014-based projections, [explored further here](#).

If the new projections are right, then overall we will need fewer houses than previously thought in the long term. But changes to long term trends do nothing to address the legacy of undersupply that has generated severe housing affordability problems in many parts of the country. This needs addressing before any substantive revision to the total housing need assessment for England, reflected in the Government target of 300,000 homes per annum by the mid-2020s.

Recent research has shown that housing delivery of at least this level is required to improve affordability. [In a 2018 report](#) for Crisis and the National Housing Federation, Professor Glen Bramley concluded that 340,000 additional homes would be needed each year to address issues of affordability, poverty and homelessness. Delivery at this level for 15 years was expected to clear the backlog of undersupply.

**Table 1** Summary of changes between 2016-based and 2018-based population projections

	2016-based	2018-based
Net annual long-term international migration (year ending mid 2025 onwards)	+165,000	+190,000
Long-term average number of children per woman	1.84	1.78
Life expectancy at birth, males, 2043 (years)	83.6	82.6
Life expectancy at birth, females, 2043 (years)	86.4	85.5

Source ONS

## Regional differences

A further problem with the projections is the geographically uneven distribution of the decline in projected population growth. The East Midlands is now projected to be the fastest growing region in terms of percentage growth in population. London has fallen to 5th place,

having been 1st in the 2016-based projections.

At a local authority level, the changes have a clear pattern (see maps on page 4). The largest falls in the projected population are in those places where housing affordability is worst: i.e. in Outer London and the surrounding areas.

These are the very places where household formation has been suppressed by undersupply of housing since at least the beginning of the last decade ([see here](#)). There are also falls in most urban districts, whereas more rural areas tend to see an increase in their projected population.

**Table 2** Changes between 2016-based and 2018-based population projections, by region

Region	Population change over 10 years (2018-based)	Population change (2018-based)	Population change over 10 years (2016-based)	Population change (2016-based)
East Midlands	334,000	7.0 %	283,000	6.0 %
South West	383,000	6.8 %	364,000	6.6 %
West Midlands	362,000	6.1 %	314,000	5.4 %
East	311,000	5.0 %	444,000	7.3 %
London	434,000	4.9 %	774,000	8.8 %
South East	405,000	4.4 %	574,000	6.4 %
North West	289,000	4.0 %	243,000	3.4 %
Yorkshire and The Humber	195,000	3.6 %	190,000	3.5 %
North East	61,000	2.3 %	50,000	1.90 %

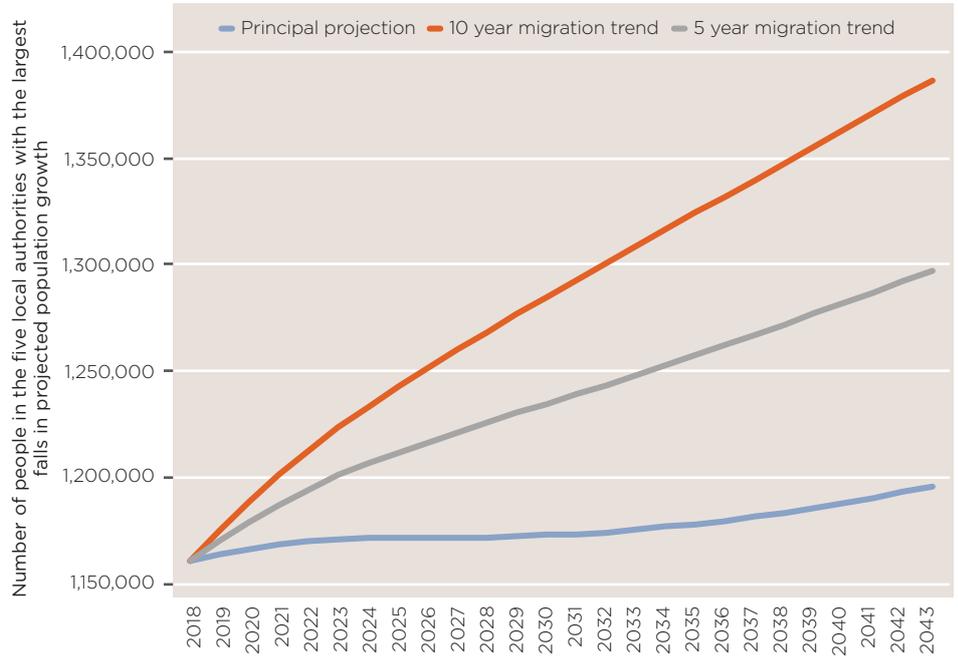
Source ONS

## So why the changes?

The biggest change in methodology at a local authority level is the internal migration element. The 2018-based population projections use only two years of internal migration estimates rather than the five years used previously. This is because ONS has a new method of estimating internal migration for the mid-year population estimates from 2017 onwards, thus only two years of this improved data were available for the 2018-based projections.

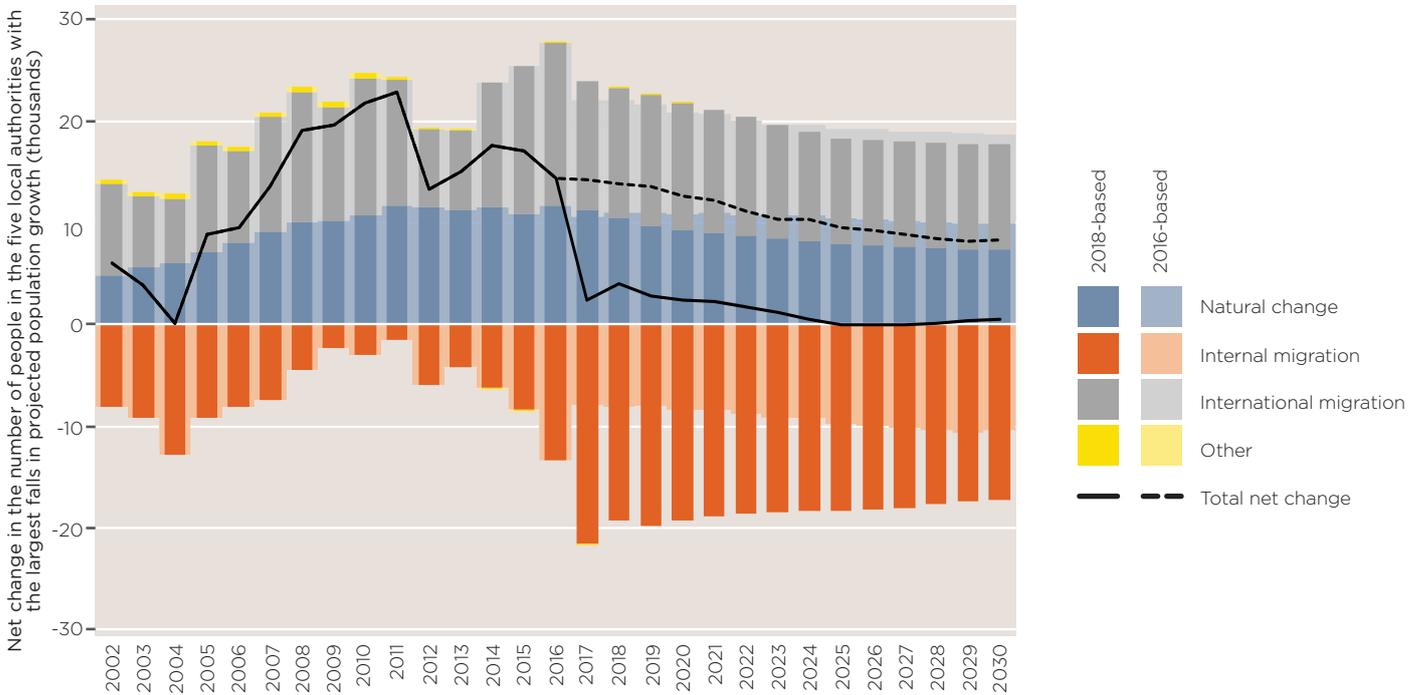
When looking so far into the future, it seems counter intuitive to use such a short historical timespan on which to base the forward view. A two year trend is much more susceptible to a single anomalous year driving the shape of the forward view than longer-term trends. ONS are alive to this and have provided two alternative variants: one based on a five-year trend and one based on a ten-year trend, with three and eight years of each using what ONS now regard as less reliable internal migration estimates ([see here](#)). In some districts there are huge variations between scenarios, some of which are completely implausible, including in many outer London boroughs (Figures 2 and 3 showing the total population changes for the five local authorities with the largest falls in projected population growth).

**Figure 2** Population projections (2018-based) based on variant internal migration projections (five local authorities total)



Source ONS

**Figure 3** Comparison of 2016 and 2018-based population projections (five borough total)



Source ONS

ONS recognise “that the new method for estimating internal migration may be more accurate in some areas than in others” but consider their “current internal migration method to be an improvement on the previous one”. Although a case could be made that one of the variants should be used in the Standard

Method, these too may be more accurate in some areas than others. So it would be hard for MHCLG to deviate from what ONS consider to be the most reliable projection of future population growth in creating a new Standard Method, if such projections are going to form part of the formula.

Although this change in the internal migration methodology seems significant, in most places the difference between the 2016 and 2018-based assessments of population projections are not as dramatic as the difference between the 2014 and 2016-based assessments ([see our 2018 blog](#)).

# Household projections

2018-based household projections are expected in “late spring or early summer”, although a date has yet to be set. ONS have not signalled any changes in methodology from the 2016-based projections, so it is likely that the household representative rates will be very similar to the 2016-based ones, relying on the 2001 to 2011 trend rather than the longer term trend used previously ([see our analysis of this here](#)).

The longer term trend, which stretched back to 1971, avoided an overreliance on more

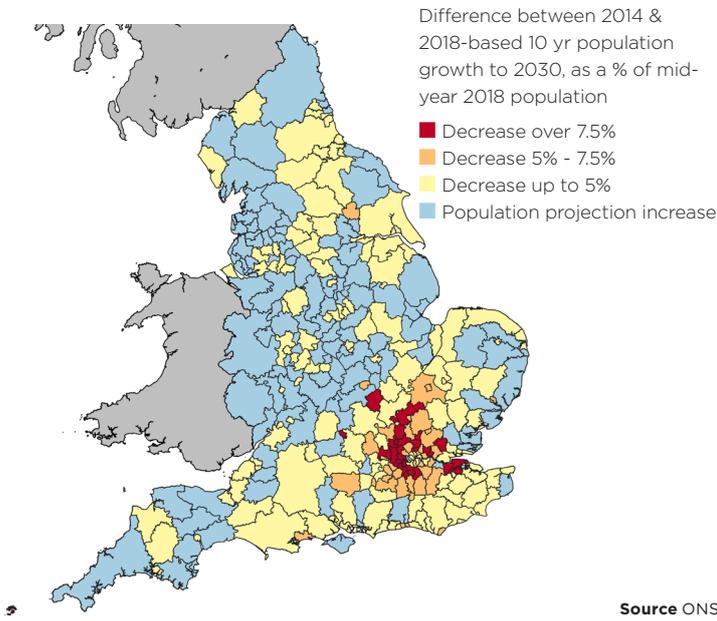
recent household formation rates, which were suppressed by undersupply and rapidly worsening affordability.

**ONS did release an ‘update for users’** in September 2019 saying very clearly “that household projections are not a prediction or forecast of how many houses should be built in the future.” They committed to “work closely with the MHCLG to provide clear guidance for users about how different sets of projections can be used in the planning process.” There is no

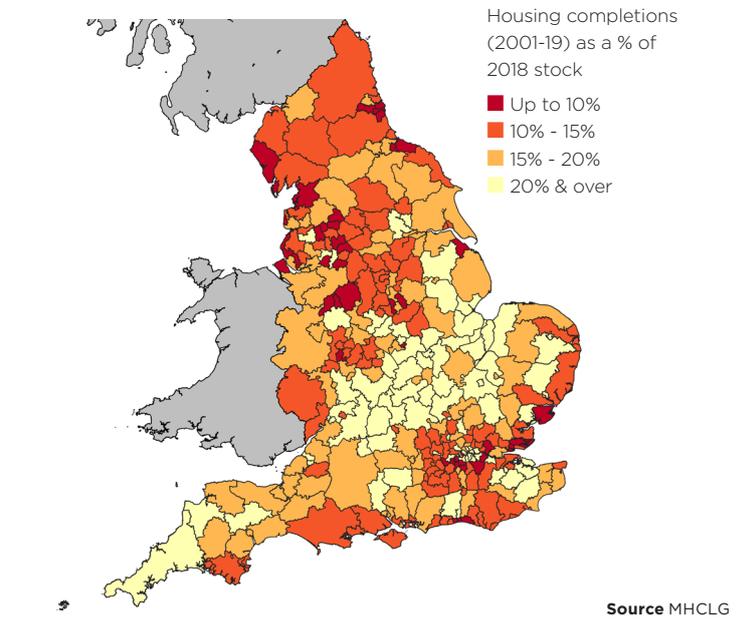
further update, but these statements suggest that the reliance of the Standard Method on household projections should be reduced.

In the meantime, we have estimated the likely shape of the 2018-based household projections using the headship rates from the 2016-based projections. The likely changes from the 2014-based projections that are currently used in the Standard Method are shown in Figure 6, reflecting the shifts in population projections shown in Figure 4.

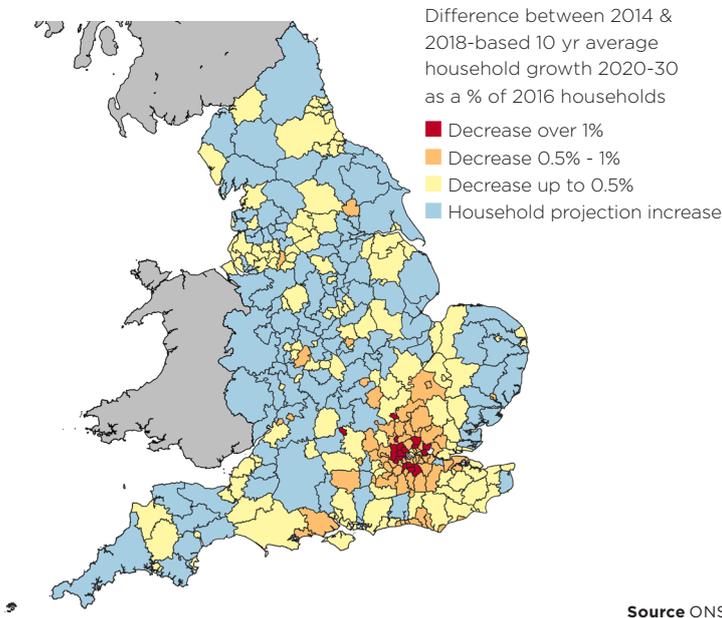
**Figure 4** Changes between 2014-based and 2018-based population projections, by local authority



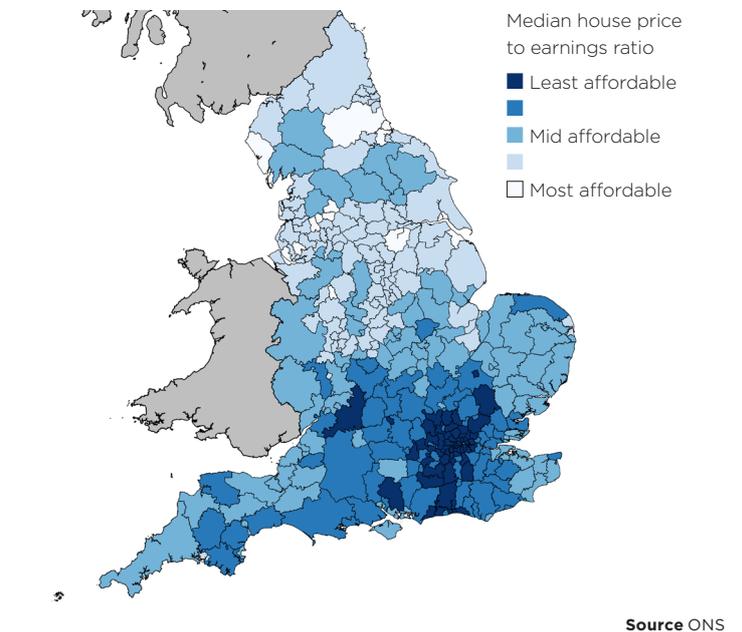
**Figure 5** Housing delivery since 2001 as a percentage of stock, by local authority



**Figure 6** Estimated changes between 2014-based and 2018-based household projections, by local authority



**Figure 7** House price affordability, by local authority



# Implications for the Standard Method

The Standard Method for calculating Local Housing Need was a great step towards speeding-up and simplifying a costly and time-consuming part of Local Plan preparation. It always had flaws ([see our analysis at the time](#)), but the release of the first new ONS demographic projections following incorporation of the Standard Method into Planning Practice Guidance put them into stark relief ([see here](#)). The short-term sticking plaster was an amendment to the Planning Practice Guidance (PPG) specifying that only the 2014-based projections should be used, thereby ignoring the more recent ONS updates. But MHCLG always recognised that a long-term remedy was needed and this is now long overdue. This remedy needs to bring greater certainty around future housing requirements to both Local Planning Authorities and developers.

If the current Standard Method formula were simply applied to the 2018-based household projections when they are released, according to our estimates two fundamental problems would arise:

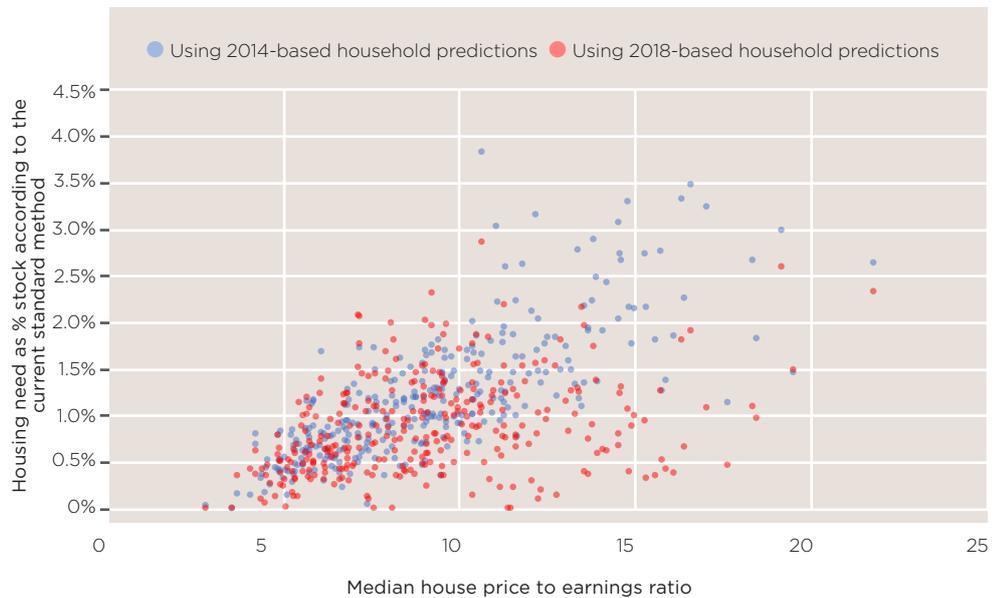
1. It would fail to add up to anywhere near the 300,000 net additional homes target across England. Our calculations suggest it would add up to circa 205,000. (Using the 2016-based projections, it would add up to 225,000; using the 2014-based projections, it would have been 294,000.)
2. The extent to which it addresses the affordability challenge would be reduced. The feedback loop of undersupply and worsening

boroughs, some of the least affordable and undersupplied housing markets in the country.

These effects are illustrated in the chart below.

Government has recognised these problems and we now await a consultation on a new Standard Method, as trailed in ‘Planning for the future’, released by MHCLG on the day of the 2020 Budget.

**Figure 8** Comparison of Standard Method housing need using from 2014 and 2018-based household projections



Source Savills using ONS and MHCLG data

## What needs to change?

### The weight given to household projections should be reduced

The huge changes in the demographic projections over the last six years, in large part due to changes in methodology as we have discussed, are extremely unhelpful to a planning system trying to write Local Plans with 15+ year time horizons. They are also unhelpful to developers trying to promote land through the planning system. But it would be a mistake to expect such changes to stop. Not surprisingly, ONS is constantly looking to improve the methodology and adapt to using the best available data at any particular point in time.

However, the household projections should remain a valuable part of the Standard Method formula, providing the best available view on future changes in population based on recent past trends, but their influence on the outcome should be reduced due to their constantly-fluctuating nature and in-built feedback loop. This is supported by the ONS’s caveat “that household projections are not a prediction or forecast of how many houses should be built in the future.” So it is clear that we need something else in the formula.

### There should be a stronger link to existing housing stock and affordability

A key goal of the Standard Method is to ensure that the calculated level of Local Housing Need addresses the severe affordability issues that exist in many parts of the country. This is represented in the current Standard Method by the application of an uplift based on the median house price to median earnings ratio.

That affordability ratio uplift is a shortcut to addressing the mismatch between the availability of existing housing stock in an area and demand – where there is limited availability of existing stock but comparatively high demand for housing, house prices rise. It would therefore be reasonable for an element of the formula to be based on the amount of existing housing stock and the affordability ratio, with a higher ratio increasing the Local Housing Need to respond to the mismatch between existing stock and high demand.

# Standard Method 2?

We suggested an alternative approach when MHCLG first consulted on the Standard Methodology in 2017. The changes in household projections since have illustrated its robustness as a solution as, despite the changes to household projections, it still provides an assessment of housing need that adds up to around 300,000 net additional homes per year across England. The distribution of those homes also continues to reflect the differing extent of the affordability challenge across different local authorities.

Our method sets a floor based on a stock growth figure that depends on local affordability. By referencing affordability this avoids identifying high Local Housing Need simply based on a percentage of existing stock where there is low demand. We propose that Local Housing Need should be the higher of the current Standard

Method figure or a variable stock growth ‘floor’ calculated as follows:

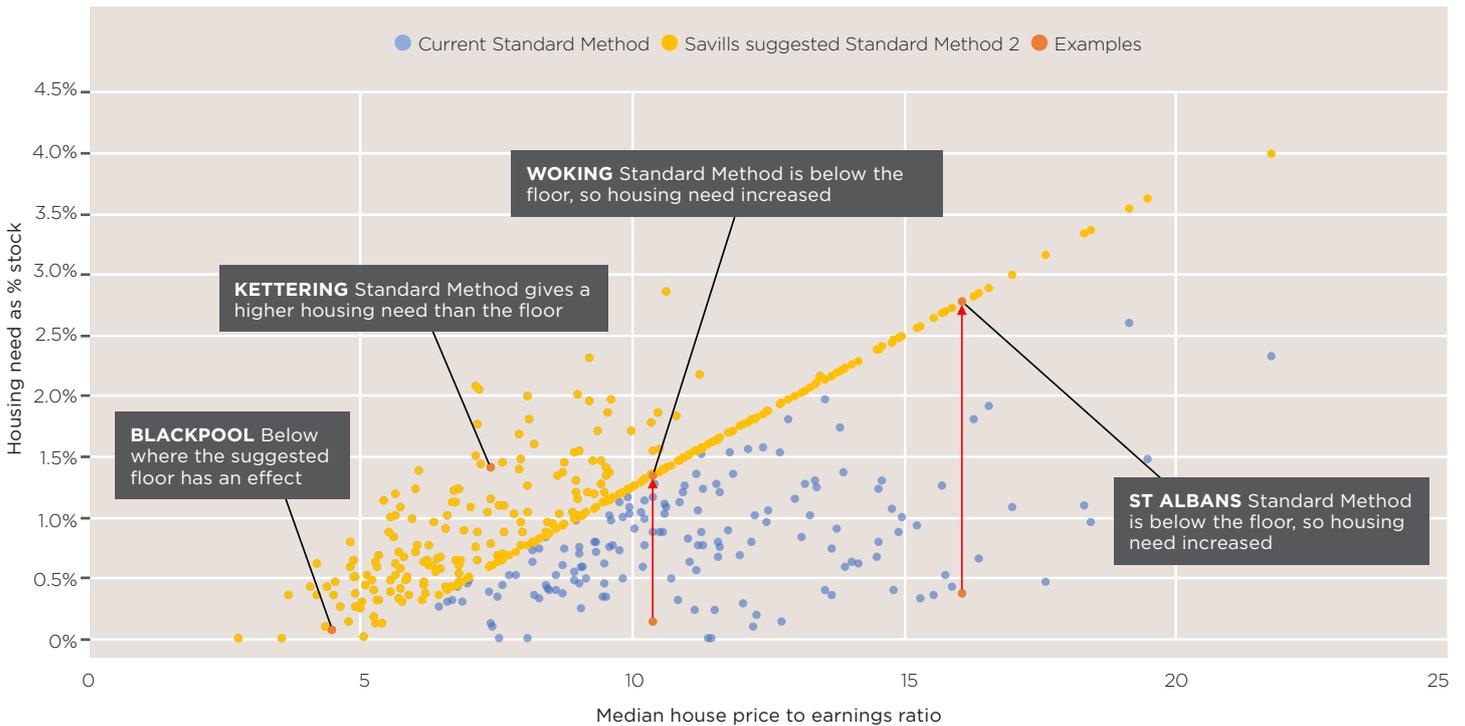
- Where the house price to earnings ratio < 5 = 0%;
- For every increase in ratio of 1, increase floor by 0.25% (e.g. affordability ratio of 8 = 0.75% floor);
- Floor stops when it reaches 4% at a ratio of 20 (as everything above 2% is high compared with past delivery, and only two central London boroughs are above this – radical delivery models would be needed to achieve the growth rates required to really improve affordability in these areas).

The twin-track approach is needed simply because there are differing circumstances across the country and a single track approach, like the current Standard Method, simply does not work in every local authority area. Where household

formation has been constrained due to high house prices, lower household growth is projected than would otherwise be the case: in these circumstances the stock-based approach with an affordability uplift is required to properly address the cause of the affordability problem. Where household formation has been relatively unconstrained by house prices, there is no need for a stock-based uplift and the household projections, albeit with an uplift to address the less severe affordability problems that might exist remains the most appropriate and justifiable approach.

The results of our approach are shown in the chart below, with the anomalies of the current Standard Method (high affordability ratio but low housing need) removed and the highest housing growth being directed at the least affordable areas.

**Figure 9** Comparison of current Standard Method and Savills suggested Standard Method 2



Source Savills Research using ONS and MHCLG data

A further advantage of our approach is that it is more resilient to changes in the household projection methodology. Table 3 shows the changes in the national total using three different household projections compared to those that would have been produced by the current Standard Method.

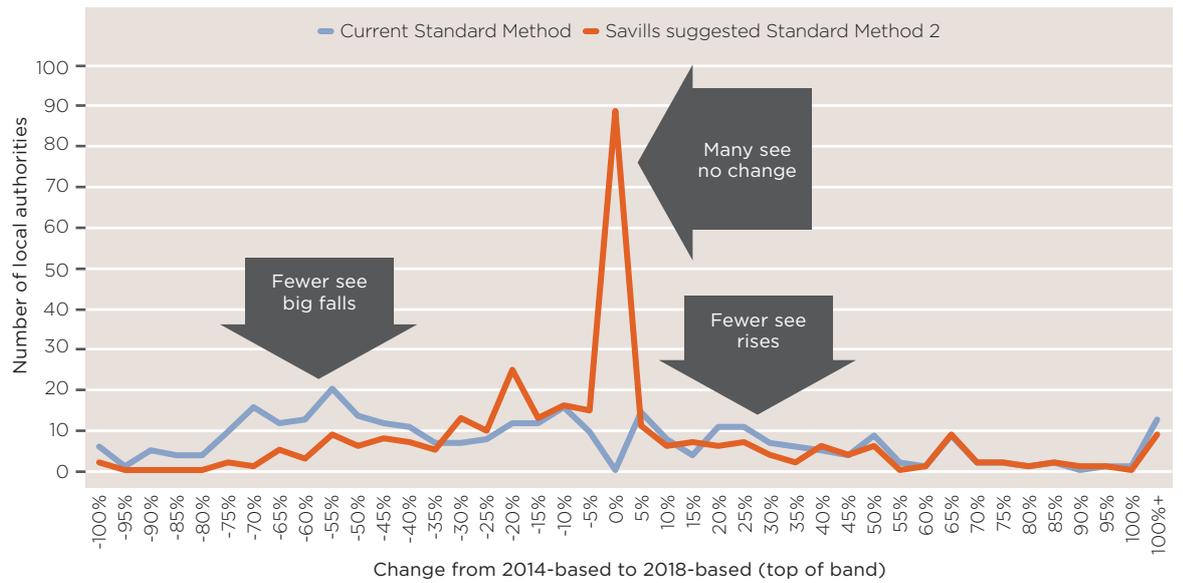
**Table 3** Difference in England total housing need based on different household projections and methodologies

Household projection base	Housing need based on 2020-30 projection	
	Current Standard Method	Savills suggestion
2014	294,282	323,962
2016	224,835	287,304
2018	204,421	294,201

Source Savills Research using ONS and MHCLG data

It is not possible to eradicate the change that results from new population projections at a local authority level, but our suggested approach does reduce the level of variation compared to the current Standard Method. Almost 30% of local authorities would see no change to their housing need and many fewer would see big falls or rises. That some local authorities still see large changes in housing need illustrates the importance of standing back and sense-checking the result before adopting it for a Local Plan target.

**Figure 10** Local authority changes between 2014 and 2018-based projections



Source Savills Research using ONS and MHCLG data

## What doesn't the Standard Method do?

The PPG is currently very clear that the Standard Method is not the whole answer to deciding on a housing target within a particular local authority. MHCLG have continually stressed that the Standard Method is only the starting point in identifying the housing requirement in a Local Plan; however the NPPF and PPG allow the adoption of it as a requirement to essentially go unchallenged. The formula is only based on

two inputs (or three, in the case of our suggested approach), so cannot possibly accurately reflect the myriad of very different housing challenges that exist across the country.

At best it gives a guide as to the amount of (net) additional housing required to address the affordability challenge. But affordability is not the only housing problem to be addressed by Local Planning Authorities. Any other issues

around types and quality of housing, and the need for redevelopment and regeneration, should be treated separately. Similarly, any uplift to accommodate additional demand generated by growing employment opportunities in an area.

The Standard Method was introduced to speed-up and simplify the Plan-making process but was never intended to be a panacea; these other factors also have to be taken into account.

## Even greater stability?

Currently the Standard Method changes every time there is new affordability data. An updated approach based on our suggestion could potentially change three times a year: when there are new data releases on housing stock, projections and affordability.

To provide greater stability and certainty for LPAs and developers, we would recommend that housing need is calculated once every two years, following the biennial publication of household projections.

This would mean that even less time is spent in appeals and examinations in recalculating Local Housing Need.

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