

Shropshire Council

Local Housing Need **Assessment**

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Contents

- 1. Introduction 2
 - National Policy on Housing Need 2
 - National Guidance on Housing Need 2
- 2. The Standard Methodology for LHN 4
 - Introduction 4
 - Step 1: Setting the Baseline 4
 - Step 2: An adjustment to take account of market signals 5
 - Step 3: Capping the level of any increase 5
- 3. Applying the Standard Methodology for LHN in Shropshire 7
 - Introduction 7
 - Results 7
 - Step 1: Setting the Baseline 7
 - Step 2: An adjustment to take account of market signals 7
 - Step 3: Capping the level of any increase 9
- 4. Previous Calculations of LHN 10
- 5. LHN for Shropshire 11

1. Introduction

National Policy on Housing Need

- 1.1. The National Planning Policy Framework (NPPF) sets out Government's planning policies for England and how these should be applied.
- 1.2. With regard to housing need, the NPPF states that *"to determine the minimum number of homes needed, strategic policies should be informed by a local housing need assessment, conducted using the standard method in national planning guidance – unless exceptional circumstances justify an alternative approach which also reflects current and future demographic trends and market signals. In addition to the local housing need figure, any needs that cannot be met within neighbouring areas should also be taken into account in establishing the amount of housing to be planned for"*¹.
- 1.3. The resultant minimum housing need identified through this assessment is termed Local Housing Need (LHN).

National Guidance on Housing Need

- 1.4. Alongside the NPPF, Government has prepared National Planning Practice Guidance (NPPG), which provides guidance on the application of the NPPF.
- 1.5. The Housing and Economic Needs Assessment (HENA) element of the NPPG includes a useful definition of housing need, a summary of the standard methodology for assessing housing need, when it is appropriate to use an alternative approach to the standard methodology and details the standard methodology for assessing LHN.
- 1.6. The NPPG defines LHN as *"an unconstrained assessment of the number of homes needed in an area. Assessing housing need is the first step in the process of deciding how many homes need to be planned for. It should be undertaken separately from assessing land availability, establishing a housing requirement figure and preparing policies to address this such as site allocations"*².
- 1.7. The NPPG summary of the standard method for assessing LHN, states that it uses a prescribed *"formula to identify the minimum number of homes expected to be planned for, in a way which addresses projected household growth and historic under-supply. The standard method... identifies a minimum annual housing need figure. It does not produce a housing requirement figure"*³.
- 1.8. The NPPG states that the use of the standard methodology for assessing LHN is not mandatory however *"there is an expectation that the standard method will be used and that any other method will be used only in exceptional circumstances"*⁴.
- 1.9. Shropshire Council considers that it is appropriate to use Government's standard methodology to assess LHN for Shropshire, as it supports the stated

¹HCLG, (2019), The NPPF – Paragraph 60

²HCLG, (2019), The NPPG: HENA – Paragraph: 001 Reference ID: 2a-001-20190220

³HCLG, (2019), The NPPG: HENA – Paragraph: 002 Reference ID: 2a-002-20190220

⁴HCLG, (2019), The NPPG: HENA – Paragraph: 003 Reference ID: 2a-003-20190220

objectives of this methodology (as documented within Government's consultation document: *Planning for the right homes in the right places: consultation proposals*⁵). Specifically, to:

- Provide a clear and transparent process for local people and other interests to understand.
- Base the assessment on publicly available data.
- Ensure the assessment is realistic and reflects the actual need for homes in each area, taking into account the affordability of homes locally.

1.10. The standard methodology will be detailed in the next section of this report.

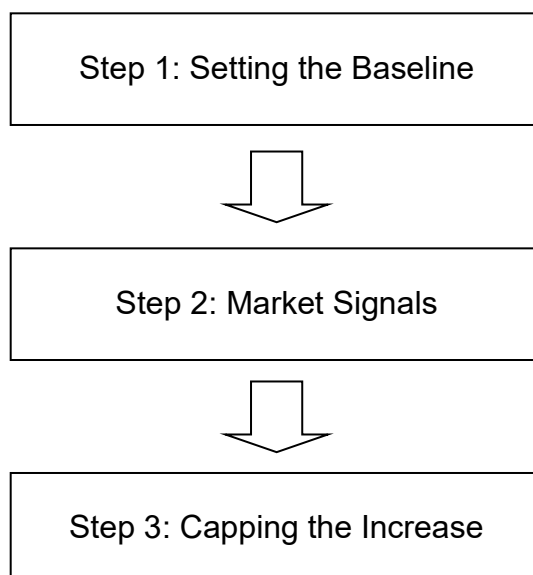
⁵CLG, (2017), Planning for the right homes in the right places: consultation proposals, www.gov.uk/government/consultations/planning-for-the-right-homes-in-the-right-places-consultation-proposals

2. The Standard Methodology for LHN

Introduction

- 2.1. The standard methodology for assessing LHN is detailed within the Housing and Economic Needs Assessment (HENA) element of the National Planning Practice Guidance (NPPG). The key stages of this methodology can be summarised as follows:

Figure 1: The key stages of the standard methodology for LHN



- 2.2. More detail about each of these three key steps is provided below:

Step 1: Setting the Baseline

- 2.3. Step 1 involves the establishment of a demographic baseline. The NPPG states that this should be calculated using the Sub-National Household Projections (SNHP), produced for Local Authority areas.
- 2.4. This data should be used to identify the projected annual average household growth over a 10 year period. The NPPG states that *“this should be 10 consecutive years, with the current year being used as the starting point from which to calculate growth over that period”*⁶.
- 2.5. Whilst the most recently published SNHP are 2016-based, the NPPG specifies that the 2014-based SNHP should be utilised to *“provide stability for planning authorities and communities, ensure that historic under-delivery and declining affordability are reflected, and to be consistent with the Government’s objective of significantly boosting the supply of homes”*⁷.

⁶HCLG, (2019), The NPPG: HENA – Paragraph: 004 Reference ID: 2a-004-20190220

⁷HCLG, (2019), The NPPG: HENA – Paragraph: 005 Reference ID: 2a-005-20190220

Step 2: An adjustment to take account of market signals

- 2.6. The NPPG specifies that *“household growth on its own is insufficient as an indicator of future housing need because:*
- *Household formation is constrained to the supply of available properties – new households cannot form if there is nowhere for them to live; and*
 - *People may want to live in an area in which they do not reside currently, for example to be near to work, but be unable to find appropriate accommodation that they can afford”⁸.*
- 2.7. As such the standard methodology includes a potential adjustment in response to a market signal - the affordability of the area. Specifically, the NPPG states that *“The most recent median workplace-based affordability ratios, published by the Office for National Statistics at a local authority level, should be used”⁶* to determine whether it is appropriate to make an adjustment. The need for an adjustment will be determined by whether the median workplace-based house price to median earnings ratio **exceeds 4**, which is considered appropriate as the maximum amount that can typically be borrowed for a mortgage is four times a person’s earnings.
- 2.8. In situations where this is the case, the NPPG stipulates that *“For each 1% the ratio is above 4 (with a ratio of 8 representing a 100% increase), the average household growth should be increased by a quarter of a percent. To be able to apply the percentage increase adjustment to the projected growth figure we then need to add 1”⁶.*
- 2.9. This adjustment is considered to achieve the overall level of delivery that most external commentators believe is needed, whilst ensuring it is delivered in the places where affordability is worst.
- 2.10. The precise formula for this adjustment is documented within the NPPG as follows:

$$\text{Adjustment Factor} = \left(\frac{\text{Local Affordability Ratio} - 4}{4} \right) \times 0.25 + 1$$

- 2.11. Once the baseline (Step 1) and adjustment factor (Step 2) have been calculated LHN for the Local Authority area can then be calculated as follows:

$$\text{Housing Need} = \text{Adjustment Factor} \times \text{Projected Household Growth}$$

Step 3: Capping the level of any increase

- 2.12. It is recognised that the application of the standard methodology may in some locations lead to the identification of a *“minimum local housing need figure that is significantly higher than the number of homes currently being planned for”⁹* as such a cap can in certain circumstances be applied to *“minimum local housing need figure that is significantly higher than the number of homes currently being planned for”⁹.*
- 2.13. The NPPG specifies that the application of the cap *“depends on the current status of relevant strategic policies for housing”⁹.*

⁸HCLG, (2019), The NPPG: HENA – Paragraph: 006 Reference ID: 2a-006-20190220

⁹HCLG, (2019), The NPPG: HENA – Paragraph: 007 Reference ID: 2a-007-20190220

2.14. Specifically:

- For Local Authorities that have either adopted their strategic policies in the last five years or formally reviewed their strategic policies and determined that they do not require updating in the last five years (at the point of making the calculation), LHN should be capped at 40% above the annual housing requirement figure set out within existing strategic policies.
- For Local Authorities that have not adopted their strategic policies in the last five years and not formally reviewed their strategic policies and determined they do not require updating in the last five years (at the point of making the calculation), LHN should be capped at 40% above the higher of either the demographic baseline identified using the standard methodology within the NPPG or the annual housing requirement set out in existing policies (where such a figure exists).

2.15. However, the NPPG also states that *“the cap reduces the minimum number generated by the standard method, but does not reduce housing need itself”*⁹. As such *“strategic policies adopted with a cap applied may require an early review and updating to ensure that any housing need above the capped level is planned for as soon as is reasonably possible”*⁹.

2.16. It also states that *“where the minimum annual local housing need figure is subject to a cap, consideration can still be given to whether a higher level of need could realistically be delivered. This may help prevent authorities from having to undertake an early review of the relevant policies”*⁹.

3. Applying the Standard Methodology for LHN in Shropshire

Introduction

- 3.1. Shropshire Council considers that it is appropriate to assess LHN for Shropshire using Government’s standard methodology for calculating LHN.

Results

- 3.2. The key stages and results of this assessment are summarised below:

Step 1: Setting the Baseline

- 3.3. Consistent with the standard methodology outlined within the NPPG, the starting point for this calculation of LHN for Shropshire is the data available within the 2014-based SNHP. However, as the 2016-based SNHP is available, for the purposes of comparison a calculation of LHN for Shropshire using this dataset has also been undertaken.
- 3.4. The NPPG stipulates that the demographic baseline be calculated using the projected annual average household growth over a consecutive 10 year period, starting with the current year. As such, the relevant 10 year data period for this assessment was that from 2020 to 2030.
- 3.5. The projected annual household growth (average over the continuous 10 year period from 2020-2030) using both the 2014-based SNHP and the 2016-based SNHP (for comparison purposes only) is summarised in the table below:

Figure 2: Baseline Household Growth

Dataset	Projected Annual Household Growth (average over the period from 2020-2030)
2014-based SNHP	943
2016-based SNHP	943

Please Note:

- The 2016-based SNHP data is provided for comparison purposes only.
- Figures are rounded.

Step 2: An adjustment to take account of market signals

- 3.6. In accordance with the standard methodology, the second step of the assessment of LHN for Shropshire involves a consideration of the need for a market signals – affordable housing adjustment.
- 3.7. As specified within the NPPG the need for this market signals adjustment is calculated based on the most recent *workplace-based median house price to median earnings ratio* available at a Local Authority level. In circumstances where this ratio exceeds 4, then an adjustment is required.

- 3.8. Within Shropshire the most recent year for which this data available is 2019 (as published in March 2020)¹⁰. The specified affordability ratio for 2019 is 7.97. As this ratio exceeds 4 an adjustment is required. The calculation for this adjustment is also specified within the NPPG, as follows:

$$\text{Adjustment Factor} = \frac{\text{Local Affordability Ratio} - 4}{4} \times 0.25 + 1$$

$$\text{Shropshire Adjustment Factor} = \frac{7.97 - 4}{4} \times 0.25 + 1 = 1.248$$

Please Note: Figures are rounded.

- 3.9. Using the NPPG calculation, the LHN for Shropshire has been calculated as follows:

$$\text{Housing Need} = \text{Adjustment Factor} \times \text{Projected Household Growth}$$

- 3.10. Using the calculation within the standard methodology, the housing need in Shropshire has been calculated as follows:

Figure 3: Full and Objective Assessment of Annual Housing Need

Dataset	Adjustment Factor (based on 2019 affordability ratio)		Projected Annual Household Growth (average over the period from 2020-2030)		Local Housing Need (Annual)
2014-based SNHP	1.248	X	943	=	1,177
2016-based SNHP	1.248	X	943	=	1,177

Please Note:

- The 2016-based SNHP data is provided for comparison purposes only.
- Figures are rounded.
- The calculation of the annual LHN is based on unrounded figures. Unrounded, the affordability ratio is 1.248125. The projected annual household growth using the 2014-based SNHP is 943, resulting in an annual LHN of 1,176.981875. The projected annual household growth using the 2016-based SNHP is 943.4, resulting in an annual LHN of 1177.481125.

- 3.11. For information, the LHN for the Local Plan Review period from 2016-2038 has also been calculated:

Figure 4: Full and Objective Assessment of Total Housing Need (2016-2038)

Dataset	Local Housing Need (Annual)		Years in the Plan Period		Local Housing Need (Plan Period)
2014-based SNHP	1,177	X	22	=	25,894
2016-based SNHP	1,177	X	22	=	25,905

Please Note:

- The 2016-based SNHP data is provided for comparison purposes only.
- Figures are rounded.
- The calculation of the LHN for the Plan Period is based on unrounded figures. Unrounded, the 2014-based calculation of the LHN for the Plan Period is 25,893.60125. Unrounded, the 2016-based calculation of the LHN for the Plan Period is 25,904.58475.

¹⁰ONS, (2019), House price to workplace-based earnings ratio, www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoworkplacebasedearningslowerquartileandmedian

- 3.12. Using the standard methodology presented within the NPPG for calculating LHN, the annual housing need for Shropshire is some 1,177 dwellings per annum. This equates to a total housing need of some 25,894 dwellings over the Local Plan Review Period from 2016-2038.
- 3.13. Shropshire Council has previously determined that its Local Authority Area represents a self-contained HMA and continues to consider this conclusion correct. Therefore, this data is also applicable to the Shropshire HMA.

Step 3: Capping the level of any increase

- 3.14. The third stage of the standard methodology for calculating LHN, as documented within the NPPG, is considering the potential to apply a cap.
- 3.15. The NPPG specifies the circumstances and extent of any cap which can apply, these are:
- For Local Authorities that have either adopted their strategic policies in the last five years or formally reviewed their strategic policies and determined that they do not require updating in the last five years (at the point of making the calculation), LHN should be capped at 40% above the annual housing requirement figure set out within existing strategic policies.
 - For Local Authorities that have not adopted their strategic policies in the last five years and not formally reviewed their strategic policies and determined they do not require updating in the last five years (at the point of making the calculation), LHN should be capped at 40% above the higher of either the demographic baseline identified using the standard methodology within the NPPG or the annual housing requirement set out in existing policies (where such a figure exists).
- 3.16. In Shropshire:
- The strategic policies of the current Local Plan were adopted in 2011, more than five years ago.
 - The demographic baseline identified using the standard methodology for Shropshire is 943 households (using the 2014-based SNHP) and 943 (using the 2016-based SNHP – for comparison purposes only).
 - The housing requirement set out in existing policies is subject to phasing. For the period from 2020-2021 the annual housing requirement is 1,390 dwellings, for the period from 2021-2026 the requirement is 1,530 dwellings. For information, the total housing requirement for the current Local Plan period equates to 1,375 dwellings per annum.
- 3.17. As such, in Shropshire the annual housing requirement set out in existing policies is higher than the demographic baseline identified using the standard methodology. It is also higher than LHN identified using the standard methodology for calculating LHN identified within the NPPG. As such the cap is not applicable in Shropshire.

4. Previous Calculations of LHN

4.1. For the purpose of comparison, since 2016 assessments of LHN have been undertaken for Shropshire by Shropshire Council using the standard methodology. The results of these assessments are summarised in the table below:

Year of Assessment	Time of Calculation	Step 1: Setting the Baseline		Step 2: Market Signals			Step 3: Cap	LHN	
		Data Source	Projected Annual Household Growth (10-year average)	Most Recent Affordability Ratio Calculation Year	Affordability Ratio	Adjustment Factor	Cap Applied?	Annual LHN	LHN (2016-2038)
2016	October 2016	2014-based SNHP	1,033	2016	7.67	1.229	No	1,270	27,947
2017	April 2017	2014-based SNHP	1,012	2016	7.67	1.229	No	1,245	27,392
2018	April 2018	2014-based SNHP	991	2017	8.39	1.274	No	1,263	27,778
2019	April 2019	2014-based SNHP	965	2018	8.11	1.257	No	1,212	26,672
2020	April 2020	2014-based SNHP	943	2019	7.97	1.248	No	1,177	25,894
							Average:	1,233	27,137

Please Note:

- Figures are rounded.
- The Affordability Ratio utilised was the most up-to-date at the time of the assessment each year.
- The average is provided for information purposes only.

5. LHN for Shropshire

- 5.1. Shropshire Council has identified the LHN for Shropshire using the standard methodology identified by Government within the NPPG.
- 5.2. This assessment has utilised the 2014-based SNHP to establish the demographic baseline as advised within the NPPG, however for the purposes of comparison the assessment has been undertaken using the 2016-based SNHP.
- 5.3. The results of this assessment are summarised within the table below:

Figure 5: Full and Objective Assessment of Total Housing Need (2016-2038)

Dataset	Demographic Baseline	Market Signal Adjustment	Cap	Local Housing Need (Annual)	Local Housing Need (2016-2038)
2014-based SNHP	943	1.248	N/A	1,177	25,894
2016-based SNHP (For comparison only)	943	1.248	N/A	1,177	25,905

Please Note:

- The 2016-based SNHP data is provided for comparison purposes only.
- Figures are rounded.