

# Housing and economic needs assessment

Guides councils in how to assess their housing needs.

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From:  
Ministry of Housing, Communities & Local Government (<https://www.gov.uk/government/organisations/ministry-ofhousing-communities-and-local-government>)

## What is the standard method for assessing local housing need?

The National Planning Policy Framework expects strategic policy-making authorities to follow the standard method in this guidance for assessing local housing need.

The standard method uses a 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 set out below identifies a minimum annual housing need figure. It does not produce a housing requirement figure.

Paragraph: 002 Reference ID: 2a-002-20190220

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## Is the use of the standard method for strategic policy making purposes mandatory?

No, if it is felt that circumstances warrant an alternative approach but authorities can expect this to be scrutinised more closely at examination. There is an expectation that the standard method will be used and that any other method will be used only in exceptional circumstances.

Paragraph: 003 Reference ID: 2a-003-20190220

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## How is a minimum annual local housing need figure calculated using the standard method?

The standard method can be used to calculate a minimum annual local housing need figure as follows:

### Step 1 - Setting the baseline

Set the baseline using national household growth projections (<https://www.gov.uk/government/collections/household-projections>) (2014-based household projections in England, table 406 unitary authorities and districts in England) for the area of the local authority. Using these projections, calculate the projected average annual household growth over a 10 year period (this should be 10 consecutive years, with the current year being used as the starting point from which to calculate growth over that period). Note that the figures displayed are rounded and individual cells need to be viewed in order to see the full number.

For information on re-organised authorities please see section below “How should local housing need be calculated for re-organised authorities?”

## Step 2 - An adjustment to take account of affordability

Then adjust the average annual projected household growth figure (as calculated in step 1) based on the affordability of the area.

The most recent median workplace-based affordability ratios (<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoworkplacebasedearningslowerquartileandmedian>), published by the Office for National Statistics at a local authority level, should be used.

No adjustment is applied where the ratio is 4 or below. For each 1% the ratio is above 4, the average household growth baseline should be increased by a quarter of a percent. An authority with a ratio of 8 will have a 25% increase on its annual average household growth baseline.

Where an adjustment is to be made, the precise formula is as follows:

$$\text{Adjustment factor} = \left( \frac{\text{Local authority affordability ratio} - 4}{4} \right) \times 0.25 + 1$$

For information on re-organised authorities please see section below “How should local housing need be calculated for re-organised authorities?”

## Step 3 - Capping the level of any increase

A cap is then applied which limits the increases an individual local authority can face. How this is calculated depends on the current status of relevant strategic policies for housing.

Where these policies were adopted within the last 5 years (at the point of making the calculation), the local housing need figure is capped at 40% above the average annual housing requirement figure set out in the existing policies.

This also applies where the relevant strategic policies have been reviewed by the authority within the 5 year period and found to not require updating.

Where the relevant strategic policies for housing were adopted more than 5 years ago (at the point of making the calculation), the local housing need figure is capped at 40% above whichever is the higher of:

- a. the projected household growth for the area over the 10 year period identified in step 1; or
- b. the average annual housing requirement figure set out in the most recently adopted strategic policies (if a figure exists).

For areas covered by spatial development strategies, the relevant strategic policies are those contained within the spatial development strategy. Where a requirement figure for an authority in a spatial development strategy differs from that in a local plan, the figure in the spatial development strategy should be used as long as the spatial development strategy is no older than 5 years.

Where the relevant strategic policies within a spatial development strategy are over 5 years old, the relevant strategic policies at individual local authority level set out in the authority's local plan can be used in calculating the cap (if these policies are adopted after the relevant spatial development strategy, and the policies set out in the local plan are less than five years old, or older and has been found not to require updating as part of a plan review). If the relevant strategic housing requirement policies in the local authority's local plan are over 5 years old, then the local housing need figure is capped at 40% above whichever is the higher of:

- a. the projected household growth for the area over the 10 year period identified in step 1; or b. the most recent number taken from the spatial development strategy

For information on re-organised authorities please see section below "How should local housing need be calculated for re-organised authorities?"

#### **Step 4 - cities and urban centres uplift**

A 35% uplift is then applied for those urban local authorities in the top 20 cities and urban centres list.

Whether a cities and urban centres uplift applies depends on whether the local authority contains the largest proportion of population for one of the 20 cities or urban centres in England within the list.

The cities and urban centres list is devised by ranking the Office for National Statistics list of Major Towns and Cities

(<https://www.ons.gov.uk/aboutus/transparencyandgovernance/freedomofinformationfoi/townsandcitiesintheuk>) by population size using the latest mid-year population estimates (nomis, official labour market statistics).

As at December 2020, this list of urban local authorities are: Birmingham, Bradford, Brighton and Hove, Bristol, Coventry, Derby, Kingston upon Hull, Leeds, Leicester, Liverpool, London, Manchester, Newcastle upon Tyne, Nottingham, Plymouth, Reading, Sheffield, Southampton, Stoke-on-Trent, and Wolverhampton.

To note: where a cap is applied in Step 3, the 35% uplift is applied after the cap.

#### **Worked examples**

## Step 1 - Setting the baseline

An authority's household projections are:

- 110,500 households in 2019
- 120,000 households in 2029

This is a total of 9,500 new households over the 10 year period, equivalent to an average household growth of 950 per year. (Note: in this example 2019 is the starting point to measure the growth over a 10 year period; the difference between 2019 and 2020 is one year's worth of growth and the difference between 2019 and 2029 is 10 years' worth of growth).

## Step 2 - An adjustment to take account of affordability

The authority's median workplace-based affordability ratio is 12.4. As this is above 4, then the following adjustment should be made.

The adjustment is calculated as:

$$\text{Adjustment factor} = \left( \frac{\text{Level of affordability ratio} - 4}{4} \right) \times 0.25 + 1$$

$$\text{Adjustment factor} = \left( \frac{12.4 - 4}{4} \right) \times 0.25 + 1 = \left( \frac{8.4}{4} \right) \times 0.25 + 1 = 2.1 \times 0.25 + 1 = 1.525$$

The adjustment factor is therefore 1.525 and is used as:

Minimum annual local housing need figure = (adjustment factor) x projected household growth

Minimum annual local housing need figure = 1.525 x 950

The resulting figure is 1,449.

### Step 3 - Capping the level of any increase

How the cap applies depends on the current status of relevant strategic policies for housing. Below are 3 examples. Example 1 relates to a plan that has been adopted or reviewed within the last 5 years. Examples 2a and 2b relate to plans that were adopted more than 5 years ago and have not been updated, and demonstrates situations where the cap does and does not limit the minimum annual local housing need figure.

#### Cap example 1

The local authority has adopted a local plan within the last 5 years, or has reviewed (and if necessary updated) the housing requirement figure in a plan adopted more than 5 years ago.

- The average annual housing requirement figure in the existing relevant policies is 850 a year
- The minimum annual local housing need figure is 1,449 (as per step 2)
- The cap is set at 40% above the housing requirement figure:

$$\text{Cap} = 850 + (40\% \times 850) = 850 + 340 = 1,190$$

The capped figure is lower than the minimum annual local housing need figure and therefore limits the increase to the local authority's minimum annual housing need figure. The minimum figure for this local authority is therefore 1,190.

#### Cap example 2a

A local authority adopted a local plan more than 5 years ago and has not reviewed their housing requirement figure since then.

- The average annual housing requirement figure in the existing relevant policies is 850 a year
- Average annual household growth over 10 years is 950 (as per step 1)
- The minimum annual local housing need figure is 1,449 (as per step 2)
- The cap is set at 40% above the higher of the most recent average annual housing requirement figure or household growth:

$$\text{Cap} = 950 + (40\% \times 950) = 950 + 380 = 1,330$$

The capped figure is lower than the minimum annual local housing need figure and therefore limits the increase to the local authority's minimum annual housing need figure. The minimum figure for this local authority is therefore 1,330.

#### Cap example 2b

A local authority adopted a local plan more than 5 years ago and has not reviewed their housing requirement figure since then.

- The average annual housing requirement figure in the existing relevant policies is 1,200 a year
- Average annual household growth over 10 years is 950 (as per step 1)
- The minimum annual local housing need figure is 1,449 (as per step 2)
- The cap is set at 40% above the higher of the most recent average annual housing requirement figure or household growth:

$$\text{Cap} = 1,200 + (40\% \times 1,200) = 1,200 + 480 = 1,680$$

The capped figure is greater than the minimum annual local housing need figure and therefore does not limit the increase to the local authority's minimum annual housing need figure. The minimum figure for this local authority is therefore 1,449.

### **Cities and urban centres uplift example**

An urban local authority, where it is listed in Step 4, would uplift their figure generated by step 1-3 by 35%.

Paragraph: 004 Reference ID: 2a-004-20201216

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(<https://webarchive.nationalarchives.gov.uk/20201126210055/https://www.gov.uk/guidance/housing-and-economic-development-needs-assessments#contents>)

### **Which cities and urban centres does the uplift apply to?**

It should be noted that places can move in and out of the list of the top 20 local authorities in which a cities or urban centre uplift applies. To establish if an uplift applies, the Office for National Statistics list of Major Towns and Cities should be ranked in order of population size using the latest mid-year population estimates. If an authority is based in one of the top 20 most populated cities or urban centres and they contain the largest proportion of population in that city or urban centre, a 35% uplift is applied to that local authority area.

Paragraph: 033 Reference ID: 2a-033-20201216

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### **Is a cities and urban centres uplift applied in London and if so, how does it work?**

Yes, an uplift applies in London. London is unique in that it has no single city centre which can carry need for the city area. Therefore a 35% uplift is applied to the entire SDS area (which covers all the London boroughs), rather than to the local authority which contains the largest proportion of London's population. However, it should be noted that the responsibility for the overall distribution of housing need in London lies with the Mayor as opposed to individual boroughs so there is no policy assumption that this level of need will be met within the individual boroughs.

Paragraph: 034 Reference ID: 2a-034-20201216

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### **Where should the cities and urban centres uplift be met?**

This increase in the number of homes to be delivered in urban areas is expected to be met by the cities and urban centres themselves, rather than the surrounding areas, unless it would conflict with national policy and legal obligations. In considering how need is met in the first instance, brownfield and other under-utilised urban sites should be prioritised and on these sites density should be optimised to promote the most efficient use of land. This is to ensure that homes are built in the right places, to make the most of existing infrastructure, and to allow people to live nearby the service they rely on, making travel patterns more sustainable.

Paragraph: 035 Reference ID: 2a-035-20201216

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## **Is there a transition period for plan-making for those authorities where the cities and urban centres uplift applies?**

Yes, there is a transition period for plan-making for those authorities where the cities and urban centres uplift applies. These transitional arrangements give those authorities already at Regulation 19, (for Spatial Development Strategies this would refer to consultation under s335(2) of the Greater London Authority Act 1999) six months from the publication date of this guidance to submit (for spatial development strategies, 'submission' in this context means the point at which the Mayor sends to the Panel copies of all representations made in accordance with regulation 8(1) of the Town and Country Planning (London Spatial Development Strategy) Regulations 2000, or equivalent) their plans to the Planning Inspectorate under the existing standard method i.e. without the cities and urban centres uplift. In recognition that some areas will be very close to publishing their Regulation 191 plan (for Spatial Development Strategies this would refer to consultation under s335(2) of the Greater London Authority Act 1999), these areas will be given three months from the publication date of this revised guidance to publish their Regulation 19 plan for consultation, as well as a further six months from the date they publish their Regulation 19 plan to submit their plan to the Planning Inspectorate, to benefit from the transition period.

Paragraph: 036 Reference ID: 2a-036-20201216

Revision date: 16 12 2020

## **Is there a transition period for decision-making for those authorities where the cities and urban centres uplift applies?**

Yes, there is a transition period for decision-making for those authorities where the cities and urban centres uplift applies. Transitional arrangements will apply for six months from the publication date of this guidance. This means that the local housing need calculation excluding cities and urban centres uplift, can be used, for example when determining the housing requirement for the 5 year housing land supply, until this date. After this date, the new standard method (i.e. with cities and urban centres uplift) will apply for relevant decisionmaking purposes.

Paragraph: 037 Reference ID: 2a-037-20201216

Revision date: 16 12 2020

## **How does the cities and urban centres uplift apply for Housing Delivery Test?**

For the purposes of Housing Delivery Test, the cities and urban centres uplift within the standard method will only apply from the 2022/23 monitoring year, (from the 2022 Housing Delivery Test measurement).

Paragraph: 038 Reference ID: 2a-038-20201216

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