

Shropshire Council

Full Objectively Assessed Housing Need

Supporting Document

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1. Introduction

Full Objectively Assessed Housing Need (FOAHN)

- 1.1. The National Planning Policy Framework (NPPF) requires Local Planning Authorities to undertake a full and objective assessment of housing need in order to identify the total number of net additional dwellings that are required to meet needs over a specified period. The resultant housing need identified through this assessment is termed a full objectively assessed housing need (FOAHN).
- 1.2. The NPPF also specifies that “*every effort should be made objectively to identify and then meet the housing, business and other development needs of an area, and respond positively to wider opportunities for growth*”¹. Consequently, whilst the FOAHN in itself does not represent a housing requirement, once identified it will form the basis upon which a housing requirement is identified for the Local Authority Area and within the Development Plan.

Shropshire Councils Assessment of the FOAHN for Shropshire

- 1.3. Complying with the requirements of the NPPF, Shropshire Council undertook a FOAHN in 2016. This assessment was undertaken using a methodology consistent with the best practice guidance available at the time of the assessment, specifically that within the National Planning Policy Guidance (NPPG) on Housing and Economic Development Needs Assessments (HEDNA)²; and the Objectively Assessed Need and Housing Targets – Technical Advice Note³.
- 1.4. The Shropshire Council FOAHN Report was published in July 2016. It is available to view on the Shropshire Council website at:
<http://shropshire.gov.uk/planning-policy/local-plan/local-plan-partial-review-2016-2036/>

A New Methodology for the FOAHN

- 1.5. Since the publication of the Shropshire Council FOAHN Report in July 2016, Government announced its intention to introduce a new standard methodology for the assessment of housing need.
- 1.6. On the 14th September 2017, the Department for Communities and Local Government (CLG) published its consultation document: *Planning for the right homes in the right places: consultation proposals*⁴. Within this document, a proposed standard methodology for the FOAHN is presented.
- 1.7. The consultation on the proposals within this document runs until the 9th November 2017. Following the conclusion of this consultation, CLG have indicated an intention to publish a revised NPPF, which will include reference to the use of the finalised standard methodology for the calculation of the FOAHN.

¹CLG, (2012), The NPPF - Paragraph 17

² CLG, (2015), The National Planning Practice Guidance: Housing and Economic Development Needs Assessments, www.gov.uk/guidance/housing-and-economic-development-needs-assessments

³PAS, (2015), Objectively Assessed Need and Housing Targets – Technical Advice Note, 2nd Edition

⁴CLG, (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

Purpose of this document

- 1.8. This document has been produced in order to:
- Summarise the results of the proposed standard methodology for assessing housing need for Shropshire.
 - Compare the results of this draft assessment to that contained within the current Shropshire FOAHN Report (July 2016).

2. The Proposed Methodology for the FOAHN

Introduction

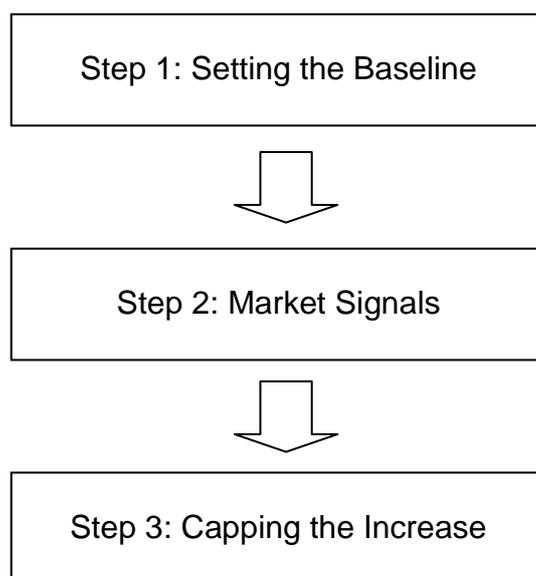
2.1. The stated intention of the proposed standard methodology for the FOAHN identified within the CLG consultation document: *Planning for the right homes in the right places: consultation proposals*⁵ is to:

- 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.

A Summary of the Methodology

2.2. The key stages within the proposed standard methodology for the FOAHN can be summarised as follows:

Figure 1: The key stages of the proposed standard methodology



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

Step 1: Setting the Baseline

- 2.3. The demographic baseline should be calculated using the Sub-National Household Projections (SNHP), produced for Local Authority areas⁶. This data should be used to identify the annual average household growth over a 10 year period, presumably starting from the base date for the plan period.
- 2.4. The demographic baseline should be calculated using the most recent SNHP published, this is currently the 2014-based SNHP, with the total household growth calculated for the period over which the plan is being made.
- 2.5. This approach is intended to ensure effective planning during the preparation and implementation of the plan and reflects Government's expectation that all plans are reviewed every five years.

Step 2: An adjustment to take account of market signals

- 2.6. Household growth on its own is considered insufficient as an indicator of demand as:
 - Household formation is constrained to the supply of available properties.
 - People may want to live in an area in which they do not currently reside.
- 2.7. Therefore it is necessary to assess whether an upward adjustment is necessary. The proposed methodology identifies the *workplace-based median house price to median earnings ratio*⁷ produced by the Office for National Statistics (ONS) as the most appropriate indicator of the need for an adjustment. When undertaking this assessment, the most recent year for which data is available should be used.
- 2.8. The need for an adjustment will be determined by whether the *workplace-based median 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.
- 2.9. In situations where this is the case, each 1 per cent increase in the ratio above 4 results in a quarter of a per cent increase in need above projected household growth. This achieves 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 as follows:

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

- 2.11. The overall housing need figure for the Local Authority area can then be calculated as follows:

$$\text{Local Housing Need} = (1 + \text{Adjustment Factor}) \times \text{Projected Household Growth}$$

- 2.12. Once the Local Authority FOAHN has been identified, the FOAHN for each Local Authority within a Housing Market Area (HMA) can be aggregated to identify the FOAHN for the entire HMA.

⁶DCLG (2016), Household Projections,

www.gov.uk/government/statistical-data-sets/live-tables-on-household-projections

⁷Office for National Statistics (ONS), (2017), Ratio of house price to workplace-based earnings,

www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoworkplacebasedearningslowerquartileandmedian

Step 3: Capping the level of any increase

- 2.13. The methodology recognises that applying the proposed methodology may in some locations lead to a significant increase in the potential housing need. To help ensure that the methodology and the resultant housing need are deliverable, a cap is proposed on the increase that applies to particular Authorities.
- 2.14. This cap will accord to the current status of the Local Plan, as follows:
- For those Authorities that have adopted their Local Plan in the last five years, the FOAHN should be capped at 40 per cent above the annual requirement within their current Local Plan.
 - For those Authorities that have not adopted their Local Plan in the last five years, the FOAHN should be capped at 40 per cent above either the demographic baseline identified using this proposed methodology or the annual housing requirement within their current Local Plan, whichever is higher.

3. Applying the Proposed Methodology

Assessment

- 3.1. Whilst the proposed standard methodology for calculating the FOAHN is still subject to consultation, it is considered appropriate to consider its implications in Shropshire, to allow work on the Local Plan Review to continue to progress.
- 3.2. Consequently an assessment of housing need has been undertaken using this proposed methodology.

Results

- 3.3. The results of this assessment are summarised below:

Step 1: Setting the Baseline

- 3.4. Consistent with the proposed standard methodology, the starting point for this calculation of the FOAHN is the data available within the most recent SNHP. At the time of this assessment, the most recent SNHP published was the 2014-based SNHP.
- 3.5. The proposed standard methodology then stipulates that the demographic baseline be calculated using the annual average household growth over a 10 year period. This assessment has been undertaken in accordance within this requirement. Specifically, as the Local Plan Review will cover the period from 2016-2036, the relevant ten year data period which has informed this assessment was that from 2016 to 2026.
- 3.6. According to the 2014-based SNHP, household growth over this period will equate to 10,333 dwellings. **This equates to an annual average household growth of 1,033 dwellings.**

Step 2: An adjustment to take account of market signals

- 3.7. In accordance with the proposed standard methodology, the need for a market signals adjustment to this calculation of the FOAHN is based on the *workplace-based median house price to median earnings ratio* is available.
- 3.8. In circumstances where this ratio exceeds 4, then an adjustment is required. When undertaking this assessment, the most recent year for which data is available should be used.
- 3.9. Within Shropshire the most recent year for which this data available is 2016. The specified affordability ratio for 2016 is 7.67. As this ratio exceeds 4 an adjustment is required.
- 3.10. The calculation for this adjustment is specified within the proposed standard methodology, as follows:

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

$$\text{Shropshire Adjustment Factor} = \frac{7.67 - 4}{4} \times 0.25 = 0.229$$

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

Local Housing Need = (1+ Adjustment Factor) X Projected Household Growth

Shropshire Housing Need = (1+ 0.229) X 1,033 = 1,270 dwellings per annum

- 3.12. Consequently the annual housing need for Shropshire, using the proposed standard methodology is some 1,270 dwellings per annum. This equates to a total housing need of some 25,400 dwellings over the Partial Review Period from 2016 – 2036.
- 3.13. Shropshire Council has previously determined that it 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. As the purpose of this assessment is to inform the Local Plan Review, the application of a cap is not relevant.
- 3.15. Irrespective of this, the need for a cap is only applicable in situations where the proposed standard methodology will lead to a significant increase in the potential housing need for an area.

Endorsement

- 3.16. In addition to the publication of the proposed standard methodology for the FOAHN, CLG has also published a table illustrating their calculation of the FOAHN for each Local Authority, using the proposed standard methodology⁸.
- 3.17. Similar to the calculation undertaken by Shropshire Council, this calculation has a 2016 base date and uses the data sources identified within the proposed standard methodology in order to identify the demographic baseline and need for a market signal adjustment.
- 3.18. The CLG calculation identified that the housing need in Shropshire is some 1,270 dwellings; this is consistent with the assessment undertaken by Shropshire Council.

4. Shropshire's FOAHN

Introduction

- 4.1. Shropshire Council has identified a FOAHN for Shropshire using two different approaches, current best practice and the proposed standard methodology. Whilst these two approaches identify two different FOAHN's, they are considered to be generally comparable:

Figure 2: Comparison – FOAHN identified for Shropshire Using the Current Best Practice and the Proposed Standard Methodology

	FOAHN Calculated Using Current Best Practice	FOAHN Calculated Using Proposed Standard Methodology
Annual Housing Need	1,259	1,270
Total Housing Need (2016 – 2036)	25,178	25,400

Conclusion

- 4.2. As a result of the general consistency between these two assessments, confidence can be taken that the Local Plan Review is informed by an appropriate assessment of housing need.

⁸CLG, (2017), Planning for the right homes in the right places: consultation proposals - Housing need consultation data table,
www.gov.uk/government/consultations/planning-for-the-right-homes-in-the-right-places-consultation-proposals