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, for the area of the local authority. Taking the most recent projections, calculate the projected average annual household growth over a 10 year period (this should be 10 consecutive years, with the current year being the first year).

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, published by the Office for National Statistics at a local authority level, should be used.

For each 1% increase in the ratio of house prices to earnings, where the ratio is above 4, the average household growth should be increased by a quarter of a percent. No adjustment is applied where the ratio is 4 or below. Where an adjustment is to be made, the precise formula is as follows:

$$Adjustment\ factor = \left(\frac{Local\ affordability\ ratio\ - 4}{4}\right) x\ 0.25$$

STEP 3 - CAPPING THE LEVEL OF ANY INCREASE

A cap may then be applied which limits the increase in the minimum annual housing need figure 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 five 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 five year period and found to not require updating.

Where the relevant strategic policies for housing were adopted more than five 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).

Worked Examples

STEP 1 - SETTING THE BASELINE

An authority's household projections are:

- Population of 110,500 in 2018
- Population of 120,000 in 2028

This is a total of 9,500 new households over the ten year period, equivalent to a average household growth of 950 per year.

STEP 2 - AN ADJUSTMENT TO TAKE ACCOUNT OF AFFORDABILITY

The authority's workplace-based affordability ratio is 12.4

The adjustment is calculated as below:

$$Adjustment\ factor = \left(\frac{Local\ affordability\ ratio\ - 4}{4}\right) x\ 0.25$$

$$Adjustment\ factor = \left(\frac{12.4\ - 4}{4}\right) x\ 0.25 = \left(\frac{8.4}{4}\right) x\ 0.25 = 2.1\ x\ 0.25 = 0.525$$

The adjustment factor is therefore 0.525 and is used as below:

$$Minimum\ annual\ local\ housing\ need\ figure$$
$$= (1 + adjustment\ factor) x\ projected\ household\ growth$$

$$Minimum\ annual\ local\ housing\ need\ figure = (1 + 0.525) x\ 950 = 1.525\ x\ 950$$

The resulting figure is 1,449.

STEP 3 - CAPPING THE LEVEL OF ANY INCREASE

The cap depends on the current status of relevant strategic policies for housing. Below are three examples where. Example 1 relates to a plan that has been adopted or reviewed within the last five years. Example 2a and 2b relate to plans that were adopted more than five 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 five years, or has reviewed (and if necessary updated) the housing requirement figure in a plan adopted more than five 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:

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

The capped figure is lower than the minimum annual local housing need figure and therefore the minimum figure for this local authority is 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 ten 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:

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

The capped figure is lower than minimum annual local housing need figure and therefore the minimum figure for this local authority is 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 ten 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:

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

The capped figure is greater than minimum annual local housing need figure and therefore the minimum figure for this local authority is 1,449.