WELWYN HATFIELD BOROUGH COUNCIL
CABINET PLANNING & PARKING PANEL – 17 NOVEMBER 2020
REPORT OF THE CORPORATE DIRECTOR (PUBLIC PROTECTION, PLANNING AND GOVERNANCE)

LOCAL PLAN – OBJECTIVE ASSESSMENT OF NEED AND FINAL SITE SELECTION

APPENDIX E

IDENTIFYING THE FULL OBJECTIVELY ASSESSED HOUSING NEED (FOAHN)

Introduction

The inspector has requested that a specific number is provided for housing need on which to base his report. This will need to cover the period 2016-2036 rather than a range of possible figures as had previously been proposed by Turley. He has stated that there is a deadline for the production of this figure of 16th November 2020. Failure to meet this deadline will result in the Inspector finding the plan unsound.

History of need assessments for Welwyn Hatfield

The submitted local plan was prepared on the basis on an Objective Assessed Need range of 12,616 – 13,433 (ie 664 – 707 per year. This was updated following the publication of the 2014 household projections to 800 dwellings per year. This was set out in a 2017 update to the Objectively Assessed Need for Housing.

The inspector concurred with this view and was further content that the 2016-based household projections did not affect the assessment and that the FOAHN for Welwyn Hatfield was still 800 per year. Most recently, the Inspector has noted the publication of the 2018-based projections and wrote to the Council asking for an updated assessment by 31st July 2020. The Council commissioned Turleys to produce this assessment and at the end of August submitted the Turley report The Implications of the 2018 based SNPP and SNHP on the Welwyn Hatfield Local Plan. On 10th September the Inspector wrote to the Council again to ask the Council for a precise OAN figure for the period 2013-32 and also for a forecast for the period 2011-36. In his interim report he set out a deadline of 16th November to provide a view on what the FOAHN should be, taking these into account.

Calculating the Objectively Assessed Housing Need

As the local plan was submitted in 2017, it is to be considered against the 2012 NPPF and the associated guidance as it was at that time. Under that guidance, the preparation of the FOAHN follows three broad steps, and further discussion on these follows.

- Consideration of the published household projections for the area.
- Demographic adjustments where indicated
- Market signals

The guidance makes it clear that the word "objective" is a key element of the assessment. "The assessment of development needs is an objective assessment of need based on facts and unbiased evidence. Plan makers should not apply constraints to the overall assessment of need, such as limitations imposed by the supply of land for new development, historic under performance, viability, infrastructure or environmental constraints."

Household Projections

The household projections are the starting point for the analysis of housing need. However, they do not in themselves provide a statement of housing need. This is confirmed in the guidance and also is the view of the Office of National Statistics (ONS) themselves who state "Household projections are not forecasts. They do not attempt to predict the impact of future government or local policies, changing economic circumstances or other factors that may influence household growth, such as the number of houses built. Household projections are not a prediction or forecast of how many houses should be built in the future. Instead, they show how many additional households would form if the population of England keeps growing as it did between 2011 and 2018 and keeps forming households as it did between 2001 and 2011. Therefore, household projections should be used as a starting point for calculating the future housing needs of a local area."
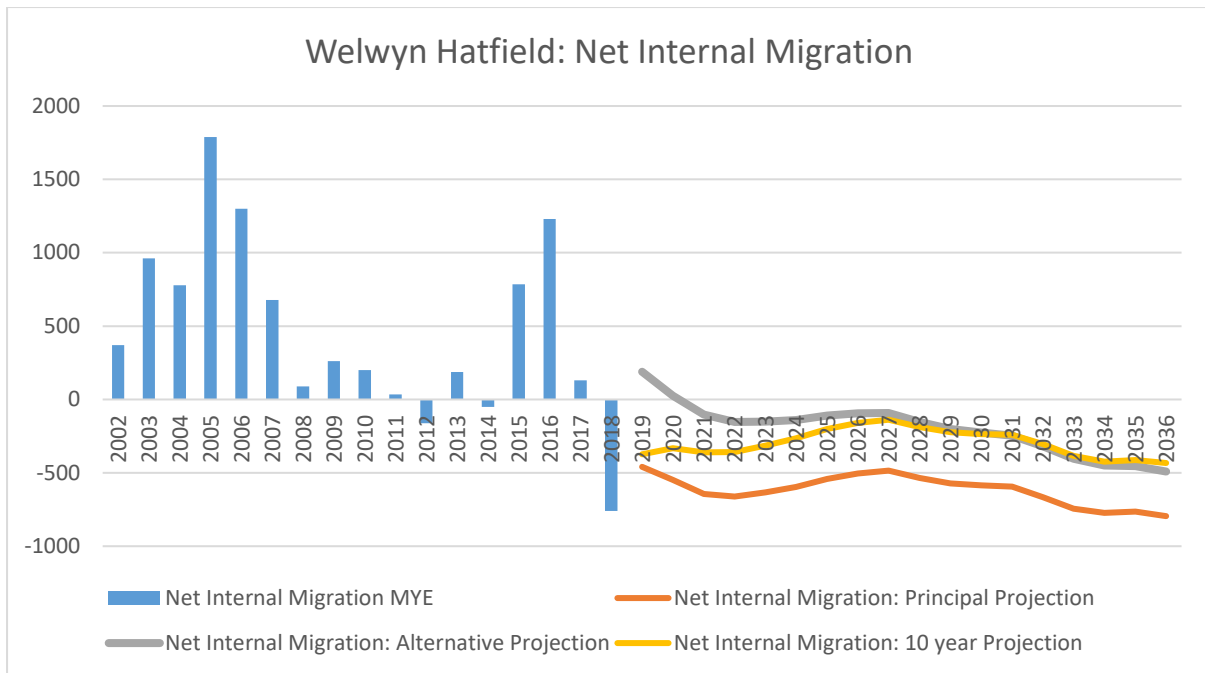
Use of the 2014 Household Projections

There is still a strong argument that the 2014-based household projections provide a suitable starting point, rather than the more recent versions. The government's standard method requires the use of the 2014-based projections even though two more recent sets of projections exist. An examination of other "transition" examinations being considered against the same guidance as Welwyn Hatfield indicates that updating to take account of the 2018-based projections has generally been avoided.

The 2018 Household Projections

Looking at the 2018-based projections, one of the key changes has been to the way in which migration has been calculated. The "principal" projections have, for this set only, used just two years of historic data on which to project future migration patterns. This is a major departure from previous projections where five years of data have been used. In the case of Welwyn Hatfield, the graph below shows that this has had a very significant effect on the projection, particularly because 2018 was a very untypical year historically, with many more people leaving the borough than moving in.

This is why the ONS has produced alternative projections, using 5 years of historic data (known as the "alternative projection" and using 10 years of historic data. The different migration figures used in these projections are also included in the graph below. It can be seen that the 2 year "principal" projection is a significant outlier when compared with the 5 and 10 year alternatives.

Welwyn Hatfield: Net Internal Migration

The differences in migration assumptions then feed through into the numbers of households projected under each of the alternatives, set out in the table below.

Variant	Summary	2016	2036	Growth 2016 - 2036	Avg Annual Growth 2016 - 2036	Appropriateness
2018-based PRINCIPAL projection	Uses two years of internal migration data trends due to new methodology (2017&2018)	46,991	53,178	6,187	309	The two year net internal migration trend used in the principle projection showed a large net outflow from the borough not seen in previous internal migration figures for Welwyn Hatfield (even in figures prior to the 2011 census i.e. confirmed figures not estimates). This has had a very large impact on the projections even though it is highly untypical of

						recent migration data. New methodology on student migration has been introduced which is thought to generally better reflect students moving after they leave study. However, ONS "recognises that the new methodology may be more accurate in some areas than others"[1] Welwyn Hatfield was one of those local authorities showing a major change with this new methodology, meaning that its accuracy remains uncertain here.
2018-based 10 YEAR migration variant	Uses ten years of trend data for all aspects of migration (for internal migration two years of new methodology and 8 years old methodology)	46,991	55,884	8,893	445	New methodology on student migration has been introduced which is thought to generally better reflect students moving after they leave study. However, ONS "recognises that the new methodology may be more accurate in some areas

1

https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/articles/impactofdifferentmigrationtrendlengths/march2020#approaches-for-our-2018-based-projections

						than others"[2] Welwyn Hatfield was one of those local authorities showing a major change with this new methodology, meaning that its accuracy remains uncertain here. The impact of the most recent untypical migration year has been evened out as a result of using a longer time frame, avoiding such short-term fluctuations. The 10 years used in the projection approximately cover an economic cycle (2008 – 2018) and therefore may avoid undue optimism or pessimism.
2018-based ALTERNATIVE internal migration variant	Uses five years of internal migration data (two years of new methodology and three of previous methodology)	46,991	56,319	9,328	466	New methodology on student migration has been introduced which is thought to generally better reflect students moving after they leave study. However, ONS "recognises that the new

2

https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/articles/impactofdifferentmigrationtrendlengths/march2020#approaches-for-our-2018-based-projections

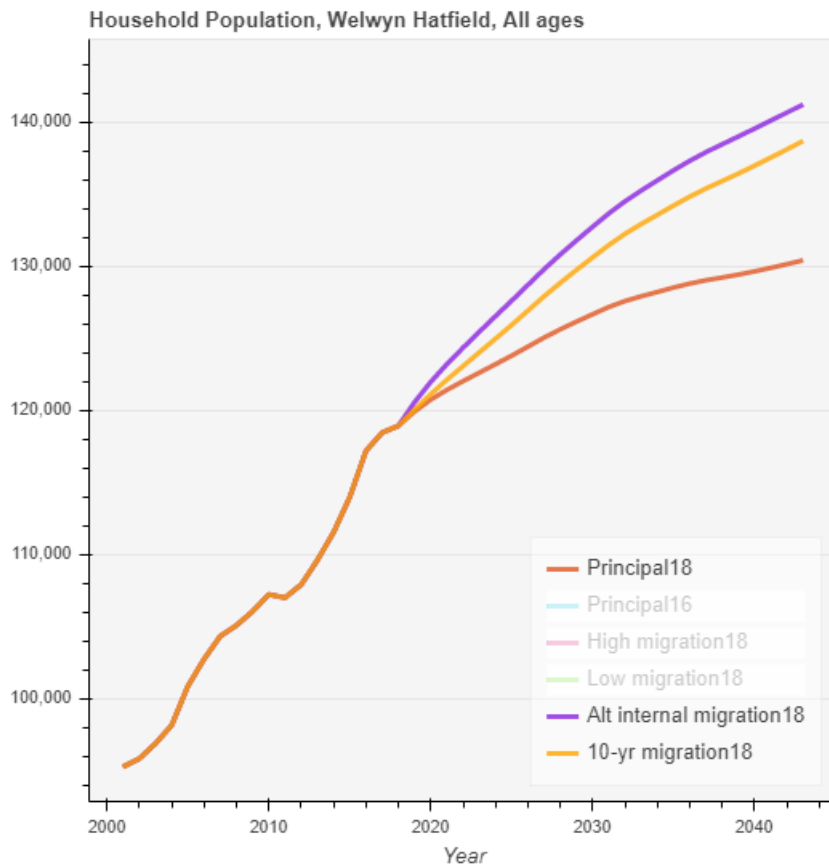|						methodology may be more accurate in some areas than others"[3] Welwyn Hatfield was one of those local authorities showing a major change with this new methodology, meaning that its accuracy remains uncertain here. Using a five year trend helps to minimise the impact of a single potentially untypical year. The five year alternative is more consistent with the council's previous approaches to calculating OAHN which were supported by the Inspector.

The conclusion from this is that the 5 year and 10 year based projections appear to be significantly more appropriate for use as a basis for housing need than the principal, 2-year based projections. It would be more consistent with previous assessments to use the 5 year one, but there are advantages in a longer 10 year trend being used including that it includes a recession and the post-recession recovery, and may be more representative of economic and migration cycles.

The following graph, taken from the ONS website, gives a further visual indication of the way in which the 2018 Principal Projection departs significantly from longer term trends as a result of the use of just two years' migration data. "Alt internal migration 18" is the five year projection recommended by Turley.

3

https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/articles/impactofdifferentmigrationtrendlengths/march2020#approaches-for-our-2018-based-projections

Household Population, Welwyn Hatfield, All ages

Demographic Adjustments

The projections are a starting point for analysis and the guidance confirms that consideration should be given to making adjustments. "The household projection-based estimate of housing need may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trends. For example, formation rates may have been suppressed historically by under-supply and worsening affordability of housing. The assessment will therefore need to reflect the consequences of past under delivery of housing. As household projections do not reflect unmet housing need, local planning authorities should take a view based on available evidence of the extent to which household formation rates are or have been constrained by supply."

In other words, decisions need to avoid "baking in" the impact of housing affordability on the ability of new, younger households to rent or buy new homes. This is what "suppression of household formation rates" means. Edge analytics have therefore applied the 2014-based assumptions on household formation to the 2018-based population projections. The table overleaf sets out the outcomes.

2016-36	2018-based PRINCIPLE projection	2018-based 10 YEAR migration variant	2018-based ALTERNATIVE internal migration variant
Avg Annual Household Growth (as above)	309	445	466
Unadjusted demographic position (with 2014-based household headship rate applied) - Dwellings	358	509	525
Adjusted demographic position (to account for younger adult household formation) - Dwellings	419	570	593

Source: ONS, Edge Analytics

The council could reasonably take the view that either 570 or 593 per year is the appropriate adjusted demographic projection since each has some advantages.

The principal projection is not supported by officers. Even with a 21% market adjustment (see next section), it would lead to fewer dwellings per year being proposed than have recently been developed. It is a requirement of the NPPF that plans contribute to significantly boosting housing supply, and therefore this would be highly unlikely to be found sound by the planning inspector. Further, it would represent a reduction compared with the submitted local plan, contrary to the Inspector's specific request to find additional housing sites.

Market Signals

It is a requirement of the advice for preparing the Objectively Assessed Housing Need that market signals are included. "The housing need number suggested by household projections (the starting point) should be adjusted to reflect appropriate market signals, as well as other market indicators of the balance between the demand for and supply of dwellings." Failure to do so would make the assessment unsound.

House prices and affordability are the key signals and in the case of Welwyn Hatfield these both indicate that a reasonably high adjustment is necessary. House prices in Welwyn Hatfield are 82.5% higher than for England as a whole, indicating a constrained housing market. Another way of looking at this is through the affordability ratio – which divides the local house price by local annual wages. Welwyn Hatfield's ratio is 10.5, compared with 7.83 for England. This can be compared with a standard mortgage multiplier of 3 – 4 to indicate difficulty in purchasing (especially for first time buyers).

The previous market signal adjustment which was considered sound by the Planning Inspector was a 21% uplift from the demographically adjusted household projections. This note next considers whether this is still appropriate.

- Standard method

The government introduced a standard method in 2018 to simplify discussions of housing need and reduce the length of local plan inquiries. Because this local plan was submitted before the standard method was introduced it does not apply here. However it is instructive to make the comparison as it indicates current government thinking on an appropriate market signal. The signal is for for the same reason – to ensure that provision starts to address the affordability of homes

The standard method uses the affordability ratio for the area (referred to above) and compares it with an "ideal" ratio of 4. Broadly, for each 1% by which the actual ratio exceeds 4 (8, for example, being a 100% exceedance) the market adjustment is 0.25%. The calculation for Welwyn Hatfield is set out in the Annex to this note, but the outcome is a 40.6% uplift (but capped at 40%).

- Proposed new standard method

Members will be aware that a revised standard method has recently been consulted upon. This proposes to retain the same uplift as the current method but to add a further increase to account for changes in affordability over the previous 10 years. In the case of Welwyn Hatfield affordability has worsened – the ratio increasing from 7.44 to 10.5 in that time. Again, the calculation is set out in the Annex but the outcome is a much increased 117% uplift, and there is no proposal that this should be capped at 40% or any other figure.

- Impact on affordability

A third comparison which could be made is based on economic models of what determines house prices. For these purposes, there are two relevant factors. Evidence indicates that for each 1% increase in housing stock, house prices become 2% more affordable. However, at the same time each 1% increase in households leads to house prices increasing by 2%. Obviously, if housing stock and households both increase at the same rate, then these would cancel each other out. Therefore, it is the extent to which housing stock grows over and above the numbers of households which would lead to affordability improvements. Again, the calculations are included in the Annex but for each additional 240 homes included in the local plan as a market signal affordability can be expected to improve by 1%. The market signal previously included in the OAN would be 120 dwellings extra per year, or 2400 over the plan period. This would be expected to bring about a noticeably beneficial 10% improvement in affordability compared with the current situation (in real terms). This benefit is strengthened by the fact that some 40 per year (960 total) of these would be affordable homes.

- Comparison with other authorities

Other local planning authorities with similar housing markets in terms of affordability have tended to use uplifts in the order of 20%. For example:

Authority	Affordability Ratio	Market Signal
Reading	6.58	+10%
North East Derbyshire	7.17	+10%
Canterbury	10.6	+20%
Tonbridge and Malling	11.79	+25%
Runnymede	11.93	+20%
Mid Sussex	12.6	+20%
Waverley	15.45	+25%

Conclusion

The council has previously used a demographically adjusted household projection using a 5 year migration data, and it would be consistent to continue to use this – which is the "alternative projection" set out above. However, there are equally good reasons to use the adjusted 10 year projection, which provides a more stable outcome less susceptible to single year anomalies. The use of the 2 year "principal" projection, even adjusted demographically, is not supported by officers for the reasons set out above and we do not believe the Inspector would find it sound.

The previous market uplifts were about 21% and these were found sound by the inspector. This generally accords with similar plans elsewhere and should have a noticeable and beneficial impact on affordability locally. It is therefore recommended that this adjustment is maintained.

Applying the 21% uplift to the demographically adjusted projections leads to the following options for the objectively assessed housing need (rounded to the nearest 5).

- 690 per year (13,800 total) using the 10 year projection
- 715 per year (14,300 total) using the 5 year projection