

Objectively Assessed Need and Housing Targets

Technical advice note



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1 INTRODUCTION

- 1.1 The National Planning Policy Framework requires that local planning authorities identify objectively assessed housing need (the OAN), and that Local Plans translate those needs into land provision targets. Like all parts of the plan, such housing targets should be informed by robust and proportionate evidence. This note offers practical help to planning authorities and others on preparing that evidence and setting plan targets, in line with the Framework. The note is intended to supplement the technical advice provided by the National Planning Practice Guidance (PPG). It updates the note published by the Planning Advisory Service (PAS) in June 2014.
- 1.2 The note has no official status. It provides informal advice, which local authorities and others use at their own risk. It is based on existing good practice, our own experience and - most important – on the findings of planning Inspectors, both from formal reports and informal documents (letters, initial findings, preliminary observations etc) issued in the course of Local Plan examinations. We focus on total housing need, leaving aside the breakdown of that total by housing mix and tenure, but we do look closely at the relationship between overall and affordable need.
- 1.3 As pointed out in the PPG, assessing housing needs is not an exact science. Many of the questions we address have no definitive answer, and answers may change abruptly if national guidance is updated, planning Inspectors and courts of law issue new decisions, or new information comes forward.
- 1.4 Below, Chapter 2 provides a brief overview of those parts of the NPPF and PPG that deal with housing need and housing targets. Chapter 3 aims to clarify the meaning of ‘housing need’ – an essential preliminary to the more practical discussion that follows. Chapters 4-9 follow the methodological steps set out in PPG, providing detailed advice on each step.
- 1.5 The NPPF mostly refers to the evidence base study on housing need as a Strategic Housing Market Assessment, or SHMA. The PPG by contrast uses the expression ‘SHMA’ only once, and otherwise calls the study an ‘assessment’. In this note we also use ‘assessment’ throughout.
- 1.6 We are grateful to the Campaign to Protect Rural England (CPRE) and Home Builders Federation (HBF) for valuable advice.

2 NATIONAL POLICY AND GUIDANCE

- 2.1 This chapter briefly summarises the advice given in the NPPF and PPG about assessing housing needs and setting housing targets. At this stage we do not add our own analysis or advice; this will follow in later chapters.

The NPPF

- 2.2 Our starting point is national planning policy, as set out in the National Planning Policy Framework (NPPF)¹. Briefly summarised, a key objective of the Framework is to ‘*boost significantly the supply of housing*’. To that end, local planning authorities should make objective assessments of the needs for market and affordable housing, working jointly with neighbouring authorities who share the same housing market area. Local Plans should provide land to meet those needs in full, insofar as their areas have the sustainable capacity to so, as defined by other policies in the Framework. Where this capacity does not exist, need should be ‘exported’ to neighbouring areas and those neighbouring areas should accept it, as far as is reasonable and consistent with *their* sustainable capacity.
- 2.3 These are the principles that housing needs assessments should help translate into practice.

Planning Practice Guidance

Overview

- 2.4 The PPG’s section on *Housing and economic development needs assessments* deals with housing in three sub-sections.
1. *The approach to assessing need*
 2. *Scope of assessments*
 3. *Methodology: assessing housing need.*
- 2.5 The first sub-section covers both housing and economic development. It makes three main points about the objective assessment of development needs:
- The assessment should take no account of constraints on development, such as the availability of land, viability of development, infrastructure or environmental impacts. These factors should be considered when setting policy targets but they have no bearing on need².
 - Local planning authorities are strongly recommended to use the standard method set out later in the Guidance. Any departures from that method should be justified in terms of specific local circumstances³.

¹ Key paragraphs are 17, 47, 159, 179 and 182.

² Reference ID: 2a-004-20140306

³ Reference ID: 2a-006-20140306

- Authorities should join forces with neighbours, in line with the Duty to Co-operate, so that assessments of development needs cover market areas that straddle local authority boundaries. *‘This is because needs are rarely constrained precisely by... administrative boundaries.’*
 - For housing, the relevant areas are housing market areas (HMAs). For economic land uses, which include both main town centre uses and employment (B-class) uses, they are functional economic market areas; the next sub-section adds that for town centre uses authorities should use trade draw areas.
 - Where joint assessments are not practical due to different plan-making timetables, single-authority assessments may be acceptable; in that case authorities should refer to neighbours’ evidence bases; and future timetables should be co-ordinated so that assessments are undertaken jointly⁴.
- Other stakeholders should also be involved in the assessment, including housing providers from all sectors of the market and a wide range of community organisations⁴.

2.6 The second sub-section, headed *Scope of assessments*, advises on the definition of market areas. We discuss this in Chapter 5 below.

Assessment method

2.7 A third sub-section in the PPG provides the method for assessing housing need. The section starts with two important general points. Firstly, *‘establishing future need for housing is not an exact science; no single approach will provide a definitive answer’*. Secondly, needs assessments should look primarily to secondary data such as the Census, because primary research such as local surveys would involve disproportionate cost or effort.

2.8 Following these general observations, the methodology section is in two parts, which we summarise in turn below.

Overall housing need

2.9 Paragraphs 015-021 of the PPG, deals with *overall housing need* - the total number of net additional dwellings to be provided over the plan period, both in the market and affordable sectors⁵. Paragraphs 015-20 set out a step-by-step method for calculating that need, indicating that the starting point should be the household projections published by the Department of Communities and Local Government (CLG); plan-makers may sensitivity-test and adjust those projections in the light of local circumstances, and they should also take account of the most recent demographic evidence, including the latest population estimates from the Office of National Statistics (ONS).

⁴ Reference ID: 2a-007-20150320

⁵ The market sector comprises owner-occupied and privately rented housing. The affordable sector comprises socially rented housing and intermediate housing.

- 2.10 The Guidance notes that demographic projections are trend-based – that is, they carry forward past demographic trends. Accordingly they may be adjusted to take account of factors that are not captured by those trends, including past undersupply, market signals and future job growth.
- 2.11 Paragraph 021 discusses the total need estimated earlier should be broken down by age group (with emphasis on older people), type of household (emphasis on family housing), size (number of bedrooms), special requirements (people wishing to build their own homes, disabled people, students) and tenure – although at this stage private renting is the only tenure specifically mentioned. (These factors are known collectively as ‘housing mix and tenure’.) Paragraph 021 is not a step-by-step calculation method like the previous paragraphs, but a free-ranging discussion, as much about making policy as measuring need. In relation to student housing, for example, it observes that ‘*encouraging more dedicated student accommodation may provide low-cost housing that takes pressure off the private rented sector*’).

Affordable housing need

- 2.12 Paragraphs 022-029 of the PPG again provide instructions for a step-by-step calculation, this time dealing with affordable housing need. This method is taken from the SHMA Practice Guidance that was published by CLG in August 2007 and cancelled on publication of the PPG. It proceeds in four main steps:
- i Estimate numbers of *households currently in need* – meaning those who lack suitable housing and cannot afford such housing in the market sector. Lack of suitable housing is defined by a long list of criteria, or standards, such as homelessness, concealed households, property in major disrepair or unfit for habitation, lack of a bathroom or kitchen, overcrowding, and housing that is too expensive compared to household income.
 - ii To this backlog of current need add the *future need* that is expected to arise over the plan period, both from new households unable to access suitable housing in the market sector and from existing households ‘falling into need’. (Total numbers of new households should be taken from the CLG projections).
 - iii Estimate the *current and future supply* of affordable housing, from filling vacant properties, re-let of units to be vacated by existing tenants and the committed supply of new affordable units.
 - iv Current and future need minus current and future supply equal the *net affordable need* over the plan period. This total should be converted into an annual flow.
- 2.13 The above method is fundamentally different from the calculation of overall need set out earlier in the PPG. Of course one would not expect the two methods to be identical, given that one covers all housing, in both the market and affordable sectors, while the other only covers the affordable sector. But the differences go far beyond that.
- 2.14 One major difference between the two methods is that only the affordable calculation includes a ‘current need’, or backlog, while the overall calculation considers only future need. Another major difference relates to the calculation of future need. As we have seen, in the first method assessed overall need is based primarily on projecting

(rolling forward) past trends in total population and household numbers. On the same logic, one would expect the second method to project forward the proportion of those future households that were in the affordable sector. But the second method does not do this. To determine how many households will need affordable housing it does not refer to past reality, but instead looks to set criteria, or standards.

- 2.15 The PPG does not say how the calculation of affordable need at paragraphs 022-029 relates to the earlier calculation of overall need at paragraphs 015-021. Nor does it state directly if, or how, authorities should take account of the second calculation as well as the first to arrive at an objective assessment of market and affordable needs, as the NPPF requires. We return to these questions later.

3 WHAT IS HOUSING NEED?

- 3.1 Chapters 4-9 below will consider the PPG's assessment method step by step. But first, as an important starting point, it will be helpful to establish what exactly the NPPF and PPG mean by housing need. Appendix A discusses this question in detail. Here we summarise the conclusions from that discussion.

The OAN: need as demand

- 3.2 As discussed in Appendix A, there are two alternative definitions of housing need, need-as-aspiration and need-as-demand. The choice between these definitions is of more than academic interest, because the first definition would normally produce a much larger number than the second, with major practical implications for plan targets and land allocations. The PPG does not explicitly tie the crucial concept of objectively assessed need to one or the other definition. But in our view the OAN mainly relates to need-as-demand. There are four reasons for this view, which we discuss in more detail at Appendix A below:

- The NPPF and PPG use 'need' and 'demand' as synonyms.
- The PPG- recommended method for calculating the OAN, using trend-based projections and various adjustments, uses the evidence of past demand and supply rather than aspiration.
- A plan that aimed to meet aspiration, rather than demand, would risk being undeliverable, contrary to paragraph 173 of the NPPF.

- 3.3 Based on these reasons, we conclude that the OAN should be principally understood as a measure of future demand rather than aspiration. Accordingly we propose a working definition as follows:

'The housing that households are willing and able to buy or rent, either from their own resources or with assistance from the State'.

- 3.4 The above is based on the Annex to the former Planning Policy Statement (PPS) 3⁶, amended so it covers affordable as well as market housing. Total need, or demand, equals the total housing that would be provided across both sectors, if land supply was not constrained by planning. This is why the assessed total need is often described as a policy-off estimate.
- 3.5 But in practice this unconstrained demand is impossible to measure, because planning policy, and environmental designations generally do constrain housing development, and have done so for many decades. When we assess future demand by projecting forward past trends, we also project forward the effect of those past constraints. Rather than policy-off, it is a policy-same, or policy-neutral, estimate.

⁶ Planning Policy Statement 3 (PPS3): Housing, third edition, June 2011, Communities and Local Government, London, Annex B : Definitions. The same text appeared in the two previous editions since 2006.

- 3.6 Our working definition does not appear in national policy or guidance. It aims to approximate the thinking behind that policy and guidance, and to be consistent with Inspectors' interpretation of it.

Affordable housing: need as aspiration

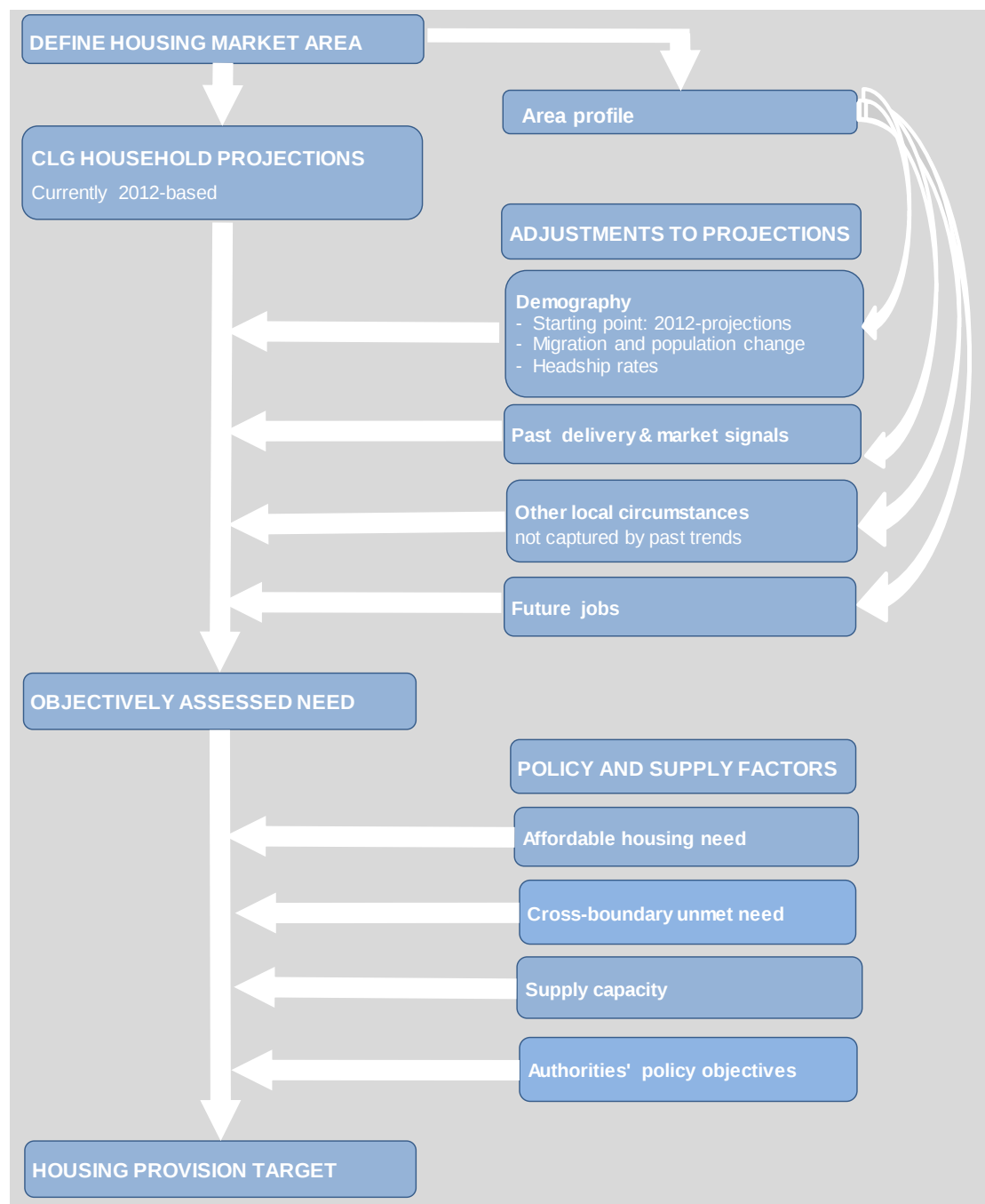
- 3.7 There is one part of the PPG which our definition of need-as-demand does not fit. This is the method for assessing affordable need set out at paragraphs 022-029 of the guidance and summarised in Chapter 2 above. As discussed earlier, that method, contrary to the main OAN calculation, does not take account of past reality. Rather, it assesses need on the basis of set standards - the housing that people *ought to* have, and the maximum they *ought-to* pay for it, to be considered suitably housed. Clearly this calculation measures need-as-aspiration, contrary to the rest of the PPG.
- 3.8 This likely explanation for this different approach is historical. As noted earlier, the affordable need method in the PPG is taken from national guidance produced in 2007, under the previous planning system. That system made a clear distinction between need-as-demand (which it called demand) and need-as-aspiration (which it called need)⁶. The 2007 assessment method related to the latter concept, and its purpose was to show what proportion of total housing should ideally be in the affordable sector. The method was not used to inform overall housing targets, which at the time were handed down from Regional Spatial Strategies.
- 3.9 While this history explains why the PPG shows two separate assessment methods, it does not tell us how to reconcile the two methods in practice. We discuss this question and propose an answer in Chapter 9 below.

4 METHOD OVERVIEW

The process as a whole

- 4.1 Figure 4.1 pictures the process of housing needs assessment and target-setting. It covers the elements set out in the PPG, while aiming to clarify the sequence and logical relationships between them. We have added some elements not discussed in the PPG, including how to go from objectively assessed need to plan target. Chapters 5-10 below will discuss the process step by step.

Figure 4.1 Assessing needs and setting targets



Need versus policy

- 4.2 It is generally accepted that the OAN as its name indicates should be derived from objective analysis of the evidence, to the exclusion of any policy objectives and value judgments; and that evidence should be entirely about need and demand, to the exclusion of any supply-side factors such as physical constraints, policy designations and adverse impacts of development. The excluded factors are 'below the line': they have no bearing on the OAN, but plan-makers should take them into account at a later stage, when translating the OAN into a provision target.
- 4.3 The above principles are primarily based on paragraphs 14 and 47 of the NPPF, paragraph 004 of the PPG (quoted earlier) and the Hunston High Court judgment⁷. From these documents it is clear that a hard and fast line divides demand-side considerations from supply constraints such as infrastructure or environmental designations. But in other ways the dividing line between objective assessment and policy is less clear.
- 4.4 In particular there are three borderline factors, whose status is uncertain and controversial: future jobs, affordable need and cross-boundary unmet need. The PPG does not resolve the uncertainty, because it does not always make a clear distinction between the OAN and the provision targets ('requirement'⁸). Thus, in discussing how plan-makers should deal with affordable need it refers to 'housing figures', which could mean either. In relation to the role of future jobs and affordable the PPG is similarly ambiguous, with no explicit reference to either need or targets⁹.
- 4.5 On balance, we would suggest that:
- Future jobs belong above the line, because jobs impact on the demand for housing (many people want to live near their workplaces or new job opportunities), independent of any policy considerations. Albeit policy also plays a role, because job growth itself may be policy-led; and also because, as mentioned in the PPG, one of the reasons for locating housing close to jobs is to avoid unsustainable commuting.
 - Affordable housing need is below the line, as a policy consideration. That is because, as discussed earlier, the PPG's affordable need measure is not a constituent of the OAN and the two numbers are not directly comparable. This view has been supported by Inspectors, although a recent court judgment casts doubt on it. The issue is discussed further in Chapter 9 below.
 - Cross-boundary imported need belongs below the line, for two main reasons. One reason for this is that unmet need in neighbouring authorities results from a policy change in neighbouring authorities: if those authorities supply less development land than they did in the past demand in the subject authority will rise above past

⁷ City and District Council of St Albans v the Queen (on the application of) Hunston Properties Limited and Secretary of State for Communities and Local Government and anr, Neutral Citation Number: [2013] EWCA Civ 1610

⁸ The NPPF and PPG generally use 'requirement' to refer to policy targets (what policy requires), as opposed to need or demand (what people or the market require).

⁹ Reference ID: 2a-018-20140306

trends, resulting in cross-boundary unmet need. Another reason is that how much of that need the subject authority should accommodate depends partly on its own constraints, including policy constraints.

5 THE HOUSING MARKET AREA

- 5.1 In line with the NPPF and NPPG, where a housing market area straddles local authority boundaries authorities should work together to assess needs across the HMA as a whole. (Where Local Plans are at different stages of production, the PPG suggests that authorities can make separate assessments, provided they build on the existing evidence of other authorities in the HMA. But they should co-ordinate future assessments so they happen at the same time.¹⁰)
- 5.2 The underlying logic is that housing need is not tied to local authority areas, because many people do not care what local authority they live in as long as they are close enough to jobs, schools, families etc. An HMA is an area of search, bringing together places which households regard as reasonably close substitutes for one another. As planning steers development to the most sustainable locations, people may not be able to live in the exact places that they would otherwise choose. But if they can live in the same HMA the harm to their quality of life should be minimised, because they will still be in their area of search.

Drawing the boundaries

Sources

- 5.3 To identify places that are substitutes for one another, we need to look for evidence of household preferences, as manifested through household behaviour and market signals.
- 5.4 The PPG provides a long list of possible indicators, comprising house prices, migration and search patterns and contextual data including travel-to-work areas, retail and school catchments. In practice, the main indicators used are migration and commuting. With regard to migration, the PPG explains that areas that form an HMA will be reasonably self-contained, so that
- ‘A relatively high proportion of household moves (typically 70%) are contained [within the area]. This excludes long-distance moves (e.g. those due to a change of lifestyle or retirement, reflecting the fact that most people move relatively short distances due to connections to families, friends, jobs and schools).’¹¹*
- 5.5 One problem in drawing boundaries is that any individual authority is usually most tightly linked to adjacent authorities and other physically close neighbours. But each of these close neighbours in turn is most tightly linked to its own closest neighbours, and the chain continues indefinitely.
- 5.6 Therefore, if individual authorities worked independently to define HMAs, almost each authority would likely draw a different map, centred on its own area. This of course would produce nearly as many HMAs as local authorities, with huge overlaps. For a

¹⁰ Reference ID: 2a-008-20140306

¹¹ Reference ID: 2a-011-20140306

more useful definition of HMAs we need a top-down analysis, which maximises containment across the country as a whole rather than a given local authority, and also centres HMAs on the main urban areas.

- 5.7 Such an analysis is provided by *Geography of Housing Market Areas*, a study commissioned by the former National Housing and Planning Advice Unit (NHPAU) and published by CLG in 2010¹². The study, led by the Centre for Advanced Urban Studies (CURDS) at Newcastle University, created a consistent set of HMAs across England, based on migration and commuting data from the 2001 Census. Although the analysis has not been updated following the 2011 Census, the CURDS study is the best available starting point for drawing HMAs.
- 5.8 The results of the NHPAU study are hosted on the CURDS website¹³. It defines a three-tiered system of HMAs – strategic, local and single-tier. In general we have found that the most useful for housing need studies is the single-tier ‘silver standard’ geography, which follows local authority boundaries, so that no local authority is divided between different HMAs¹⁴.
- 5.9 We prefer the single-tier level because strategic HMAs are often too large to be manageable; we prefer the ‘silver standard’ because HMAs boundaries that straddle local authority areas are usually impractical, given that planning policy is mostly made at the local authority level, and many kinds of data are unavailable for smaller areas. But for some areas, including many close to London, the single-tier silver standard geography looks unconvincing; in that plan-makers should look for guidance to other levels in the NHPAU analysis¹⁵.
- 5.10 As an alternative to the NHPAU, the starting point for defining HMAs could be established relationships or partnerships between authorities, including Local Enterprise Partnerships (LEPs) and joint planning units. Any such geography should be tested both against the NHPAU geography and through further analysis as described in the next section, especially to ensure that the HMA does not exclude authorities which rightly should be included.

Further analysis

- 5.11 Whether using the NHPAU or established relationships as a starting point, plan-makers should treat the resulting geography as a first draft, to be checked against local knowledge and the latest data. Again migration and commuting are the most useful indicators in practice, because they provide clear measures of containment.
- 5.12 Therefore the analysis should start with a look at migration and commuting, to identify the largest flows between local authorities. These data are available on the ONS

¹²C Jones, M Coombes and C Wong, *Geography of housing market areas*, Final report, November 2010, Department for Communities and Local Government

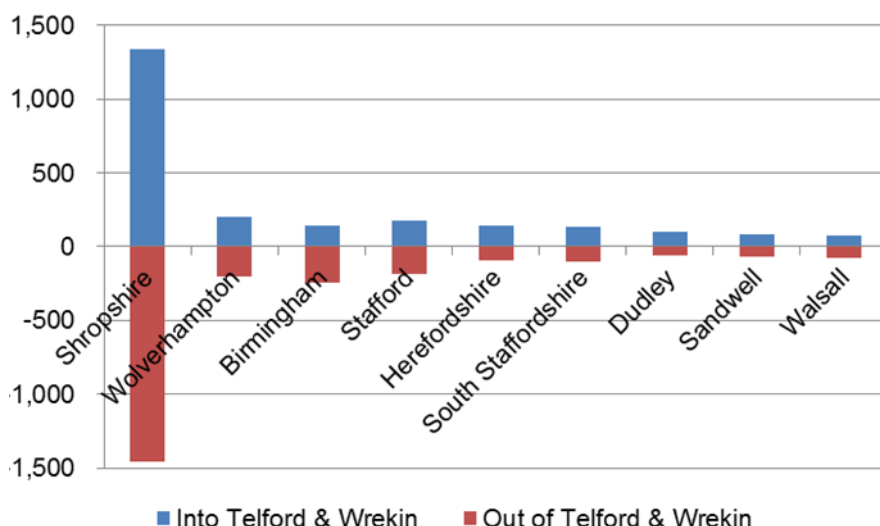
¹³ <http://www.ncl.ac.uk/curds/research/defining/NHPAU.htm>

¹⁴ Maps are at <http://www.ncl.ac.uk/curds/assets/documents/6.pdf> and lists at <http://www.ncl.ac.uk/curds/assets/documents/28.xls>.

¹⁵ Alternative geographies and further explanations are at <http://www.ncl.ac.uk/curds/research/defining/NHPAU.htm>.

website¹⁶; a simple example is at Figure 5.1 below. Combined with local knowledge, this analysis may point to local authority areas which are outside the first-draft HMA but are closely linked to it, and hence potentially should be added. Conversely it may identify areas which are in the first-draft HMA but are only weakly linked to it, and perhaps should be excluded.

Figure 5.1 Cross-boundary migration to and from Telford & Wrekin, 2010-11, top 10 origins and destinations, persons



Source: ONS

- 5.13 (Those of a technical mind may note that the data used in the example, like all migration statistics, count persons; whereas some studies suggest that we should be counting households, because the PPG refers to 'household moves'. In our view this would be an over-literal interpretation of the PPG, especially as the technical report on which it is based refers to persons rather than households (see para 5.14 below), and there are no data on migration by household. In any case such data would be very complicated, because when people move house some households merge and others split.
- 5.14 The second stage should be to test the proposed HMA against the PPG criterion, that at least some 70% of all migration excluding long-distance migration should be contained in the HMA. The test is specified in more detail in an earlier CLG publication:

'Identifying suitable thresholds for self-containment: The typical threshold for self-containment is around 70 per cent of all movers in a given time period. This threshold applies to both the supply side (70 per cent of all those moving out of a

¹⁶ Migration origin-destination matrices for local authorities in 2010-2011 are at <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-269805>

And for 2009-10 at

<http://www.ons.gov.uk/ons/rel/migration1/internalmigration-by-local-authorities-in-england-and-wales/2009-2010/internal-migration-by-localauthorities-in-england-and-wales.zip>.

Commuting for 2010 and 2011 is at

<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-300966#tab-all-tables>

dwelling move within that same area) and the demand side (70 per cent of all those moving into a dwelling have moved from that same area).'¹⁷

5.15 Thus, there are two migration containment ratios:

Supply side (origin);

moves within the area

divided by all moves whose origin is in the area, excluding long-distance moves

Demand side (destination):

moves within the area

divided by all moves whose destination is in the area, excluding long-distance moves.

5.16 What counts as a long-distance move is a matter of judgment, since the PPG does not provide a definition. International moves should certainly be excluded. Moves between countries and regions of the UK should probably be excluded, unless an area is close to the boundary between two countries or regions, in which case moves that begin or end outside those two countries / regions should probably be excluded. Often the exact definition of long-distance moves will not matter, because the containment ratio exceeds the 70% threshold even if all moves are counted in the denominator. In that case there is no need to subtract long-distance moves from that denominator, because whatever number is subtracted can only increase the ratio, so the 70% test will still be met.

5.17 In testing for migration containment it is important to include house moves within local authorities, as well as between authorities. If only between-authority moves are included, containment ratios will be under-estimated, and it will be logically impossible for an HMA to consist of a single authority. Data that cover all moves in the year preceding the 2011 Census are at Table Cen MM01CUK_ALL.

5.18 As a secondary indicator it is helpful to analyse commuting containment, using the same calculation as for migration, except that there is no need to exclude long-distance flows (long-distance commuting is rare in any case). The PPG does not provide a threshold for commuting, but such a threshold is used by the ONS to define Travel-to-Work Areas (TTWAs):

*'The current criterion for defining TTWAs is that generally at least 75% of an area's resident workforce work in the area and at least 75% of the people who work in the area also live in the area... However, for areas with a working population in excess of 25,000, self-containment rates as low as 66.7% are accepted.'*¹⁸

5.19 Although the PPG does not refer to commuting containment, it does mention TTWAs, as contextual information that can help define both HMAs and economic market areas. TTWAs as currently defined are still based on the 2001 Census; an update version, based on the 2011 Census, is intended to be published in July 2015 and should be more useful in this regard.

¹⁷ Communities and Local Government, *Identifying sub-regional housing market areas, Advice note, March 2007*

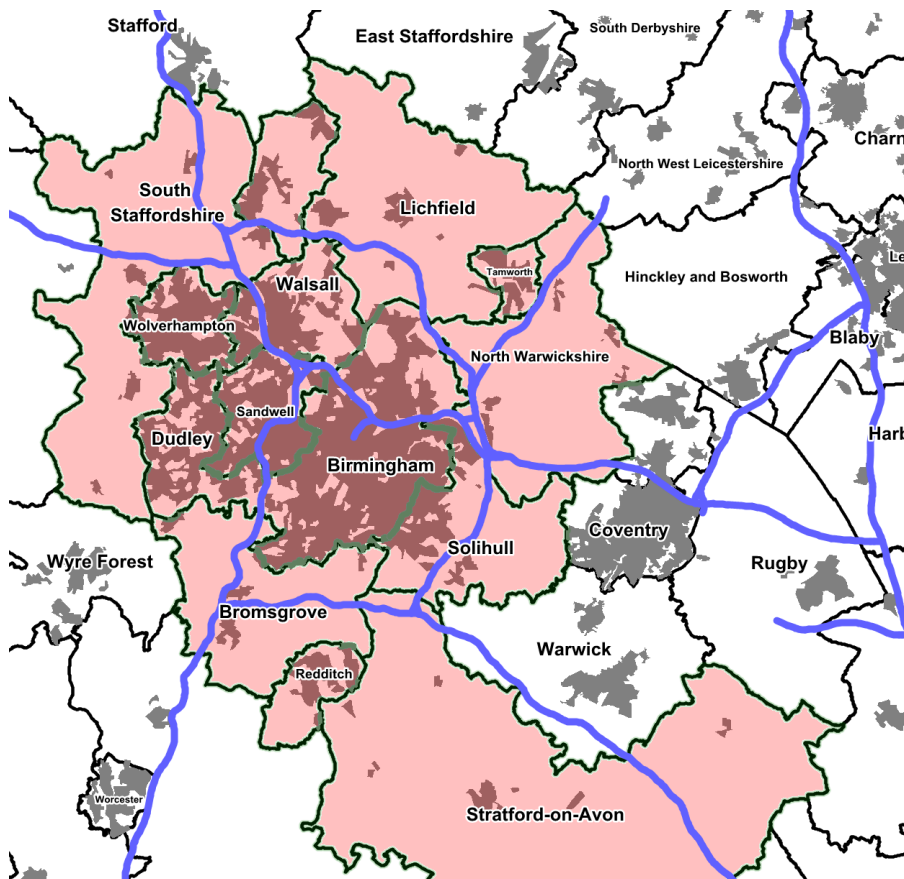
¹⁸ Office for National Statistics, *Guidance and Methodology, A Beginner's Guide to UK Geography*, <http://www.ons.gov.uk/ons/guide-method/geography/beginner-s-guide/other/travel-to-work-areas/index.html>. The TTWA geography was developed by the same team as the NHPAU geography discussed earlier, and the same team is now working on a 2011 Census update.

- 5.20 Once migration and commuting containments have been calculated for the proposed HMA, the analysis should experiment with adding and removing the 'marginal' areas identified in the earlier analysis. As well as the 70% containment test the final definition of the HMA should meet a common-sense test, which is important though impossible to specify rigorously – that the areas in the HMA should be more closely linked to each other than to areas outside the HMA.
- 5.21 As mentioned in passing earlier, it is best if HMAs, as defined for the purpose of needs assessments, do not straddle local authority boundaries. For areas smaller than local authorities data availability is poor and analysis ~~is~~ becomes impossibly complex. There may also be 'cliff edge' effects at the HMA boundary, for example development allowed on one side of a road but not the other.

Complications

- 5.22 HMAs made up of whole local authority areas sometimes look very imperfect, because for some authorities the market reality is that different parts of the area are linked to different neighbouring authorities. An example is the district of Stratford-on-Avon, which covers a very large land area. The fine-grained NHPAU geography and further analysis show that the north of the district is well related to the Greater Birmingham HMA and the south to the Coventry and Warwickshire HMA. But a housing needs analysis that splits the district in two would be unmanageable.
- 5.23 A better (though untidy) solution is to include the whole of Stratford district in housing needs assessments for both HMAs; and later when setting targets to bear in mind that both HMAs competing claims on the district's land supply. Inspectors have often accepted this kind of approach, noting that HMA overlap, their boundaries are permeable and no market geography is perfect.
- 5.24 As well as having no perfect answer, questions about market geography have no single best answer. Generally there is more than one combination of local authorities that meets both the containment criteria and the common-sense test, especially given that the criteria are minimums, so there is no obvious upper limit to the size of an HMA. In reality of course there is a hierarchy of housing market areas, as the NHPAU geography recognises. Inevitably, therefore, HMA definitions involve judgment, including pragmatic judgments about what area is manageable in practice.
- 5.25 Wherever the HMA boundary is drawn, it will look especially imperfect to local authorities on its periphery, because they will generally have close links to areas just beyond the boundary – unless the HMA is bounded by physical obstacles such as the sea or large areas of open countryside.
- 5.26 To illustrate by example,
- 5.27 Figure 5.2 below shows the NHPAU housing market area centred on Birmingham. Authorities just beyond the boundary, such as Wyre Forest and Warwick, have strong links with those districts within the HMA which they adjoin, but not with the HMA as a whole.

Figure 5.2 The Birmingham HMA



Source: NHPAU: CURDS, PBA

- 5.28 The housing needs assessment should identify such related districts. It should briefly review the balance of housing need and planned supply in these districts, using adopted and emerging plans and evidence bases, to see if they might import unmet need from parts of the HMA, or alternatively export some of their own unmet need to parts of the HMA.
- 5.29 Another limitation of HMAs is that in some cases migration and commuting links span long distances, beyond any reasonable HMA boundary. Major conurbations, including London, Birmingham and Brighton and Hove, have long been exporting housing need over long distances, both through direct migration (much of Crawley's growth has been migration out of London) and ripple effects (much of Horsham's growth has been migration out of Crawley). Continuation of these trends is built into assessed housing needs. But all three conurbations lack the supply capacity to meet those assessed needs. Therefore they are likely to generate unmet cross-boundary need, over and above past trends..
- 5.30 All these imperfections of HMA geographies need not be an obstacle to sound planning, because joint working and the Duty to Cooperate do not stop at the HMA boundary. The NPPF (paragraph 182) says that plans should cater for cross-boundary unmet need whenever this is reasonable and sustainable, and Inspectors have confirmed that this includes imports from beyond the HMA, including both boundary-hopping and long-distance overspill.

HMA and economic market areas

- 5.31 The PPG advises that the need for land to accommodate economic development should be assessed in relation to functional economic market areas, just as the need for housing land should be assessed in relation to HMAs; and in some cases the two areas will be the same¹⁹.
- 5.32 Just as an HMA is an area in which households search for housing, an economic market area is an area in which businesses search for sites and premises. Much of the demand for land for economic uses can be met by sites either side of an administrative boundary, so long as these sites are in the same economic market area.
- 5.33 As mentioned earlier, HMAs may be defined on the basis of migration containment, or closure –the proportion of all house moves that are contained within the area. Similarly, as noted in the PPG, economic market areas may be defined as labour market areas, which are areas of commuting closure – meaning that a high proportion of all journeys to work occur within the area. They may also be seen as areas of search for business location.
- 5.34 One would expect HMAs and economic market areas to be geographically similar, because in broad terms both are largely determined by the reach of a daily return trip. Just as households' location decisions are largely driven by access to jobs and services, business location decisions are largely driven by access to the workers that fill those jobs and the customers who consume those services.
- 5.35 For this reason, and also for convenience, it is helpful if HMAs and economic market areas are coterminous. This makes both analysis and policy-making more manageable: the alternative of working with two larger-than-local areas, one for housing and one for economic land uses, adds layers of complexity. It also makes it possible to plan for alignment of jobs and workers – something which is very difficult to do at the level of individual authorities, precisely because labour markets are larger than local. Chapter 8 discusses this alignment further.

Area profile

- 5.36 Housing needs assessments should be a mostly forward-looking analysis driven by demographic projections. But to understand the projections and take an informed view of the future we need to understand the present and the past. It is helpful, therefore, that the housing assessments include a brief pen portrait of the area's residents and its economy. This contextual information shows broadly what kinds of people are generating demand and need for housing in different parts of the area and why they want to live there.
- 5.37 We would suggest the analysis address three main topics, as set out below. In relation to each topic, the report might first look at the HMA as a whole, then move on to contrast and compare individual authorities.

¹⁹ Reference ID: 2a-008-20140306

i Socio-economic profile

How many people live in the area and its main settlements? What is the mix of occupations and educational qualifications, and what are residents' average earnings, compared to national and regional benchmarks? This information is available from the ONS's Nomis website, <http://www.nomisweb.co.uk/>, which brings together data from many official sources into Local Authority Profiles.

ii Population change

How has the population changed in the past and how much of that change is due to migration as opposed to natural change? How has net migration varied over time and what was its age profile? What are the main origins and destinations of net migration flows?

This information, including the origin-destination matrices that we have already referred to, is on the ONS website. It is helpful to focus on change since 2001, because published data for 2001 and 2011 are taken from Censuses, and hence more reliable than those for inter-censal years, which are based on estimates. 2014 is the date of the latest ONS Mid-Year Population Estimates (MYEs), which are close to the 2011 Census and therefore should be relatively robust.

iii The labour market

How many jobs are located in the area (workplace jobs)? How has this number changed in the last 10 years or so, compared to national and regional benchmarks? What is the balance of workplace jobs and resident workers (net commuting)? What are the main origins and destinations for net commuting? Job numbers are on the Nomis website mentioned earlier²⁰; BRES (<http://www.ons.gov.uk/ons/guide-method/method-quality/specific/labour-market/business-register-and-employment-survey--bres-/index.html>) provides more detail. Commuting data are available from the ONS, as we also noted earlier (Footnote 16).

- 5.38 This historical analysis is not mentioned in the PPG, so it must be considered optional. But it provides valuable contextual information in assessing future housing need. By looking at past change we can judge whether future projections and forecasts are broadly credible. If we understand what kinds of people live in an area, who moves in and out and why, we can understand where new housing should be located so it provides what people want. This is important intelligence that will help inform every part of the needs assessment.

²⁰ For total jobs as opposed to employee jobs and a long time-series, refer to the Nomis table headed 'job density'. The BRES website provides more detail but users need a licence.

6 DEMOGRAPHIC PROJECTIONS

- 6.1 As mentioned earlier, in calculating objectively assessed housing need plan-makers are required to start from the CLG household projections, which in turn are derived from the ONS population projections. Below, we briefly explain the workings and limitations of these official projections and go on to discuss how they may be sensitivity-tested and adjusted in line with the PPG.

The official projections

Sources and uses

- 6.2 The official demographic projections for local authority areas are usually published every other year, based on the ONS Mid-Year estimates (MYEs) for two years earlier, and run for 25 years from the base date. This timetable is sometimes disrupted by additional releases in response to important new data, recently the early results of the 2011 Census. The projections normally come in two parts, first the ONS Sub-National Population Projections (SNPP), and some months later the CLG household projections that turn that population into households. That number of households are used as a measure of housing need or demand, after a small adjustment for unoccupied dwellings (vacant or second homes) and shared dwellings.
- 6.3 It is useful to understand that this adjustment relates almost entirely to unoccupied dwellings, because the recorded number of shared homes is negligible - less than 0.1% across England at the 2011 Census²¹. The apparent reason is that the statistics classify a group of people as a household if they share cooking facilities and a living, sitting or eating area²². Because of this rule or the way it is applied in practice, nearly all the dwellings which in everyday language would be called shared are statistically recorded as single-household units.
- 6.4 A consequence of the above is that comparing numbers of households with numbers of dwellings tells us little or nothing about the health of the housing market. If low incomes, restricted credit or a shortage of development land force more adult children to live with their parents or more unrelated people share houses, this will not appear in the statistics as more sharing households, but as fewer households of larger average size²³. This should be borne in mind when looking at past or projected household numbers.
- 6.5 The most recent official projections for local authorities are the 2012-based SNPP ('ONS 2012'), published in May 2014, and the 2012-based household projections ('CLG 2012'), published on 27 February 2015. The PPG was amended on the same

²¹ ONS Table KS401EW

²² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/23928/120301_Derivation_of_Dwelling_count_from_2011_Census_-_separate_doc_for_web_publication.pdf

²³ One Census statistic that does measure housing stress is the number of 'concealed families' – defined as couples with or without children, or lone parents with children, living in a multi-family household where they are not the 'main family'. It is a partial measure, because it excludes single people sharing.

day to indicate that CLG 2012 provided *'the most up-to-date estimate of future household growth'*.

Method

- 6.6 In the official projections, the changing number of households in each local authority is driven by three factors:
- Natural change, which is the difference between births and deaths
 - Migration, both international and within the UK
 - The household representative rate (HRR, formerly headship rate), which is the proportion of people who are household representative persons (formerly heads of household).
- 6.7 Natural change and migration together determine the projected future population, which the CLG projections split into two elements: people in private households (the great majority) and those in institutional establishments such as army barracks, university halls of residence, care homes and prisons. The household population multiplied by the overall HRR equals the number of household representative persons - which equals the number of households, because each household has one representative.
- 6.8 It is important to understand the impact of HRRs on projected housing need. For a given household population, the HRR is directly related to numbers of households and inversely related to the average household size, so if projected HRRs increase the projected housing need will also increase.
- 6.9 As noted in the PPG, the official projections, like all demographic projections, roll forward past trends. But this simple and much-repeated statement is shorthand for a slightly more complicated truth. It does not mean that the number of households, or even the factors that drive that number, change at the same rate in the future as they have done in the past. If it did, housing needs assessment would be much easier.
- 6.10 In reality, what the projections roll forward from the past is not overall change, but rates of change ('propensities') for individual *demographic groups* – which are combinations of age, sex and relationship (formerly marital) status. For each local authority area in each year, these rates comprise:
- The proportion of women at each age who give birth
 - The proportion of people by age / sex group (e.g. men aged 60) who die
 - The proportion of people in each age / sex group who migrate across local authority boundaries²⁴
 - The proportion of people in each age / sex / relationship group (e.g. 25-year-old men in a mixed-sex relationship) who are household representatives (heads of household).

²⁴ Propensities are used to project gross out-migration – e.g. the proportion of men aged 27 who move out of the London Borough of Ealing. Gross in-migration is derived automatically from that calculation – e.g. the number of people moving to Reading is the sum of out-migrants to Reading from Ealing and all other local authorities.

- 6.11 These rates vary greatly between age groups, and therefore a main driver of projected household change is the changing age profile of the population. To take a topical example, when life expectancy is rising and the population is ageing - so that proportionally there are more older people – other things being equal household numbers will also rise. The reason is that older people on average live in smaller households, as many are empty-nester couples or widows / widowers. The outcome is that any given number of people will need more dwellings.
- 6.12 This outcome can be foretold many years in advance, as from the number of (say) 45-year-olds in the area today we can predict the number of 60-year-olds in 15 years' time. In this example household growth is driven by changes internal to the demographic system ('endogenous' in the jargon). In other words, the projection foretells the impact of demographic factors (in this case, today's age profile) on demographic outcomes (the number of households in 20 years' time). This is what demographic projection models are designed for and what they do best.

Limitations

- 6.13 By the same token, demographic projections cannot predict the impact on demographic change of external (non-demographic, exogenous) factors. The projections in effect assume that the external factors that drive demographic change will be the same in the future as they were in the past. But in reality these factors might change in future. For example, the macroeconomic climate might improve; or there might be more local job opportunities, making the area a more attractive place to live.
- 6.14 Similarly, the projections in effect assume that future policy will be the same as past policy. This applies both to the subject area being assessed and to neighbouring areas. If past planning constrained development in the subject area, so that the demand for housing was not fully met, the projections will carry forward that constraint into the future and hence will underestimate that future demand. As regards neighbouring areas, if future planning is more restrictive in the future than it has been in the past it will likely push out demand to the subject area, over and above the projections.
- 6.15 Later chapters discuss how these non-demographic factors should be taken into account, in line with the PPG. But first we look at technical issues relating to the demography itself.

Testing and alternative scenarios

Overview

- 6.16 As set out in the PPG, there are two kinds of reasons why the latest CLG housing projections might not be the best measure of housing need for every area. Firstly, the projections could have technical deficiencies, so that they do not correctly carry forward past demographic trends. We discuss these issues in the rest of this chapter. Secondly, even if they do provide a good reflection of past trends the projections might not be a reliable guide to the future, because the external factors that drive

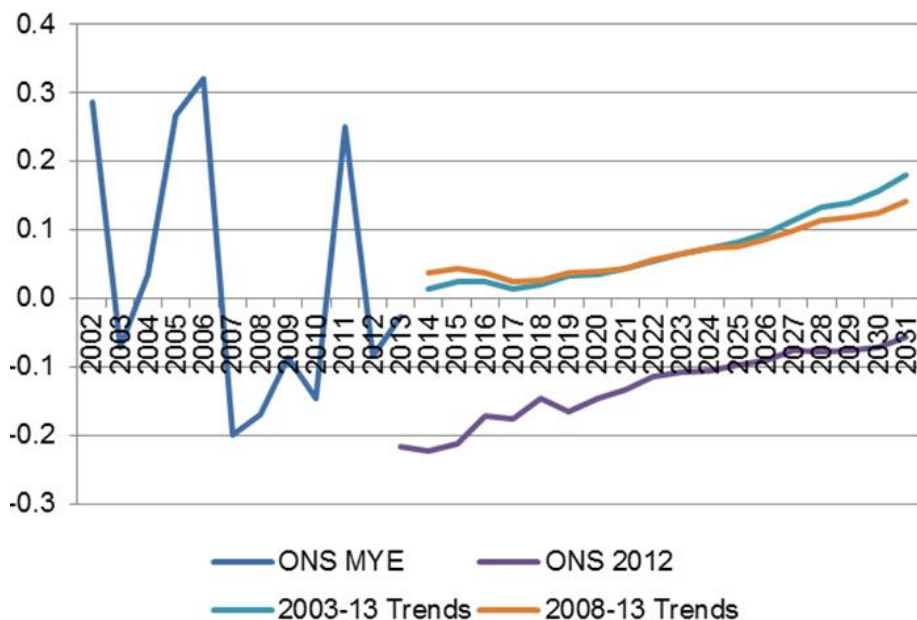
demographic change might be different in the future. We discuss these issues in Chapters 7-9 below.

- 6.17 To deal with these issues, the housing needs assessment should sensitivity-test and adjust the official projections through alternative scenarios. Such scenarios are produced by independent demographic models which broadly follow the methods and assumptions in the official ones, but are able to calculate the effect on household numbers of amending specific inputs.

Old data and modelling anomalies

- 6.18 One technical issue mentioned in the PPG is that projections may not have caught up with the latest data. For example at any given time the CLG household projections may not take account of the latest ONS Mid-Year Population Estimates, which are published annually, or even the latest population projections, which are published some months before the CLG ones.
- 6.19 Another issue is that there may be anomalies in the modelling. The models that produce the official projections are very large and very complex: the SNPP, for example, among other things models migration by sex and age between every pair of local authorities in the UK (details are not made publicly available). Even if the modelling produces the best possible results on average, it may not do so for each individual local authority. Therefore it is not surprising that in some cases the official projections depart so sharply from past trends that they do not look credible. Figure 6.1 provides an example of this.

Figure 6.1 Net migration, history and three scenarios, District A, thousands of persons



Source: ONS, PBA

- 6.20 The graph shows past migration from the ONS Mid-Year estimates and future migration from the 2012-based SNPP (ONS 2012), together with two bespoke alternative scenarios ('Trends') that seem more realistic.

Choice of base period

- 6.21 Projections are useful only if they roll forward long-term trends that are reasonably stable over time. As the PPG points out, this will not be the case if the base period (reference period) whose trends the projections roll forward was marked by unusual events which are unlikely to be repeated, such as the building of an urban extension or the opening of a new university. In such case the plan-maker should create scenarios that exclude the impact of the one-off event.
- 6.22 A more general problem relates to the ONS forecasting model. To predict migration between local authorities within the UK that model uses a base period of five years (for international migration the period is six years and the figures are controlled to national totals). This can throw doubt on the projections, because for many areas migration varies widely over time. Over a number of years one would expect such fluctuations to cancel out, so that long-term trends become apparent. But a five-year base period does not seem enough for this, bearing in mind that the ONS projections look ahead 25 years and Local Plans 15 years or longer. This is a main reason why for many areas successive rounds of population projections show very different results.
- 6.23 The base period used in the latest official projections, 2007-12, is especially problematic. The period covers all of the last recession, in which migration was severely suppressed as many households were unable to move due to falling incomes and tight credit. Therefore the official projections may underestimate future migration - so that they show too little population growth for the more prosperous parts of the country, which have been recipients of net migration in the past. If so, by the same token the projections will also overestimate population growth for areas with a history of net out-migration.
- 6.24 For all these reasons, in assessing housing need it is generally advisable to test alternative scenarios based on a longer reference period, probably starting with the 2001 Census (further back in history data may be unreliable). Other things being equal, a 10-to-15 year base period should provide more stable and more robust projections than the ONS's five years. But sometimes other things will not be equal, because the early years of this long period included untypical one-off events as described earlier. If so, a shorter base period despite its disadvantages could be preferable.
- 6.25 On a more general point, there are many kinds of unusual events which may have impacted on population and household growth in the reference period, whether that period is five, 10 or 15 years. In particular, it may be that housing development was constrained by planning, so that for some or all of the period land supply fell short of demand or need. If so the demographic projections will underestimate future demand or need and should be adjusted upwards, as discussed in Chapter 7 below.

Migration data and the UPC

- 6.26 Another problem with the official projections is that the historical data on which they are based may not be robust. This applies especially to migration data, which are subject to an error known as Unattributable Population Change (UPC). UPC is a

discrepancy in population statistics that arose between the 2001 and 2011 Censuses. In this inter-censal period the ONS makes estimates of the components of population change, which are published as Mid-Year Population Estimates (MYEs). Births and deaths are counted accurately, because the UK has an efficient registration system. But migration (UK and international) cannot be measured directly, and is estimated from indirect and incomplete data such as GP registrations.

- 6.27 When the 2011 Census results came to light, the population in many places was different from what had previously been estimated. ONS accordingly revised the MYEs for the intercensal period to bring them into line with the Census. But for many places discrepancies remained. ONS dealt with those by introducing an additional component of change besides births, deaths and migration. This is the UPC.
- 6.28 The UPC may be due to miscounted population in one or both Censuses – though this is more likely to be in 2001 than 2011, because in 2011 methods were considerably improved. It may also be due to unrecorded or misrecorded migration between the Censuses. More likely both factors are at work.
- 6.29 For England the UPC is positive and amounts to around 103,000 persons between 2001 and 2011. The evidence suggests that this national total is due in part to under-recorded international migration: the 2014 ONS report '*Quality of International Migration Estimates from 2001 to 2011*' shows that net international migration to the UK may have been originally underestimated by over 340,000 over the period. The main cause was that the International Passenger Survey (IPS) did not cover the arrivals of budget airline flights from Eastern Europe at regional airports.
- 6.30 In the second half of the decade the IPS was extended to the regional airports and estimates of international migration were also improved in other ways. Therefore ONS reports that, insofar as the UPC was due to international migration, its greatest impact was probably seen in the earlier years of the decade.
- 6.31 At the local authority level the UPC is more complicated. The national total of 103,000 is the net outcome of positive UPC in some authorities and negative UPC in others. Sometimes the numbers are large: thus there are 91 local authority areas for which UPC is more than half of the recorded population change between the two Censuses²⁵. Although the initial problem (or some of it) may have been in counting international migrants, further issues arise in assigning these migrants to local authorities, especially if they changed address within the UK.
- 6.32 ONS decided not to adjust its 2012-based subnational population projections (SNPP 2012) to take account of the UPC. It gives two main reasons for this decision: firstly the UPC probably does not introduce a bias that will continue in future projections, and secondly it would be very difficult to adjust for the UPC because its causes are unknown.
- 6.33 The ONS's decision means that the UPC is excluded from the past migration flows that the population projections carry forward. Hence the CLG 2012 household

²⁵ L Simpson and N McDonald, *Making Sense of the New English Household Projections*, in *Town & County Planning* April 2015

projections, which are derived from those population projections, also exclude the UPC. Bearing in mind that national planning guidance has endorsed CLG 2012 as noted earlier, this suggests that for housing assessment studies the default option is to set aside UPC. But this may be overridden by local evidence and local judgment.

- 6.34 In local authorities where the UPC is large, we would suggest that housing needs assessments sensitivity-test the impact of including the UPC in past migration flows, and also that they interrogate the data closely for any local evidence of the causes of UPC.
- 6.35 In the light of this analysis plan-makers may take a view that the UPC, or part of it, should be included in the base period as past migration. In places where the UPC is positive this would lift future population above the SNPP 2012 projection. Conversely if the UPC is negative it would reduce future population below SNPP 2012.

Household representative rates

- 6.36 As explained earlier, Household Representative Rates (HRRs) are the factor that turns population into households. For any given population, a higher overall HRR means more households and hence greater housing need.
- 6.37 Until the CLG 2012 projection was published on 27 February 2012 there were just two official sets of HRRs in existence, taken respectively from the CLG 2008 and CLG interim 2011 projections. The Census found that across England the overall HRR was substantially lower than previously projected in CLG 2008, and hence substantially fewer households. Accordingly the interim CLG 2011 projection, rolling forward the newly discovered trend, predicted considerably lower HRRs, than CLG 2008 – and hence fewer new households and lower housing need.
- 6.38 This prediction was widely challenged on the grounds that it ‘locked in’ a reduction in housing demand caused by the recession – which in reality would be reversed in the long term as the economy recovered. This view was developed in an influential paper by Alan Holmans²⁶, which estimated that about half of the reduction in HRRs between CLG 2008 and 2011 was a temporary recession effect, and the other half a permanent effect from overseas migration. Partly based on this research, many housing needs studies opted for alternative scenarios that steered a middle course between the CLG 2008 and 2011 rates (‘indexed’ or ‘partial return’), or even caught up with the 2008 rates in the long term (‘full return’).
- 6.39 The CLG 2012 projection provides a new set of HRRs, which are generally higher than the interim 2011 rates, though still below the 2008 rates. This uplift is not due to the projection method, which remained unchanged between the two releases. Rather it is due to a different starting point, as CLG 2012 is based on new estimates of actual HRRs at the 2011 Census. These estimates are still very imperfect, especially at local level, because due to technical problems they only take partial account of the real-life HRRs recorded at the 2011 Census. They may change considerably when the 2014-

²⁶ A Holmans, *New Estimates of Housing Demand and Need in England, 2011 to 2031*, in *Town & Country Planning*, September 2013

based CLG projections are published in 2016. But until that new release the CLG 2012-HRRs are the best we have.

- 6.40 Since they lie between CLG 2008 and CLG 2011, the CLG 2012 HRRs often produce similar household growth to earlier ‘indexed’ or ‘partial’ return’ projections that aimed to steer a middle course between CLG 2011 and CLG 2008. Where this is the case, and emerging plans are well advanced, these ‘midway’ scenarios probably remain fit for purpose. In these circumstances the cost and delay of starting again may not be justified, given that according to national policy and guidance planning evidence should be proportionate²⁷, and projections are not rendered out of date each time a new projection is released²⁸.
- 6.41 But when starting on a new housing assessment or updating an earlier one plan-makers should set aside HRRs that pre-date CLG 2012:
- The CLG 2011 interim HRRs are no longer helpful because the historical facts on which they were based are now considered inaccurate.
 - The CLG 2008 HRRs are no longer helpful because they are based on very old evidence, and anyway may not reflect the true long-term trend (a recent study argues the 2008 rates came at a time when rates had already turned down, ahead of the recession, and are ‘*only evidence of the optimism of the period*’²⁵).
 - Therefore alternative scenarios based on one or both of these sets of HRRs are also unhelpful. This includes rates that are midway between the two (indexed, partial return to trend etc) and those that use the 2008 set (‘full return to trend’).
- 6.42 For these reasons, housing needs studies should now use as a starting point the CLG 2012 HRRs, leaving aside earlier scenarios. As we discuss in the next chapter these rates may be tested and adjusted in response to local evidence, so they take account of local factors not captured by the CLG projections.
- 6.43 But at present we do not have a method for adjusting HRRs to take account of the national economic climate, as opposed to local factors. Indexed and return-to-trend projections, which previously attempted to do this, have been rendered out of date by the CLG 2012 projection. To develop an alternative method we may need basic research that updates Dr Holmans’ analysis in the light of the latest data. Unfortunately no such research is yet available.

²⁷ See for example NPPF para 182

²⁸ PPG Reference ID: 2a-016-20150227

7 PAST PROVISION AND MARKET SIGNALS

Principles

- 7.1 The PPG discusses past provision and market signals in two places. Paragraph 15 explains the principle of adjusting demographic projections in the light of these factors:
- ‘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.’²⁹*
- 7.2 Paragraphs 19-20³⁰ returns to the subject, discussing how past under-supply may be identified in practice. Here the PPG lists a range of ‘market signals’ and adds that ‘other market indicators’ may also be used. The list comprises land prices, house prices and rents, affordability ratios, rates of development and a collection of social need indicators headed ‘Overcrowding’. The text discusses how these market indicators should be analysed, recommending comparison with longer-term trends, similar areas and national averages. But it does not specify how the projections should be adjusted in the light of these analyses, merely advising that adjustments should be ‘reasonable’ and ‘in line with principles of sustainable development’.
- 7.3 The logic of the PPG is clear. As mentioned earlier, demographic projections roll forward trends from a past period known as the base period or reference period. If in that period planning underprovided land against demand or need, actual housing development – and hence household growth – will also have fallen short of that demand or need. By the same token, since projections roll forward that past growth into the future, they will understate future demand or need, and therefore should be adjusted upwards.
- 7.4 That logic is sometimes misunderstood, in that ‘under-supply’ and ‘under-delivery’ at paragraph 015 of the PPG are taken to mean that housebuilding was below policy targets. But in the present context these words mean something quite different - that housebuilding was less than demand or need. In many places delivery is in line with targets, but the targets themselves are far below need or demand; in other words, planning constrains the amount of housing development. This constitutes under-supply within the meaning of the PPG. Evidence that past delivery was in line with targets does not demonstrate that in that past period planning was not a constraint or that demand or need was met.

²⁹ Reference ID: 2a-015-20140306

³⁰ Reference ID: 2a-019-20140306

Reading the evidence

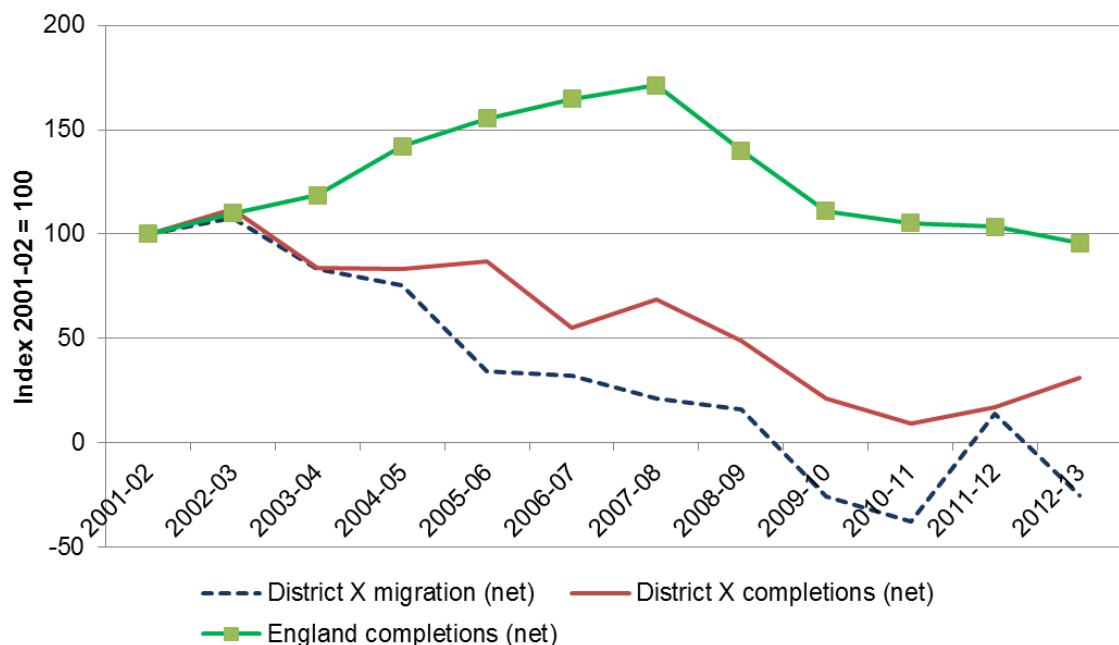
- 7.5 To see if planning constrained housing supply in the past, and hence if demographic projections should be adjusted upwards, two kinds of evidence are available. Direct evidence is provided by past land provision and housing delivery, considered in relation to the planning policies in force at different times. Indirect evidence is provided by the market signals discussed at paragraph 19 of the PPG. We discuss these two kinds of evidence in turn below.
- 7.6 Under both headings, it is important to note that the analysis should focus on relative, not absolute, under-supply. As discussed earlier, it is not unusual for planning to under-supply housing demand; in much of the country and for much of the post-war past planning constraints have been the norm rather than the exception. But the analytical methods set out in the guidance (see para 7.2 above) suggest that the demographic projections should be adjusted upwards only if in the base period the constraint was unusually tight compared to other times, to other places, or both.

Past provision

An example

- 7.7 The past trajectory of housing completions is a good indicator of the severity of planning constraints – not considered by itself, but against wider benchmarks and past planning policy. This is illustrated in the example below, where completions in District X are plotted against national totals, and net migration into the areas is also shown.

Figure 7.1 Housing completions and migration, District X



Source: District Council, CLG, PBA

- 7.8 In England total completions increased gradually in the long economic boom and turned down sharply in the recession. From 2010-11 onwards the rate stabilised as the economy and housing market began a weak recovery. By contrast, in District X

completions were on a downward trend throughout the boom and started to recover in 2011-12 – ahead of the national total and at a much faster pace. Net migration into the district followed a similar trend.

- 7.9 In summary, housing development in District X fell through the boom and rose in some of the recession, against national trends. While these national trends were clearly driven by the demand for housing, in District X the counter-cyclical time path shows that other factors were at work. A look at the area's planning history shows that these were local supply-side factors, and specifically planning constraints:
- National and regional policies steered development away from the district towards the main urban areas.
 - The old Structure Plan set restrictive housing targets which deliberately undersupplied demand, and later the Regional Spatial Strategy continued the same stance.
 - Targets were over-delivered in the late 1990s, resulting in further tightening in the early 2000s as the Council attempted to compensate in later years, so that development over the plan period would not exceed the target.
 - In 2011 the planning constraint was abruptly loosened as the Council found itself unable to demonstrate a five-year land supply, and therefore allowed substantial development on windfall sites. This explains the sharp upturn in the final years of our series, against the national trend.
- 7.10 In short, for most of the last 15 years planning was tightly and increasingly under-providing housing demand or need in District X. One manifestation of that constraint is the steep fall in migration over the period, as people were prevented from moving into the district, or pushed out of the district, by lack of housing. A projection based on that past would underestimate housing demand, and in line with the PPG should be adjusted upwards.

A technical point

- 7.11 In the above example it seems clear that increasingly restricted land supply led to falling in-migration. It seems likely that this restricted supply also affected household reference rates (HRRs), as lack of housing caused more people to be part of other people's households who otherwise would head their own households³¹. But this effect is not visible in the available statistics – not surprisingly, since as mentioned earlier there are no reliable data on actual HRRs, and even if there were it might be impossible to distinguish among the many other factors that impact on HRRs.
- 7.12 In this context it is sometimes argued that migration cannot be used as evidence of past under-provision, because paragraph 015 of the PPG (quoted at the beginning of this chapter) does not refer explicitly to migration, only 'housing formation'. In our view this is a misunderstanding, for three reasons:

³¹ As explained in paragraph 6.4, a group of people who share a dwelling is nearly always classified as a single household. Therefore if fewer dwellings are built there will be fewer households,

- The first sentence of the passage we have quoted refers to *'factors affecting demography and household formation rates'*. 'Demography' of course includes migration.
- Later in the passage, 'household formation' in our view is not used as a synonym for HRRs ('headship rates'). (These rates are loosely called 'household formation rates' but strictly speaking this is inaccurate, because HRRs are a feature of the stock total existing population, whereas 'formation' relates to the flow of new households being formed.) Rather, we consider that by 'household formation' the PPG means household growth, or numbers of new households – whether they result from existing residents setting up households or new residents moving in. Another example of this meaning is at paragraph 025³², where 'new housing formation' and 'new households arising' are used synonymously.
- Perhaps more important, it is difficult to believe that the PPG would acknowledge the impact of under-supply on only one driver of household need, HRRs, while ignoring its impact on another driver, migration. Such an approach would not make sense and it would be inconsistent with the NPPF, which at paragraph 159 makes it clear that migration is part of the OAN.

Market signals

House prices

- 7.13 An especially useful market signal is change in the average house price. Unlike other indicators, house prices are well documented, with robust information and long historical time periods readily available for any geographical area. Proportional price change is generally a better indicator than absolute price, because a comparatively high price may indicate either comparatively high demand (an attractive area, better housing stock) or low supply (possibly due to planning). But if prices in an area are rising faster than elsewhere, this suggests that supply is tightening compared to other places – unless for some reason the area is becoming more desirable over time.
- 7.14 In short, an area with above-average growth in house prices is most probably an area where housing land has been particularly under-supplied. But the converse is not true: if house prices growth is close to the average, it may still be the case that housing land has been undersupplied. Where demand is relatively footloose, so households have a choice between different local authority areas which they regard as substitutes³³, one would expect the impact on prices of any local under-supply to be spread across large areas. This is probably why house price changes in most local authorities closely track one another, especially within each region.

Other signals

- 7.15 Other than house prices, some of the market signals listed in the PPG are difficult to use. On land prices, for example, the necessary data have not been available since 2010. Conversely, on market rents data are only available for the last four years or so.

³² Reference ID: 2a-025-20140306

³³ In the economic jargon, demand is elastic at local level.

- 7.16 Under the heading 'Overcrowding' the PPG lists several related indicators, which in addition to overcrowded dwellings comprise '*concealed and sharing households, homelessness and the numbers in temporary accommodation*' ('concealed households' is probably a loose term for concealed families, which are defined and counted by the ONS). If these indicators are high they may suggest that the demographic projections should be adjusted upwards.
- 7.17 But it does not make sense to add concealed families, homeless households and those in temporary accommodation to the demographically projected OAN, as some studies do. The projections already include those new households which, on the basis of past trends, may be expected to come into being through concealed families getting their own homes, or through homeless people moving from temporary institutional accommodation or from the street into conventional homes. To add these new households again would be double-counting.
- 7.18 Admittedly the household projections do not count those concealed families and homeless or temporarily housed people who on the evidence of past trends are expected to continue as they are, or be replaced by others in the same situation, rather than turn into net new households. In practice this group cannot be counted separately from the one discussed above. In principle its needs are part of affordable need, which is discussed in Chapter 9 below, rather than the OAN.

Adjusting the projections

- 7.19 As noted earlier, while the PPG advises that the demographic projections should be adjusted in the light of past provision and market signals it does not quantify this adjustment. Some Local Plan Inspectors have used a rule of thumb, suggesting that in places where the evidence suggests moderate under-provision, or the signals are mixed the projected housing need might be increased by 10%³⁴.
- 7.20 A possible alternative approach is to try and estimate what household growth would have been if land supply had not been especially constrained. If the period of undersupply was short, this can be done by building a demographic projection with a longer base period, which either excludes that period of undersupply or (if it is included) dilutes its impact. But in the case of District X this is not a good solution, because as we have seen planning policy was highly restrictive for as many years as we have good demographic data for.
- 7.21 If in a more remote past planning was less restrictive, it might be reasonable to use housing completions from that remote past as an indication of future need, without formal demographic modelling. Such a broad-brush adjustment should be acceptable to Inspectors as 'reasonable', given that the PPG does not provide specific guidance.

³⁴ The Planning Inspectorate, *Report to Eastleigh Borough Council*, February 2015

8 FUTURE EMPLOYMENT

National policy and guidance

- 8.1 The NPPF at paragraph 70 says that planning should integrate the location of housing, economic activity and community facilities and services. The PPG discusses the relationship between housing need and employment at paragraph 018³⁵. It advises that plan-makers should make an assessment of future job growth and notes that, if future labour supply is less than this projected job growth, this could *'result in unsustainable commuting... or reduce the resilience of local businesses'. In such circumstances, plan-makers will need to consider how the location of new housing and infrastructure development could help address these problems.'*
- 8.2 Planning Inspectors have interpreted this to mean that demographic projections should be tested against expected future jobs, to see if housing supply in line with the projections would be enough to support those future jobs. If that is not the case, the demographically projected need should be adjusted upwards accordingly; such adjustments overlap with the adjustments for past supply and market signals discussed in Chapter 7. An alternative solution may be changes in commuting, whereby a labour deficit in one area is balanced by a labour surplus in neighbouring areas, provided that the planning authorities concerned are in agreement and the resulting travel is sustainable.
- 8.3 Inspectors' advice also suggests that future jobs cannot be used to cap demographic projections. In other words, if the demographic projections provide more workers than are required to fill the expected jobs, they should not be adjusted downwards. One reason for this, as explained by the BANES Inspector among others, is that much of the demand for housing is not driven by job opportunities, and people who do not work also need somewhere to live.

Testing and adjusting the OAN

- 8.4 To predict future job change, many housing needs studies rely on econometric forecasts commissioned from specialist forecasters. Sometimes they use standard forecasts, which represent forecasters' preferred scenarios. Other times they use bespoke scenarios to reflect alternative views about the economy or policy aspirations.
- 8.5 Either way, the economic forecast shows future numbers of workspace jobs (jobs based in the area). The housing needs study translates these numbers into future resident population (people living in the area), based on assumptions about the factors that link workspace jobs to resident population – comprising commuting, double-jobbing, economic activity rates and unemployment³⁶. Finally this population is

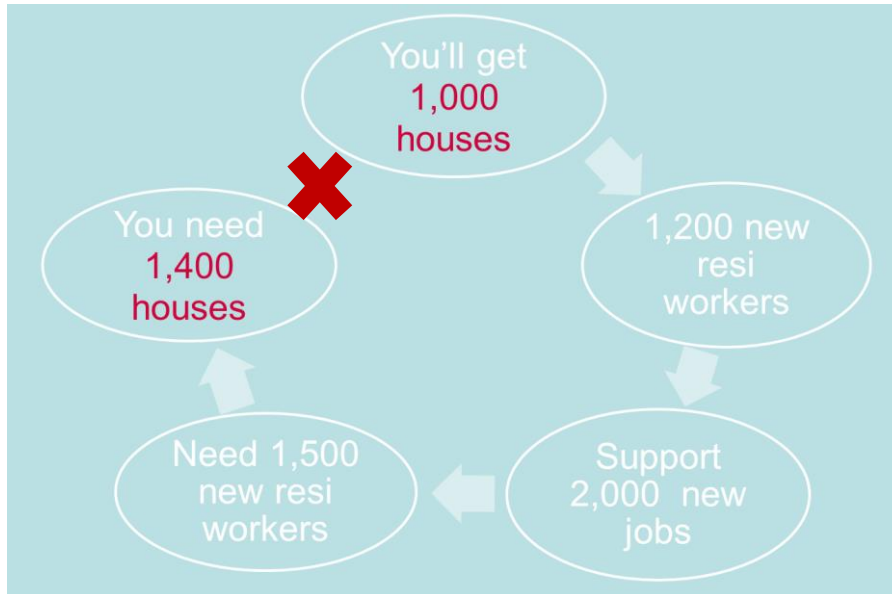
³⁵ Reference ID: 2a-018-20140306

³⁶ Double-jobbing is the proportion of workers who hold more than one job. The economic activity rate, or participation rate, is the proportion of people who are either working or looking for work (employed plus unemployed).

translated into households and dwellings, using HRRs and the usual vacant dwelling adjustment. The result is a job-led housing need figure.

- 8.6 This approach will often produce invalid results, because most economic forecasts already include a view of future population.
- a) Some models assume that population will change in line with the official forecasts (SNPP), so if the forecast demand for labour exceeds that population future employment growth is held to a supply-constrained level.
 - b) In other models population growth is an output rather than an input, being derived partly from that demand for labour, as more job opportunities attract more in-migration.
- 8.7 Either way, the models used by economic forecasters already incorporate a view of the factors that link workplace jobs to resident population. As well as the supply-side factors listed earlier - commuting, double-jobbing, economic activity rates and unemployment – they include a demand-side link, where additional population in an area creates additional demand for labour in retail, leisure, education, health and other local services.
- 8.8 Figure 8.1 illustrates a job-led housing need calculation using the first kind of economic forecast, where future population is an input to the model (type a) above. Similar points apply to ‘type b’ economic models. The logical flaw is obvious: population is both an input to the model and output of the model. If the economic forecast and the housing needs study take the same view of the factors that link population to jobs (commuting, activity rates etc), the calculation will be logically circular: the ‘housing need’ it calculates will be simply the result of the population assumption the economic model started from.
- 8.9 But generally the population assumed at the start is different from that assumed at the end, and often much larger. The reason is that housing needs studies tend to assume that ‘link’ factors such as commuting and double-jobbing are fixed. In contrast economic models usually take a more sophisticated view, flexing the variables in the light of the local supply-demand balance and wider economic trends. This is the case illustrated in the graphic below. The economic forecast and housing calculation taken together amount to an inconsistent statement, or self-defeating prophecy.

Figure 8.1 Self-defeating prophecy



- 8.10 Whether the calculation is merely circular, or logically inconsistent as shown in the graphic, it cannot produce a valid result, because its logic is faulty. One of the main UK forecasters, warns of this problem in its local forecasts method statement:

'The population and employment forecasts are inter-linked, thus if more people are attracted into an area this will have implications for the employment forecasts via demand for local services (education, healthcare, retailing, leisure etc.). It is a little more complicated than this as developments in one local area affect another, so the models have to solve this simultaneously.'

Therefore forecasts from other sources, including alternative population forecasts, should not be set a[long]side those produced by Oxford Economics' Local Authority District Forecasting Model as they will not be consistent given linkages within the Oxford model.³⁷

- 8.11 For an approach that makes sense, it is necessary to integrate demographic projections and economic forecasting. For this the housing assessment study should ideally work with the economic forecasters, using mutually consistent assumptions about the factors that link jobs to population and housing. For a type a) economic forecast, a suggested approach is in the box below.

³⁷ Oxford Economics, *Local Authority District Forecasting Model*, 2014

Figure 8.2 Aligning jobs and housing: suggested method

- i Commission a job forecast based on your preferred demographic projection (draft OAN)**
- ii Audit the forecast**
 - Are assumptions and results believable?
 - Consistent with policy aspirations?
 - E.g. enough growth for a healthy economy?
 - In the right sectors?
 - Commuting sustainable?
- iii If Yes**
 - The draft OAN is confirmed
 - Ensure that other parts of the plan are consistent with the forecast
 - E.g. employment land policy
 - If problems arise (e.g. too much employment land needed)
 - Go to Stage iv
- iv If No**
 - Test alternative scenarios
 - Iterate between jobs and housing
 - Understand how the jobs-to-population links work
 - Flex the assumptions
 - Take an intelligent view
 - Working with the forecasters
 - E.g. how might commuting change?
- v The end result**
 - Plan for enough housing to support the jobs you are expecting and planning for

- 8.12 There are variations on this method, depending on local circumstances. Regardless of the detail, before using any job forecast the housing needs assessment must be clear about the future population (numbers and age profile) that is incorporated in the forecast, and how population interacts with workplace jobs in the forecasting model.
- 8.13 In aligning jobs and housing it is advisable to focus on HMAs and functional economic areas – which as discussed earlier should ideally be co-terminous – rather than individual districts. Many people travel to work across administrative boundaries, so planning for each district in isolation will not produce the most efficient and sustainable relationships between the location of houses and jobs.

Pitfalls

- 8.14 In planning for the economy and employment, some authorities use highly ambitious job numbers, based on policy aspiration rather than economic forecasting or

business-as-usual expectation. This may be the right approach to economic planning, but only on two conditions:

- On the demand side there should be a realistic prospect that the growth aimed for is achievable. Inspectors are rightly unconvinced by purely aspirational job numbers, including in some cases those taken from the LEPs' Strategic Economic Plans.
- On the supply side the local planning authorities should face up to the housing implications of that growth.

8.15 In relation to the second point, it is important to avoid unrealistic assumptions on the relationship between housing, population and jobs. A number of housing assessments have been criticised by Inspectors for expecting very fast increases in economic activity rates. Such increases reduce the population growth, and hence number of homes, that is required to support a given number of new jobs. But unrealistic figures put the emerging plan at risk.

8.16 Another risky approach is to plan for recalling commuters, so the ratio of workplace jobs to resident workers – and hence to population and number of dwellings – is assumed to rise over the plan period. Like increasing activity rates, this assumption means that more jobs can be accommodated for a given number of dwellings, or a given number of jobs needs fewer dwellings. But the expected shift in commuting should be believable, and acceptable to the other local authorities affected by it. Strategies of recalling commuters should not be adopted unilaterally; they require cross-boundary agreement in line with the Duty to Cooperate.

9 AFFORDABLE HOUSING NEED

Affordable need and housing provision targets

- 9.1 Paragraph 029 of the PPG³⁸ advises on how housing needs assessments should take account of affordable housing need:

'The total affordable housing need should be considered in the context of its likely delivery as a proportion of mixed market and affordable housing developments, given the probable percentage of affordable housing to be delivered by market housing led developments. An increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of affordable homes.'

- 9.2 This paragraph is difficult to follow. But it seems to confirm that the amount of affordable housing to be included in the OAN should reflect what can be delivered in practice, as a function of market delivery. Based on this, Inspectors' advice and existing good practice, we would suggest the following approach:
- i Assess total housing need or demand (the OAN), following paragraphs 15-21 of the PPG.
 - ii Estimate how much of that total need could be delivered as new affordable housing, given the affordable housing contribution that can be viably generated from market housing developments.
 - iii Assess affordable housing need, as shown in paras 022-029 of the PPG (we discuss these paragraphs in Chapter 2 above).
 - iv Compare this affordable need with the potential affordable supply at stage ii
 - v Consider if the resulting scenario would meet a reasonable proportion of the affordable need.
 - vi If not, consider raising the total need figure so it includes more affordable housing.

Is affordable need part of the OAN?

- 9.3 As mentioned earlier, it seems clear from the PPG and Inspectors' advice that affordable housing need is a policy consideration that bears on housing targets, rather than a factor that bears on objectively assessed need. In principle the two numbers are not directly comparable, because they relate to different meanings of the term 'need'.
- 9.4 One difference between these two meanings was discussed in Chapter 2 earlier: affordable need measures aspiration (what *ought to* happen), while the OAN measures expectation (what *is likely to* happen, based on past experience, provided that planning provides enough land).

³⁸ Reference ID: 2a-029-20140306

- 9.5 A second major difference is that the calculated OAN relates to net new dwellings, which accommodate net new households (household growth). In contrast, much of the assessed affordable need relates to existing households that are or will be entitled to affordable housing over the plan period. For the most part the needs of these existing households are not for net new dwellings. Except for those who currently live in temporary institutional accommodation or on the street, if they move into suitable housing they will free an equivalent number of dwellings, to be occupied by people for whom they are suitable.
- 9.6 In practical terms, there is no arithmetical way of combining the two calculations set out in the PPG to produce a joined-up assessment of overall housing need. We cannot add together the calculated OAN and the calculated affordable need, because they overlap: the OAN of course covers both affordable and market housing, but we cannot measure these components separately, because demographic projections – which are the starting point for the OAN – do not distinguish between different sectors of the housing market.
- 9.7 In summary, it seems logically clear that affordable need, as defined and measured in paragraphs 22-29 of the PPG, cannot be a component of the OAN. The OAN does have an affordable component – which cannot be measured separately but will normally be much smaller than the affordable need discussed at paragraphs 22-29. When paragraph 47 of the NPPF says that plans should meet in full ‘*the need for market and affordable housing*’, it is referring to that component rather than the separately calculated affordable need.
- 9.8 The above conclusion may be contradicted by a High Court judgment issued on 19 February 2015³⁹, which seems to imply the calculated affordable need is a constituent part of the OAN. At present the implications of that judgment are not clear.

Affordable need and developers’ contributions

- 9.9 There is a third interpretation of the relationship between affordable need and the OAN. In this view, the OAN for affordable housing is the result of the para 22-29 calculation, and the OAN for market housing is the amount of market housing that is required to pay for that affordable development through S 106 contributions. The demography-based calculation at paras 15-20 of the PPG is set aside, unless (improbably) it produces a smaller housing number than the S106 calculation.
- 9.10 This view in effect says that the need for market housing is determined by a financial calculation, regardless of the number of homes that people want and can pay for. This would be a radical redefinition of the term ‘need’, which is neither credible nor consistent with national planning policy. As Inspectors have noted⁴⁰, in practice it would result in a large oversupply of development land, so that many of the allocated sites would remain vacant, either in the subject local authority or elsewhere in the HMA.

³⁹ Satnam Millennium Ltd v Warrington Borough Council, [2015] EWHC 370 (Admin)

⁴⁰ See for example The Planning Inspectorate, *Report to Eastleigh Borough Council*, February 2015

10 SETTING PROVISION TARGETS

- 10.1 The NPPF and PPG make it clear that an authority's housing provision target, or requirement, does not necessarily equal its objectively assessed need. Two factors come between the OAN and the target. The first is the area's deliverable and sustainable supply capacity, defined with reference to constraints recognised in the Framework. The second factor is cross-boundary unmet need, which the authority should accommodate *'when it is reasonable to do so and consistent with achieving sustainable development'*⁴¹.
- 10.2 Additionally, it seems obvious that in setting targets the authority should also have regard to the impact of housing development on its wider policy objectives and priorities. This is not explicitly mentioned in national policy and guidance, perhaps because it is self-evident. What is clear from the NPPF is that an authority's objectives or values cannot justify undersupplying the OAN. But there is no reason why the authority cannot provide for housing development over and above the assessed need. The OAN is a minimum target, subject to supply constraints. There is no suggestion that it is a maximum.
- 10.3 Housing development impacts on community well-being. Just as too much housing in certain places can harm the environment and put undue pressure on infrastructure, too little housing can cause harm – for example from excessively ageing communities, rural depopulation, loss of critical mass to support town centres or rail stations, vacant shops and wastefully under-used schools. As part of the planning evidence base, authorities should test proposed housing targets to see if they deliver a good future to their communities.
- 10.4 For this, the first step is to model a 'supply-led' scenario to estimate the population totals and age profile that would result from a proposed housing target. Depending on the area's geography, the scenario might consider main settlements individually, rather than the district as a whole. A simple test is to look at the total population and the population in the main working age groups (e.g. 16-64). A fall in either total broadly suggests reductions in the vitality of local economies and the demand for services and facilities such as retail, leisure and public transport. More sophisticated tests would input the projected population data into assessments of future requirements for retail, leisure, public transport, education and other infrastructure provision.
- 10.5 On a final technical point, in assessing future need plan-makers should not add any 'backlog', where past housing development under delivered against earlier plans. As established by a High Court judgment in 2014⁴² the adoption of a new plan 'resets the clock' in relation to housing targets.

⁴¹ NPPF para 182

⁴² *Zurich Assurance Limited v Winchester City Council and South Downs National Park Authority*, [2014] EWHC 758 (Admin) 18th March 2014

11 KEY POINTS

- 11.1 In **defining housing market areas** (HMAs) a helpful starting point is the geography defined in the 2010 NHPAU study. Proposed definitions should be tested against up-to-date statistics, focussing on migration and commuting. In relation to migration two containment tests should be applied, relating to origin and destination respectively. If possible HMAs should not straddle local authority boundaries and they should be co-terminous with functional economic areas. Questions about market geography generally have no perfect answer and no single best answer.
- 11.2 Housing needs assessments should include a contextual **area profile** to help understand where new housing should be located so it provides what people want.
- 11.3 The **demographic starting point** for housing needs assessments should now be the 2012-based CLG household projections. The assessment should test this projection, and if necessary adjust it, for technical anomalies and alternative reference periods. Scenarios based on 10-15 years should be more robust than the five years used in the official projection, depending on local circumstances. In areas where Unattributable Population Change (UPC) is large, it should be closely analysed and sensitivity-tested, and plan-makers may take the view that it should be included in the base period as past migration. The CLG 2012 housing representative rates (HRRs) may be adjusted to reflect local factors, but at present we do not have a method for adjusting them to take account of the national economic climate (earlier methods such as indexing and return to trend are now out of date).
- 11.4 To see if planning under-supplied housing demand and need in the past, and hence if demographic projections should be adjusted upwards, two kinds of evidence are available. Direct evidence is provided by **past housing provision**, considered in relation to the national trends and the local planning context. Indirect evidence is provided by the **market signals**, especially house price change. An area with above-average growth in house prices is most probably an area where housing land has been particularly under-supplied. But if house prices growth is close to the average it may still be the case that housing land has been undersupplied.
- 11.5 When considering **future employment**, housing needs assessments should be clear about the future population (numbers and age profile) that is incorporated in the forecast, and how population interacts with workplace jobs in the forecasting model. When modelling alternative scenarios to align housing and jobs, the assessments should integrate economic forecasts and demographic projections, working to consistent assumptions.
- 11.6 **Affordable need**, defined and calculated as per paragraphs 22-29 of the PPG, is a policy consideration rather than a component of objectively assessed need
- 11.7 **Housing provision targets** should not undersupply the OAN, except due to supply constraints. But targets may be above the OAN if more housing would help achieve a more balance age structure, better facilities and services or other policy objectives.

APPENDIX WHAT IS HOUSING NEED?

- A1 The concept of housing need is a keystone of the new planning system, yet it is not defined in either the NPPF or PPG. This leaves room for confusion, because ‘need’ is a broad term, which means different things to different people. Without a shared understanding of what ‘need’ is, we may follow the method set out in the PPG mechanically. But where we come to a point that requires judgment (and there are many such points) we will often have no basis for that judgment.
- A2 Paragraph 003 of the PPG is titled ‘What is the definition of need?’ and begins as follows:
- ‘Need for housing in the context of the guidance refers to the scale and mix of housing and the range of tenures that is likely to be needed in the housing market area over the plan period – and should cater for the housing demand of the area and identify the scale of housing supply necessary to meet that demand.’*
- A3 The sentence provides useful information, to say that authorities should think about the mix of housing as well as the total quantity. But it does not provide a definition of need, because its core is logically circular: it simply says that need is what is needed⁴³. Nor is ‘need’ defined elsewhere in the PPG or NPPF. This is confusing, because there are at least two interpretations, which are quite different:
- a) ‘Need’ may be the housing that should be provided if everyone is to enjoy suitable housing at acceptable cost, as defined by the standards set out in the PPG (see paragraph 2.12i above)
 - b) Alternatively ‘need’ may mean demand – the amount of housing that would be provided if the planning system did not restrict land supply.
- A4 These alternative definitions are different in principle. The first kind of need measures what **ought to be**: it is a prescriptive (normative, aspirational) concept. The second kind of need measures what **is** (or will be or is likely to be): it is a positive (or factual) concept.
- A5 The two definitions of need are also different in practice, because they produce very different numbers. The first definition will typically show many more dwellings than the second, because the market does not deliver suitable housing at acceptable cost for everyone; those for whom it does not deliver can only access suitable housing if the affordable sector provides it to them; but that sector does not entirely fill the gap, mainly due to financial constraints.
- A6 The difference between the two measures of need equals the number of actual and would-be households who will exist without suitable housing at an acceptable price over the plan period. Planning can increase the number of people in that unfortunate position, if the land it supplies falls short of demand - the amount that housing providers (both market and affordable) are able and willing to develop. But if planning supplies land in excess of that demand the number of people lacking suitable housing

⁴³ ‘Circular definition: a definition that includes the term being defined as a part of the definition’ (*Free Dictionary*)

at acceptable cost will not be reduced, since the corresponding new homes will not be built – because market providers do not find it worthwhile to build them and / or affordable providers do not have the funds to build them.

- A7 So there are two alternative definitions of housing need, need-as-aspiration and need-as-demand. The choice between these definitions is of more than academic interest, because the first definition would normally produce a much larger number than the second, with major practical implications for plan targets and land allocations. The PPG does not explicitly tie the crucial concept of objectively assessed need to one or the other definition. But in our opinion the OAN mainly relates to need-as-demand. There are four principal reasons why we believe this.
- A8 Firstly, both the NPPF and PPG repeatedly use ‘need’ and ‘demand’ as synonyms. One example from is paragraph 003 of the PPG, quoted earlier. Other examples include paragraphs 019 and 021 of the PPG and paragraphs 50 and 159 of the NPPF.
- A9 Secondly, as noted earlier the calculation of the OAN is principally based on demographic projections, which roll forward past trends. These past trends, and the resulting projections, of course reflect what actually happened in the past (need-as-demand), not what ought to have happened if everyone was suitably housed at acceptable cost (need-as-aspiration).
- A10 The third reason relates to the adjustments that may be made to the projections in the light of past provision and market signals. This part of the assessment method is at paragraphs 015 and 020 of the PPG. It is clear – not least from the many references to ‘demand’ - that the main purpose of that analysis is to assess the past balance of land supply against past demand.
- A11 Fourthly, if the OAN were needs-as-aspiration, it would follow that national policy encourages land to be allocated for housing that has no reasonable prospect of being taken up. This is because plans do not supply housing, but only development land. If the OAN means need-as-aspiration, plan targets and site allocations should provide land to ensure that everyone is suitably housed at acceptable cost. This is usually more housing than providers are willing and able to build, because many people cannot afford the price that market providers require, and affordable providers do not have enough funds to house all those people. Therefore much of the allocated land will remain vacant, either in the subject local authority or elsewhere in its market area. This cannot reasonably be the intention of the NPPF, bearing in mind its advice at paragraph 173 that ‘plans should be deliverable’.
- A12 Based on these four reasons, we conclude that the OAN should be principally understood as a measure of future demand rather than aspiration. Accordingly we propose a working definition as follows:
- ‘The housing that households are willing and able to buy or rent, either from their own resources or with assistance from the State’.*
- A13 Chapter 2 of the main text discusses this definition further.