4. APPENDIX 2

Proposed new standard method for calculating LHN

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907215/200805_Changes_to_the_current_planning_system_FINAL_version.pdf

Step 1 is setting a baseline at whichever is the higher of 0.5% of existing housing stock or latest projected average annual household growth over 10-year period (using latest 2018-based projections). Relevant NN figures are below.

Dwelling stock estimates 2019	
CBC	29842
ENC	40481
KBC	45340
BCW	35214
NN	150877
0.5%	754

Source: ONS Live Table 125

Table 406 Average household growth over 10 years			
	2020 households	2030 households	Change
CBC	29444	34279	4835
ENC	40166	45362	5196
KBC	44144	49351	5207
BCW	34486	37506	3020
NN	148240	166498	18258
NN annual average			1826

Source: ONS Table 406

The baseline would be the higher of these two figures, i.e. 1826 dwellings pa.

Step 2 would be to adjust for market signals by:
   i.   Adding 0.25% to the baseline for each 1% that the ratio of median house prices to gross earnings is above 4 (the maximum for most mortgages)
   ii. Adding the result of multiplying the absolute change in affordability ratio over 10 years x 0.25
   iii. Adding a constant of 1

$$
\text{Adjustment Factor} = \left[\left(\left(\frac{\text{Local affordability ratio}_{t=0} - 4}{4} \right) x\ 0.25 \right) \right.
$$
$$
\left. + \left(\left(\text{Local affordability ratio}_{t=0} - \text{Local affordability ratio}_{t=-10} \right) \times 0.25 \right) \right]
$$
$$
+ 1
$$

Where $t = 0$ is current year and $t = -10$ is 10 years back.

The sum of the above is the factor to be applied to the baseline. Using the data sources referenced in the consultation, the NN figures are as follows:

Ratio median house price to median gross annual workplace-based earnings			
	2009	2019	Affordability adjustment
CBC	5.35	7.17	(3.17/4x0.25) + (1.82x0.25) + 1 = 1.65
ENC	6.58	7.92	(3.92/4x0.25) + (1.34x0.25) + 1 = 1.58
KBC	5.72	7.42	(3.42/4x0.25) + (1.7x0.25) + 1 = 1.64
BCW	5.85	7.95	(3.95/4x0.25) + (2.1x0.25) + 1 = 1.77

On this basis, the adjustment for market signal would see the NN housing need adjusted upward by 65% to 3011 per annum. MHCLG has not published the results of the proposed methodology for individual local planning authorities but analysis by consultants Lichfields corroborates the NN figures shown below. Differences are due to rounding and the Lichfields total of 3009 dwellings is used in the report at Item 4 for consistency.

	Baseline (average annual household growth projection)	Affordability adjustment	Local Housing Need (pa)	Lichfields analysis
CBC	484	x 1.65	800	799
ENC	520	x 1.58	822	821
KBC	521	x 1.64	854	854
BCW	302	x 1.77	535	535
NN	1826		3011	3009