

## **NMSS NOTES ON GL HEARN'S "UPDATE TO OAN ASSESSMENT IN GUILDFORD AS A RESULT OF THE 2016-BASED HOUSEHOLD PROJECTIONS" – GBC-LPSS-033b**

### **SUMMARY**

GL Hearn believe that Guildford's housing need is now 562 homes a year. The NMSS estimate is 361 homes a year 2015-34. The difference is due to three points:

- **GL Hearn believe that it should be assumed that the household formation rates of those aged 25-44 will return to their levels in 2001.** They appear to believe that the lower household formation rates in the 2016-based projections are wrong because they are lower than earlier sets and have been unduly affected by the poor affordability of housing. However, analysis by the ONS comparing the projections with other sources suggests that all recent projections might be too high and that the 2016-based set is closest to the numbers suggested by the Labour Force Survey. Moreover, the ONS indicate that affordability is only one of a number of a behavioural, social and economic factors that may affect household formation rates.
- **GL Hearn believe that 539 homes a year are needed to support job growth at 0.8% a year. NMSS believe that 361 homes a year are needed.** The difference is due to the assumptions made. GL Hearn use an economic activity rate that is not consistent with such a high job growth rate and make a standalone calculation that ignores the question of whether there would be sufficient workers to go round if the employment needs of other local authorities were to be calculated on the same basis. The NMSS calculation is based on an Experian forecast which in turn is drawn from a national model with consistent assumptions.
- **GL Hearn and GBC add 23 extra homes for students notwithstanding that the starting point projections provides for housing more than twice the number of additional 18-23 year olds than the likely increase in students living in rented accommodation.** Their justification for doing this is based on a misunderstanding of how the projections work. The addition of the extra 23 homes is doubly indefensible given that GL Hearn add more than 200 extra homes to support job growth using a calculation that is likely to assume increases in the 18-23 population.

Taking an overview, the GL Hearn suggests that the starting point demographic figure should be uplifted by 72% (before the student addition) whereas the NMSS uplift is 20%. These figures compare with the standard method which caps increases at 40%. A 72% uplift based on a standalone analysis that does not consider the implications for the rest of the country should not be given credence.

The following table summarises the two calculations:

Comparison of OAN calculations	GL Hearn	NMSS
<b>Starting point:</b> 2016-based household projections updated to reflect the 2017 MYE. 2.3% empty and second homes assumed.	313	301
<b>GL Hearn assume household formation rates of 25-44 year olds should, as a minimum, move back to their 2001 level.</b> NMSS do not believe this is appropriate in the light of ONS analysis that suggests that the 2016-based projections may be closest to other sources.	83	-
	<b>396</b>	
<b>Extra homes needed to support job growth:</b> figure depends on the assumptions made about economic activity rates etc. as well as household formation rates	143	60
	<b>539</b>	<b>361</b>
<b>Extra homes for students</b>	23	-
	<b>562</b>	<b>361</b>

## Introduction

1. The note identifies the points of agreement and disagreement between the GL Hearn view of the implications of the 2016-based household projections (the 2016 SNHP) as set out in "Update to OAN Assessment in Guildford as a result of the 2016-based Household Projections" (GBC-LPSS-033b) and the NMSS view on this.

## Points of agreement

2. The following points are either agreed or the differences are small enough to be immaterial.
  - 2.1. **The most up to date estimate of the demographically-based housing need of Guildford over the period 2015-34 is in the range 301 to 313 homes a year.** This calculation is based on applying the ONS's 2016-based household formation rates to their 2016-based population projection updated to reflect the 2017 mid-year population estimates. 301 is the NMSS figure and 313 the GL Hearn figure<sup>1</sup>, the small difference being due to slight differences in the methods used to update the 2016 SNPP to reflect the 2017 MYE.
  - 2.2. **Guildford's housing need based on the standard methodology would be 431<sup>2</sup> homes a year.**

<sup>1</sup> Paragraph 6 of GBC-LPSS-033b

<sup>2</sup> Paragraph 27 of GBC-LPSS-033b

- 2.3. **Woking's housing need based on the standard methodology would be 263<sup>3</sup> homes a year and on this basis Woking would have no unmet housing need<sup>4</sup>.**

### **Points of difference**

3. The key points of difference are:
- 3.1. **GL Hearn believe that it is appropriate to adjust the household formation rates of those aged 25-44 so that they return to the levels seen in 2001. NMSS do not believe that this is appropriate.**
  - 3.2. **GL Hearn believe that to support employment growth at 0.8% a year it is necessary to provide 539 homes a year if household formation rates are returned to 2001 levels. NMSS believe that 361 homes a year are needed to support a 0.8% annual jobs increase.**
  - 3.3. **GL Hearn believe an additional 23 homes a year should be provided to cater for additional students living in rented accommodation. NMSS believe that the ONS projections already include more than adequate provision for the expected growth in student households living in rented accommodation so no addition is required.**

### **GL Hearn proposal to return household formation rates for 25-44s to 2001 levels**

4. GL Hearn give two reasons for believing this to be appropriate:
- 4.1. **"Local authorities should not be planning for a worsening trend in household formation"<sup>5</sup>.** Whilst this is an attractive-sounding assertion it does not stand up to scrutiny.
    - 4.1.1. The unspoken assumption here is that falling household formation rates are both "bad" and "avoidable". For some groups in some authorities household formation rates have been falling for the past 20 years or more. Whilst the affordability of housing may be a factor, other reasons will also have played a part including changing behaviours and a range of social and economic drivers. These include the tendency to form couples and start families later and the impact of the recent economic downturn and less secure employment.
    - 4.1.2. Whilst for some groups household formation rates have fallen and are projected to fall further, for other groups they have risen and are projected to rise further. The 2016-based projections for Guildford envisage that household formation rates will rise of females up to the age of 59 and for males over 70. A range of behavioural, social and economic factors will be responsible for the historic trends that have given rise to these projections.

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<sup>3</sup> Paragraph 17 of GBC-LPSS-033b

<sup>4</sup> Paragraph 24 of GBC-LPSS-033b

<sup>5</sup> Paragraph 8 of GBC-LPSS-033b

4.1.3. Whilst it may be GL Hearn's view that planning should not allow for falling household formation rates, there is no Government policy to this effect. The recent practice of local plan inspectors has been to reject this kind of approach and make a percentage uplift for market signals, including affordability.

- 4.2. **“The ONS are planning to publish a variant to the household projections in which younger age groups household formation rates are improved”**. The ONS are intending to do this in order to enable users of their projections to understand how sensitive the projections are to household formation rate assumptions, not because they believe there is anything wrong with their main projection. Moreover, the ONS's intention to produce variants does not make it appropriate to use those variants (which have yet to be produced) in planning for housing and there is no Government pronouncement suggesting that this should be done.
5. More generally, behind the GL Hearn position there seems to be a general sense that there is something wrong with the 2016-based projections simply because they suggest lower household numbers than the 2014-based projections. In fact, analysis by the ONS suggests that the reverse may be the case. Alongside the publication of the 2016-based projections the ONS produced an article entitled, “Household projections for England, comparisons with other sources: 2001 to 2018”<sup>6</sup>. This notes that household projections are not forecasts. They show the number of households there would be if a set of assumptions about the size and structure of the population and that population's patterns of household formation were realised in practice. They do not predict the impact of future public policy, changing economic circumstances or other factors which may influence household growth.
6. The paper reviews other sources of estimates of household numbers between 2001 and 2018, focussing in particular on the household estimates derived from the Labour Force Survey (LFS). It shows that after 2011 there is a significant divergence between the household numbers suggested by the LFS and all of the household projections produced since 2011, all of which suggest higher household numbers. The lower numbers suggested by the 2016-based projections are closest to the LFS estimates but are still somewhat higher. This raises the possibility that all of the recent household projections may have taken as their starting point a set of household numbers in the base year that was too high.
7. Some will doubtless argue that the lower household figures suggested by the LFS are due to suppressed household formation caused by the deteriorating affordability of housing. The ONS paper discusses (on page 12) the factors which may result in projections not being realised in practice. Six factors are given including the numbers of births and deaths; life expectancy; migrations flows; the numbers living in communal establishments; and, relationship and family formation and breakdown

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<sup>6</sup> Household projections for England, comparisons with other sources: 2001 to 2018, ONS, 20 September 2018 at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/articles/householdprojectionsforenglandcomparisonswithothersources/2001to2018>

including having children in later life, separation divorce and remarriage. The availability and affordability of housing is only one of the six factors. It would be wrong to assume that it is the major factor and use that as a reason to fundamentally change the official projections – particularly when the latest set appears to be the closest yet to the numbers suggested by the LFS.

### **Jobs-led housing need**

8. GL Hearn believe 539 homes a year are needed to support jobs growth at 0.8% a year whilst NMSS believe that 361 homes a year would be sufficient. The difference is due to two factors: the GL Hearn use of 2001 household formation rates for 25-44 year olds (discussed above); and, the differences in assumptions made in calculating the population needed in Guildford to support 0.8% jobs growth.
9. The key assumption is the economic activity rate. As explained in the Statement of Common Ground between Guildford Borough Council and Guildford Residents Association<sup>7</sup>, the GL Hearn calculation is based on OBR economic activity rates which are consistent with a jobs growth of 0.23% a year. The growth rate of 0.80% suggested by the Inspector is more than 3 times the OBR rate and, as a consequence, the OBR economic activity rate is simply not consistent with jobs growth at the rate suggested by the Inspector. Applying the OBR economic activity rate therefore produces a homes for jobs figure that is grossly inflated.

### **Market signals and affordable housing need**

10. NMSS agree with GL Hearn that there is no need for an affordability adjustment above the number of homes needed to support jobs growth. However, the NMSS homes for jobs figure is 20% above the demographic starting point ( $360 = 301 \times 1.20$ ) whereas the GL Hearn figure is 72% above their starting point ( $539 = 313 \times 1.722$ ). That scale of uplift is simply unreasonable. There are very good reasons why in the standard formula MHCLG have capped uplifts to 40%.
11. The figures behind the starting point housing number tells us what the net inflow to Guildford would be if past trends continue. The GL Hearn analysis suggests that the draw of jobs in Guildford will be such that of the order of 130<sup>8</sup> extra households would be attracted to Guildford each year, a significant proportion of which would contain one or more worker. These worker households would need to come from somewhere. Is it credible that they would be attracted to Guildford in such large numbers every year in competition with other locations?
12. This highlights a further problem with the GL Hearn approach. It is a 'standalone' approach which attempts to make calculations for Guildford in isolation without any

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<sup>7</sup> GBC-LPSS-SoCG-009, paragraphs 44-46

<sup>8</sup> Leaving aside the proposal to allow for a return to 2001 HRRs, the GL Hearn proposal suggests that 450 homes a year are needed to support economic growth. Their starting point figure is 313 homes a year so they are suggesting that an extra 137 homes a year are needed to support job growth. Allowing for 2.3% empty and second homes that implies an extra 134 households as  $137 \times (1-2.3\%) = 134$ .

consideration of the implications for the rest of the country. If the GL Hearn approach were right it would be reasonable to expect other authorities with good economic prospects to have a similar requirement for additional workers. But the pool of those available for work in the UK is limited and it is far from obvious that there would be sufficient workers to go round. To avoid this problem it is important to use a national model such as those run by the main economic forecasters. This is why the NMSS approach uses the Experian forecast to calculate the implications of the Inspector's recommendation that planning should be on the basis of an 0.8% annual jobs growth as the Experian forecast is derived from a national model and is the only forecast available that envisages jobs growth close to that suggested by the Inspector.

## Students

13. It is common ground<sup>9</sup> that the latest official projections for Guildford (the 2016 SNPP) envisages growth in the student age group and that updating those projections to reflect the 2017 MYE suggests a faster growth in the 18-23 age group. It is also agreed that this may (in part or in full) relate to student growth. In calculations which GL Hearn have not challenged, NMSS have shown that the updated projections envisage a growth of 3,970<sup>10</sup> in the 18-23 population accommodated in market housing over the plan period: this is more than twice the expected increase in the number of students living in market housing.
14. Despite all of the above, GBC have assumed that **none** of the projected growth in the 18-23 age group relates to students and added the number of homes that the extra students would need. The argument they give for this is that, "the period feeding in to the 2016-based SNPP (2010/11-16) did not coincide with a period of growth at the University"<sup>11</sup>. This suggest that GBC believe that projections can only include growth in a population if that population has grown during the trend period. **This is wrong.** The trend period is used to calculate the probability that a person of a certain age and sex in a particular authority will move to Guildford. That probability is then assumed to remain unchanged during the projection period. This means that the number of people projected to move to Guildford depends on how the population of the given age and sex in the authority in question changes. If that increases during the projection period the projected inflow will also increase.
15. The above figuring relates to the demographic starting point. This suggests that 301-313 homes a year are needed. GL Hearn are suggesting that 539 homes a year are needed before any consideration is given to students (an uplift of 226 homes a year). Whilst that increase that is driven by the GL Hearn view on household formation rates and the number of homes needed to support job growth, it is assumed from comments made by GL Hearn that the calculations include increased net migration in all age groups. As such the 226 extra homes will include provision to house extra people aged 18-23. This makes it totally implausible that the 539 homes a year would not provide for the anticipated student growth when 313 homes a year would provide

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<sup>9</sup> See paragraph 19 of the GBC Position Statement GBC-LPSS-SoCG-009.

<sup>10</sup> See paragraphs 38-40 of the SoCG including in GBC-LPSS-SoCG-009.

<sup>11</sup> See paragraph 19 of the GBC Position Statement GBC-LPSS-SoCG-009.

for housing for twice the growth in 18-23 year olds as is likely to be needed by students. There is therefore absolutely no case for adding the 23 extra homes suggested by GL Hearn.

## **Woking**

16. Based on the standard method Woking's housing need is 263 homes a year. This compares with their plan figure of 292 so there is currently no unmet need.
17. MHCLG are consulting on using the 2014-based projections in the standard need formula instead of the latest set (the 2016-based projections). If this were confirmed Woking's housing need would be 409<sup>12</sup> homes a year. MHCLG's Live Table 122 suggests that there were an average of 357 net additions to Woking's housing stock during the last three years for which data is available (2015-16 to 2017-18). The Waverly Plan provides for 83 homes a year to help meet Woking's needs. Thus, even if Woking's housing need were to be assessed to 409 homes a year, there would be no unmet need that would fall to be met by Guildford.
18. GL Hearn offer an update to the 2015 West Surrey SHMA calculation of Woking's housing need<sup>13</sup>. However, that is based on a method that is untested in examination and not consistent with the latest NPPF. It should therefore carry no weight.

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<sup>12</sup> Paragraph 23 of GBC-LPSS-033b.

<sup>13</sup> Paragraph 23 of GBC-LPSS-033b