



## DEBATE PACK

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# Planning reform and house building targets

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## Summary

On Thursday 8 October, Bob Seely will introduce a debate in the House of Common Chamber on the formula used to determine new housing allocations in local areas. This is a debate determined by the Backbench Business Committee.

This briefing contains an overview of the proposed change to the housing need formula and links to relevant press articles and comment. A short overview, with data relating to local areas is available from the Library article: [Housing: How is need assessed?](#) (1 October 2020). An overview of the Government's proposed planning reforms is set out in the Library briefing: [Planning for the Future: planning policy changes in England in 2020 and future reforms](#) (20 August 2020)

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The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

# 1. Background

## Summary

For some time, the Government has been signalling its intention to make radical changes to the planning system in England. The Covid-19 pandemic brought about some immediate changes to certain aspects of planning policy – such as enabling pubs to offer hot food takeaway services – while other, substantial changes to the planning system, aimed (the Government says) at creating a new system suitable for the 21<sup>st</sup> century, are the subject of consultation through the [white paper \*Planning for the Future\*](#) (closing date 29 October 2020). The Government also intends to make some changes to the current planning system and launched a concurrent consultation [Changes to the current planning system](#) that closed on 1 October 2020.

A short overview of the housing need calculation, and analysis of local authority data from the planning consultancy Lichfields, is available in the Library insight [Housing: How is need assessed?](#) (1 October 2020).

## 1.1 Introduction

On Thursday 8 October, Bob Seely will introduce a debate in the House of Common Chamber on the formula used to determine new housing allocations in local areas. This is a debate determined by the Backbench Business Committee.

The wording of the motion is as follows:

That this House welcomes the Government's levelling up agenda, and supports appropriate housing development and the Government's overall housing objectives; further welcomes the Government's consultation, *Planning for the Future*, updated on 6 August 2020, as a chance to reform housing and land use for the public good; welcomes the Government's commitment to protect and restore the natural environment and bio-diversity; and calls on the Government to delay any planned implementation of: the changes to the standard method for assessing local housing need proposed by the Government's consultation, *Changes to the Current Planning System*, published 6 August 2020, and Proposal 4 of the Government's consultation, *Planning for the Future*, on a standard method for establishing housing requirement, until this House has had the opportunity to hold a debate and meaningful vote on their introduction.

## 1.2 The current method for calculating housing need

The current standard method for calculating housing need was introduced in 2018 and updated in the 2019 version of the Government's National Planning Policy Framework (NPPF) and accompanying planning practice guidance. It was intended to significantly simplify the process of establishing local housing requirements and to help the Government achieve an average target of delivering 300,000 new dwellings per annum (dpa). The standard method for calculating housing need has three steps: setting the

baseline, making an adjustment to take account of market signals and capping the level of any increase.<sup>1</sup> It is summarised as follows:

#### **How does the current standard method for calculating housing need work?**

The standard method set out in the NPPF 2019 has three steps: setting a baseline level of need in the area, adjusting for housing affordability, and capping the level of any increase.<sup>2</sup>

##### **Step 1: Setting the baseline**

A baseline level of growth in the local authority is set using the Office for National Statistics' (ONS) household projections. The household projections use past trends in population change and household formation to estimate how many new households there might be if those trends continue. They don't attempt to predict the effect of future political, economic or other changes.

The standard method calculation takes the annual average projected growth over a ten-year period as the baseline for determining housing need. The ONS' household projections have been revised down since the NPPF 2019 was published.

##### **Step 2: Affordability adjustment**

The baseline is then adjusted to take account of housing affordability in the area, using the 'house price to earnings ratio' for the local authority. This measure compares the median house price in the area to the median annual salary of people who work there full-time.

The affordability adjustment is applied if median house prices are more than four times median earnings in the local authority. For every 1% increase in the affordability ratio above this level, the baseline figure is increased by 0.25%.

##### **Step 3: Capping the level of increase**

In some cases, a cap may be applied that limits the increase in estimated housing need for a local authority. This depends on the local authority's existing strategic housing policies.

If the local authority has adopted relevant strategic policies in the last five years before the calculation is made, then the new housing need target is capped at 40% above the annual average housing need set out in those policies. This also applies if the authority has reviewed an older policy and kept or amended the target.

If the policies were adopted more than five years ago, a cap may still apply. The new housing need target is capped at 40% above whichever is higher of two measures: the baseline identified in step 1, or the average housing need figure set out in the most recently adopted strategic policies.

The Commons Library briefing [What next for planning in England? The National Planning Policy Framework](#) discusses the NPPF and (in section 5) the standard method for calculating housing need and the concerns about the supply of new housing which gave rise to it.<sup>3</sup>

The Commons Library briefing [Planning for the Future: planning policy changes in England in 2020 and future reforms](#) examines the Government's proposals for "once in a generation" reform of England's planning system and the other planning changes already made during the Covid-19 pandemic.<sup>4</sup> Section 1.5 deals with the proposals within the white paper *Planning for the Future* relating to the standard method and the Housing Delivery Test and section 2.1 discusses the proposals within the consultation on changes to England's current planning system.

<sup>1</sup> MHCLG, [Planning for the right homes in the right places: consultation proposals](#), September 2017: pages 10 - 12

<sup>2</sup> MHCLG, [Guidance: Housing need assessment](#), September 2018

<sup>3</sup> CBP 8260, 10 June 2019

<sup>4</sup> CBP 8981, 20 August 2020

## 1.3 The new formula for calculating housing need

In August 2020, the Government published its [consultation on changes to planning policy and regulations](#), which contained proposals for amending the standard housing calculation. It proposed to include, as a new element, a percentage of housing stock levels and an affordability adjustment. The consultation document then set out the detail of the two, amended steps – step 1 is setting the baseline and step 2 is adjusting for market signals – and provides the results of the new standard method, which is a national housing need of 337,000 on the basis of currently available data.<sup>5</sup> The consultation closed on 1 October 2020.

In a [statement on planning for the future on 12 March 2020](#), the Housing Secretary, Robert Jenrick, said that the standard formula would be reviewed and this fresh approach would encourage more building in urban areas and on brownfield sites:

To that end, I am announcing that we will review the formula for calculating local housing need, taking a fresh approach that means building more homes, but also encouraging greater building in urban areas. We will make the most of our transport hubs, and I am announcing a call for proposals to invite innovative solutions for building housing above and around stations. We will be backing brownfield sites for development, and we will work with ambitious mayors and councils of all political persuasions in all parts of the country. We will be beginning by investing £400 million to regenerate brownfield sites across the country, and we are launching a new national brownfield sites map so that anyone — member of the public, entrepreneur or local authority — can understand where those sites are.<sup>6</sup>

## 1.4 What is being proposed?

The consultation document set out how the standard method would be amended, to include as a new element a percentage of housing stock levels and an affordability adjustment. Another change would be the removal of the cap on the level of increase, which (it said) “artificially suppresses” identified housing need:

20. We therefore propose to introduce a new element into the standard method, a percentage of existing housing stock levels, which takes into account the number of homes that are already in an area. This should ensure that diverse housing needs in all parts of the country are taken into account. It should also offer the stability and predictability which has been absent when solely relying on household projections.

21. However, household projections, which are based on freely and publicly accessible data available at a local authority level, are still the most robust estimates of future growth trends. Projections have been used for decades in the planning system as a basis for future housing land requirements due to their simple and reliable concept of linking housing growth to the population.

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<sup>5</sup> HM Government, [Consultation on changes to planning policy and regulations](#), August 2020, para 40

<sup>6</sup> [HC Deb 12 March 2020 c445](#)

Therefore, we propose to retain a role for them as part of the new blended approach which takes account of stock. This helps achieve the stability and distributional benefits offered by stock whilst not losing the benefits of using projections. Further details of the exact approach are set out below.

22. The Government also proposes to introduce an affordability adjustment that takes into account changes over time, in addition to the existing approach of considering absolute affordability. This will increase the overall emphasis on affordability in the formula and ensure that the revised standard method is more responsive to changing local circumstances, so that homes are planned for where they are least affordable. For example, where affordability improves, this will be reflected by lower need for housing being identified. The Government also proposes to remove the cap which artificially suppresses the level of housing identified.<sup>7</sup>

The consultation document then sets out the detail of the two steps – step 1 is setting the baseline and step 2 is adjusting for market signals.

Under step 1, the Government proposed the baseline for the standard method should be whichever is the higher of 0.5% of existing housing stock in each local authority OR the latest projected average annual household growth over a 10-year period. The consultation commented on the introduction of existing housing stock into the formula (annual household growth is currently in the baseline calculation):

25. Focusing the new standard method baseline on stock with a household projections “top-up” helps bring stability to the method. This is because stock is stable and does not vary significantly, unlike a household projections-only approach. It is based on current data, and is also a tangible and easily understandable concept. Using stock will ensure that all areas, as a minimum, are contributing a share of the national total, proportionate to the size of their current housing market. Basing the approach on stock also helps to reinforce development in existing urban areas, thereby ensuring that new homes can maximise existing infrastructure such as public transport, schools, medical facilities and shops.

Under step 2, two adjustments would be made to the baseline using the workplace-based median house price to median earnings ratio. Firstly, the ratio would be used to assess current affordability (which is similar to the current process, but with some modifications), and then a second new adjustment would be made based on how affordability has changed over the last 10 years of published data using that same statistic. Areas that have become less affordable over time would have a higher housing need figure. In addition, the cap in the previous formula would be removed. The rationale for this was set out in the consultation:

...The Government is clear that in order to significantly boost the supply of homes and address the past undersupply as quickly as possible, a step change is needed. Capping the level of need is not compatible with this aim. In no longer applying a cap, the resultant housing need is the level of need that authorities should

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<sup>7</sup> MHCLG, [Changes to the current planning system: Consultation on changes to planning policy and regulations](#), August 2020: page 12

be planning to release land for, according to their specific circumstances.

The consultation then calculated the results of the new standard method using the most recent available data:

40. The new standard method results in a national housing need of 337,000 on the basis of currently available data. This is the starting point for planning and not the final housing requirement. Not all homes that are planned for are built, therefore the new standard method total is designed to provide enough land to account for the drop-off rate between permissions and completions.

41. The revised method identifies 76% of local housing need nationally focused in local authorities classified as urban (10,000 people of more in a built-up area – i.e. major and minor conurbations, cities and towns and towns in a sparse setting) by the 2011 ONS classification. This will make the most of our transport hubs, support the objectives of brownfield-first and gently densifying urban areas, including building upwards where appropriate.<sup>8</sup>

The changes would be implemented by amending the [National Planning Policy Framework](#) (NPPF). The consultation asked for views on these revised steps.

## 1.5 What is the Housing Delivery Test?

The Housing Delivery Test (HDT) is an annual measurement of housing delivery in relevant LPAs, intended to hold LPAs and others accountable. It is a percentage measurement of the net number of homes delivered against the number of homes required, as set out in the relevant strategic plans and policies for the area, over a rolling three-year period. From November 2020, LPAs need to meet a threshold of 75%; if this is not met there is a presumption in favour of sustainable development for planning applications in the area.

The Commons Library briefings [What next for planning in England? The National Planning Policy Framework](#)<sup>9</sup> and [Planning for the Future: planning policy changes in England in 2020 and future reforms](#) also examine the Housing Delivery Test and (in section 3 of the former) the presumption in favour of sustainable development.<sup>10</sup>

## 1.6 *Planning for the Future* white paper: Does this propose further changes?

The white paper *Planning for the Future* proposes to retain the Housing Delivery Test and the standard method for setting housing requirements (see above), and the application of it is a subject of the consultation. It proposes to remove the five year test for land supply.

The standard method would be a means of distributing the national target of 300,000 new homes a year and would make LPAs responsible

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<sup>8</sup> MHCLG, [Changes to the current planning system: Consultation on changes to planning policy and regulations](#), August 2020: page 16

<sup>9</sup> CBP 8260, 10 June 2019

<sup>10</sup> CBP 8981, 20 August 2020

for allocating land suitable for housing to meet the requirement. The consultation sets out the considerations:

2.25. It is proposed that the standard method would be a means of distributing the national housebuilding target of 300,000 new homes annually, and one million homes by the end of the Parliament, having regard to:

- the size of existing urban settlements (so that development is targeted at areas that can absorb the level of housing proposed);
- the relative affordability of places (so that the least affordable places where historic under-supply has been most chronic take a greater share of future development);
- the extent of land constraints in an area to ensure that the requirement figure takes into account the practical limitations that some areas might face, including the presence of designated areas of environmental and heritage value, the Green Belt and flood risk. For example, areas in National Parks are highly desirable and housing supply has not kept up with demand; however, the whole purpose of National Parks would be undermined by multiple large scale housing developments so a standard method should factor this in;
- the opportunities to better use existing brownfield land for housing, including through greater densification. The requirement figure will expect these opportunities to have been utilised fully before land constraints are taken into account;
- the need to make an allowance for land required for other (non-residential) development; and
- inclusion of an appropriate buffer to ensure enough land is provided to account for the drop off rate between permissions and completions as well as offering sufficient choice to the market.<sup>11</sup>

One key difference between this proposed standard method and the one already in use is that it would be MHCLG who would be doing the calculation and then passing the allocations to LPAs to put into action; the white paper says that LPAs would be responsible for allocating land suitable to meet the requirement and would have choices about how to do so.

Green Belt protections would remain and there would be potential for distributing allocations between combined authorities. The Government argues that this revised system “should ensure that enough land is planned for, and with sufficient certainty about its availability for development, to avoid a continuing requirement to be able to demonstrate a five-year supply of land.” The Government proposes to maintain the Housing Delivery Test and the presumption in favour of sustainable development as part of the new system.

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<sup>11</sup> MHCLG, [Planning for the Future](#), 6 August 2020

The white paper also, though, identifies an alternative option of leaving the calculation of how much land to include in each category for local decision:

2.28. Alternative option: It would be possible to leave the calculation of how much land to include in each category to local decision, but with a clear stipulation in policy that this should be sufficient to address the development needs of each area (so far as possible subject to recognised constraints), taking into account market signals indicating the degree to which existing needs are not being met. As now, a standard method could be retained to underpin this approach in relation to housing; and it would be possible to make changes to the current approach that ensure that meeting minimum need is given greater weight to make sure sufficient land comes forward. However, we do not think that this approach would carry the same benefits of clarity and simplicity as our preferred option, and would also require additional safeguards to ensure that adequate land remains available, especially once the assessment of housing need has been translated into housing requirements. We would, therefore, propose to retain a five-year housing land supply requirement with this approach.<sup>12</sup>

The consultation asks for views on how the standard method should be applied in the future:

The future application of the formula proposed in the revised standard method consultation will be considered in the context of the proposals set out here. In particular, the methodology does not yet adjust for the land constraints, including Green Belt. We will consider further the options for doing this and welcome proposals<sup>13</sup>

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<sup>12</sup> MHCLG, [White paper: Planning for the Future](#), August 2020: page 28

<sup>13</sup> MHCLG consultation, [Planning for the Future](#), August 2020, Pillar 1, Proposal 4



## 2. Press and comment

Lichfields consultancy

[\*How many homes? The new Standard Method\*](#)

Local Government Association

[\*LGA submission to the Ministry of Housing, Communities and Local Government: Changes to the current planning system\*](#)

7 October 2020

Zack Simons (Planoraks blog)

[\*"Mutant algorithms" - 5 things MPs & the media keep getting wrong on housing numbers\*](#)

6 October 2020

*The House* magazine

[\*Why is the new housing algorithm facing backlash from Conservative MPs?\*](#)

5 October 2020

Royal Town Planning Institute

[\*New housing algorithm would cause more problems than it would solve, says RTPI\*](#)

2 October 2020

Royal Town Planning Institute

[\*RTPI response to MHCLG changes to the current planning system consultation\*](#)

1 October 2020

CPRE

[\*CPRE finds housing algorithm will threaten valued countryside\*](#)

1 October 2020

Daily Telegraph

[Boris Johnson seeks to appease Tory MPs over fears 'mutant' housing algorithm will ruin the countryside](#)

30 September 2020

Guardian

[Tory councillors in revolt over plans to accelerate housebuilding](#)

27 September 2020

Planning

['Up to 70' Tory MPs considering rebelling against housing need changes](#)

21 September 2020<sup>14</sup>

Planning

[MHCLG moots consulting next year on white paper's 'standard housing requirement' plans](#)

21 September 2020

Lichfields blog

[\*The Local Plan Transition – From the NPPF \(2019\) and the Standard Method to a new White Paper Planning System\*](#)

18 September 2020

Times

[Local planning decisions must not be handed over to an algorithm](#)

16 September 2020

Local Government Association

[\*New housing targets 'jeopardise any ambition to level-up country\*](#)

September 2020

Local Government Chronicle

[New housing algorithm will 'seriously jeopardise' levelling up ambition](#)

15 September 2020

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<sup>14</sup> Subscription required – Members and their staff may obtain copies of articles from *Planning* from the Commons Library on 020 7219 3666

Independent

[Housing: 'Mutant algorithm' could put Boris Johnson's levelling-up dream at risk](#)

14 September 2020

Times

[Tory MPs rage at housing plan to 'concrete' over the shires](#)

13 September 2020

Times

[Tories fear building spree in the shires](#)

9 September 2020

Planning

[Decisions on where new homes go 'will not be made by central government', Pincher pledges](#)

9 September 2020

Inside Housing

[Housing minister hits back at critics of planning reforms with 'myth-busting' speech](#)

7 September 2020

Planning

[How the white paper would change elected members' say over planning decisions](#)

27 August 2020

Times

[Tory critics force ministers to review planning algorithm](#)

27 August 2020

Times

[Housebuilding algorithm unfair to towns and cities, Boris Johnson told](#)

25 August 2020

Planning

[Changes to housing need 'algorithm' will prompt opposition from Tory councils](#)

25 August 2020

Guardian

[The final straw? Tory heartlands in revolt over planning reforms](#)

23 August 2020

Planning

[The implications of the proposed new standard housing need method](#)

20 August 2020

Royal Institute of British Architects

[\*Deregulation won't solve the housing crisis – RIBA criticises Jenrick's planning reforms\*](#)

6 August 2020

Telegraph

[Radical and necessary reforms to our planning system will get Britain building](#) (comment by Robert Jenrick)

1 August 2020

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