Appendix 2 - Standard Method Calculation and the implications of using 2018 Household projections

This appendix is split into two chapters:

- Chapter 1 - How housing need is calculated using the standard method set out in national planning practice guidance

- Chapter 2 - The implications of inputting 2018 household projection data into the standard method as opposed to the 2014 data required by national planning practice guidance.

1 Standard Method Calculation (April 2023) as required national policy and guidance

Step 1: Setting the baseline

1.1 The standard method uses the 2014-based household projections in England to set the demographic baseline from which the Housing Need Figure is calculated.

1.2 This is the annual average household growth over 10 years with the current year being the first year. As this document is being published in 2023, the period examined is 2023-2033.

1.3 As set out in the table below there is expected to be a 4,091 unit growth in households in Epsom & Ewell from 2023 to 2033 or 409 households per annum. This equates to a 11.8% increase in households over the same period.

Table 1 - Household growth in the borough 2023-2033 (2014 household projections)

Group	Number
Households 2023	34,665
Households 2033	38,756
Change in households	4,091
Per annum change (step 1)	409
% change	11.8

Step 2: Adjustment to take into account affordability

1.4 The purpose of Step 2 is to adjust the demographic baseline based on local affordability. The purpose of the adjustment is to increase the housing need figure where house prices are high relative to workplace incomes.

1.5   The market signal used to test this is the median workplace-based affordability ratio (MWAR) published by ONS in the most recently published year.

1.6   The adjustment increases the housing need derived from the household projections by 0.25% for every percentage point the affordability ratio is above four (4.0). The basis for this is that four is the typical multiple of household income mortgage providers use when calculating the maximum they are prepared to lend. The equation is as follows:

Adjustment factor = ((Local affordability ratio – 4)/4) x 0.25

1.7   In 2022 (the most recent year for which this metric was recorded), the MWAR was 20 in Epsom & Ewell. This means that median house prices were 20 times the median earnings of those working in the local authority area.

1.8   As set out in the table below this results in an adjustment factor for the Borough of 100%. This is calculated as follows: ((20.00 - 4) / 4) × 0.25) = 100%.

Table 2 - Affordability Uplift (2014 household projections)

Group	Number
Per annum change (Step 1)	409
Affordability ratio (2022)	20
Uplift to household growth	100%
Total need (per annum)	818

1.9   To this point, the housing need in Epsom & Ewell would be 818 per annum. This is the Council's need before any capping has been applied (Step 3).

Step 3: Capping the level of any increase

1.10 The third step in the standard method is to cap the market signals uplift. This limits the increases an individual local authority can face.

1.11 How the cap is applied depends on the age of the adopted Local Plan and the scale of household growth. The first is where an authority has reviewed its plan (including developing an assessment of housing need) or adopted a plan (including a spatial development strategy) within the last five years the need may be capped at 40% above the requirement figure set out in this plan.

1.12 The second is where plans are more than five years old. Here, the cap is calculated at 40% above either the projected household growth

calculated in Step 1 or the housing requirement in the most recent plan (where this exists), <u>whichever is higher</u>.

1.13 The second approach is what applies to Epsom and Ewell as the Core Strategy which sets out the housing requirement dates from 2007.

Table 3 – Cap calculations (2014 household projections)

Cap Methods (plan more than 5 years old)	Output
1. 40% above stage 1 requirement (409dpa)	**573**
2. 40% above existing Local Plan requirement (181dpa)	253

1.14 The capped figure is less than the figure arrived at in Step 2 (818dpa).

1.15 The Local Housing Need Figure for the borough as of April 2023 is capped at **573dpa** at Step 3 of the standard method.

2 Calculation (April 2023) utilising 2018 household projection data

2.1 This section provides details on the implications of using 2018 Household Projections as opposed to 2014 household projections in the standard methodology. Please note that this approach is not compliant with national policy and guidance and for illustrative purposes only.

Step 1: Setting the baseline

2.2 Using the 2018-based household projections for the period 2023-2033, there is expected to be a 1,477 unit growth in households in the borough or 148 households per annum. This equates to a 4.6% increase in households over the same period.

Table 4 - Household growth in the borough 2023-2033 (2018 household projections)

Group	Number
Households 2023	31,876
Households 2033	33,353
Change in households	1,447
Per annum change (step 1)	148
% change	4.6

Step 2: Adjustment to take into account affordability

2.3 As set out in Chapter 1, median house prices were 20 times the median earnings of those working in the local authority area therefore the uplift against stage 1 outputs remains 100%.

Table 5 - Affordability Uplift (2018 household projections)

Group	Number
Per annum change (Step 1)	148
Affordability ratio (2022)	20
Uplift to household growth	100%
Total need (per annum)	296

2.5 To this point, the housing need in Epsom & Ewell would be 296 per annum based on 2018 ONS household projections. This is the Council's need before any capping has been applied (Step 3).

Step 3: Capping the level of any increase

2.6   As set out in Chapter 1, our adopted Local Plan that sets the housing strategy is more than 5 years old, therefore the cap is calculated at 40% above either the projected household growth calculated in Step 1 or the housing requirement in the most recent plan, <u>whichever is higher</u>.

Table 6 – Cap calculations (2018 household projections)

Cap Methods (plan more than 5 years old)	Output
1. 40% above stage 1 requirement (148dpa)	207
2. 40% above existing Local Plan requirement (181dpa)	**253**

2.7   The above demonstrates that if 2018 household projections were accepted as opposed to 2014 household projections, with no other changes being made to the standard methodology for calculating housing needs, the minimum housing need for the borough would be **253dpa**.