

Introduction

This note was commissioned by Northaw & Cuffley Parish Council and responds to the latest report by Turley “*Clarifying the OAN position for Welwyn Hatfield*” (November 2020) in the context of earlier work by ChamberlainWalker summarising the evolution of Objectively Assessed Need (OAN).¹

The recent history on the OAN can be summarised as follows:

- The current OAN was calculated in 2017 and resulted in a target of 16,000 dwellings (800 pa);
- In 2019 reduced Household Projections were published but the recommendation from Turleys was to retain the 16,000 target;
- In 2020 further reductions in Household Projections were published which resulted in an OAN range. The upper level retained the historical 16,000 target, but introduced a lower level of 14,300 (715 homes pa);
- When submitted to the Inspector for examination, the response by the Inspector was to determine a definitive number that would support site allocations, as compared to a range².

In their most recent technical note, Turley suggested that “*the lower end of this range was more likely to be reflective of housing needs over a plan period which extended to 2036, from an advanced base date of 2016*”³, and clarified that the concluded OAN is indeed 715 dwellings per annum between 2016 and 2036.

This note therefore focusses on the lower figure and our independent view on the suitability of that figure for the OAN, rather than superseded figure of 800 dwellings per annum in previous assessments.

Welwyn Hatfield OAN – An Independent View

Headlines

- The estimate of 715 dwellings per annum is broadly consistent with previous estimates of the OAN over the plan period 2013-32.
- However, we think that the adjustment in response to market signals, given the method in adjusting household formation rate to address suppressed household formation, double counts the impact of affordability on household formation.
- The choice of plan period 2016-36 combined with an OAN of 715 dwellings per annum suggests an excessive market signals adjustment of +21%.
- Our position is that no adjustment for market signals would be defensible given the overall approach. This would imply 650 dwellings per annum for the original plan period 2013-32, or 593 dwellings per annum for the period 2016-36.
- Recent evidence on changes to resident population as a result of the Covid-19 pandemic and Brexit gives additional weight to the lowering of the OAN from prevailing estimates.

¹ [“Welwyn and Hatfield Consultation Response”](#)

² EX204 Letter by the Inspector to WHBC (10th September 2020)

³ EX218 Appendix F, Turley Technical Note: Clarifying the OAN position for Welwyn Hatfield (November 2020), paragraph 2 pp.277

Examining the 14,300 target (715 dwellings per annum)

We consider that the target of 715 dwellings per annum produced by Turley in its report "*The implications of the 2018-based SNPP and SNHP on the Welwyn Hatfield OAN*" (August 2020) is consistent in method and overall approach when compared with their previous work on the Strategic Housing Market Assessment Update (May 2017) and subsequent updates. The process in getting to the 715 is summarised in the following table (numbers applied to the original plan period 2013-32).

Table 1. Summary table of OAN assessments in 2017 SHMA & Turley technical papers

Component	Description	Year of assessment			
		2017 (2013-32)	2019 (2013-32)	2020(a) (2013-32)	2020(b) (2016-36)
Official Household Projections	These are official statistics produced by the Office for National Statistics (ONS) [previously by the Ministry for Communities, Housing and Local Government (MCHLG)]	650	583	396	309
Alternative population projection	Adjustment to the official HH Projections: higher population growth reflecting migration trends over a longer period than the principle projection.			+134	+158
Reversion to 2014-based headship rates	Adjustment to the official HH Projections: adopts the headship rates from the 2014-based projections. This is on the grounds that recent methodological changes to the official projections have been viewed as "unreliable".		+56	+50	+43
Adjustment for suppressed households	Adjustment to the official 2014-based headship rates: assumes the headship rates of younger households will return to their 2001 position. This is on the grounds that younger households have been affected by affordability constraints.	+50	+52	+51	+66
Vacancy rate	The dwellings requirement is assumed to be higher the projected household growth with an allowance (3%) for vacant properties.	+21	+21	+19	+17
Market signals	A x% uplift is assumed to reflect affordability. However, the impact of affordability on younger household formation is already addressed ("adjustment for suppressed households").	+72	+71	+65 (+10%)	+122 (+21%)
Rounding	Rounding up to nearest 100	+7	+17		
Range	Only relevant to the 2020 update. The top end of the range is arbitrary and simply reflects the earlier assessments.			+85	
Sum total		800	800	715-800	715

One of the notable changes in terms of the data used in the most recent assessments (2020a and 2020b) is the use of variant population projections. These are well-explained in Turley's recent technical note, and their use is a proportionate response to methodological concerns over ONS' principal projections which extrapolated internal migration from a 2-year trend, in favour of a longer term trend used in the variant projection.

However, one element that could not have been foreseen at the time of the original estimate (and not even perhaps until the end of 2020) was the impact on the UK population as a result of Covid-19, and possibly to a lesser extent as a result of Brexit. Emerging evidence is suggestive of a large

shock to the UK population (possibly the largest fall in the UK resident population since World War Two) and any decisions on future housing should be made whilst at least being cognisant of these facts and future implications. Turley note that a switch to the variant 2018 population projections lowers the estimate of population growth by 11 per cent in the period to 2036, and that coincidentally the OAN also falls by 11 per cent (800 dwellings per annum down to 715)⁴. Using recent estimates on the fall in population, and assuming that this one-off shock persists, we tentatively suggest a fall of 16 per cent in population growth might occur compared to previous estimates. A 16 per cent fall in the OAN (from the original assessment of 800) would reduce the OAN to around 670 – a non-negligible change worthy of consideration. We address this issue at the end of this note.

Similarly as to the use of the variant population projections, the use of 2014-based headship rates for household groups deals with concerns on the reliability of rates that had been adopted in subsequent ONS publications since the 2014 projections⁵. In our view both such adjustments are reasonable responses, using variants of official data to deal with problematic short-term assumptions.

Turning to the issue of the extent to which the OAN needs to reflect the past undersupply of homes needed in recent years, we tend to agree with Turley's analysis that it is unlikely that such undersupply has impacted on recent population growth⁶. We also agree that undersupply *does* have an effect on the rate of household formation – the question remains then as to *how much* household formation is constrained and how much the OAN needs to reflect this.

The matter then arises as to what further adjustments to the OAN can be justified. We find that the method put forward by Turley – to specifically adjust the rates of household formation for younger age groups back towards 2001 levels⁷ – is a reasonable one. It is correct that the ability of younger people to gain access to the housing ladder (or simply, to occupy a home of their own) is intrinsically linked to the affordability of those homes. In our previous report we set out the relationship between the affordability ratio and headship rates of 25-34 year olds. The scatterplot is shown below.

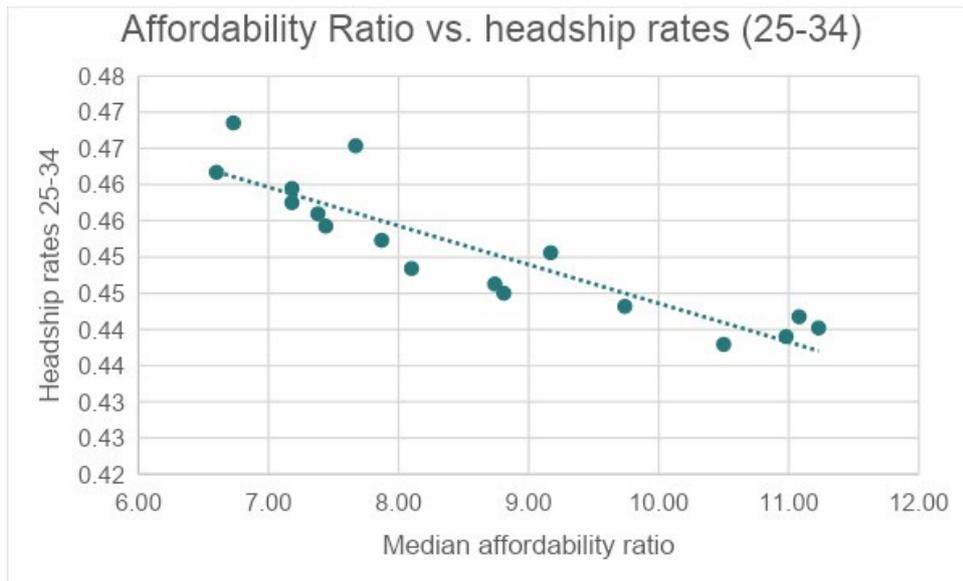
⁴ EX218 Appendix F, Turley Technical Note: Clarifying the OAN position for Welwyn Hatfield (November 2020), paragraph 10 pp.279

⁵ EX218 Appendix F, Turley Technical Note: Clarifying the OAN position for Welwyn Hatfield (November 2020), paragraph 15 pp.281

⁶ EX218 Appendix F, Turley Technical Note: Clarifying the OAN position for Welwyn Hatfield (November 2020), paragraph 12-14 pp.279-280

⁷ We find that the assumptions used by Turley in terms of the rate of return to 2001 levels of household formation are optimistic compared to other assessments (Box 1, CWE report). We state this not as a judgement on the suitability of the assumption, but as a statement as to the degree to which the method is adjusting for suppressed household formation.

Figure 2: Scatterplot of affordability ratios vs. headship rates for ages 25-34 (2003-2019)



The correlation coefficient of affordability to headship rate is 0.9 – an extremely strong relationship. The data in the chart covers the period 2003-2019 but extrapolating the headship rate in 2001 the chart would be strongly suggestive of an affordability ratio of around 6 to 7 (house price to earnings). The key point to highlight from this is that changing assumptions on headship rates implicitly requires judgement about what improvement in affordability is associated with it and the desirability of that. A ratio of 6 to 7 would be a marked improvement on the prevailing level of 10.5 in Welwyn Hatfield.

Furthermore, we find that most indicators of housing stress (e.g. overcrowding, concealed households) are primarily concentrated within younger age groups. The implication of planning for greater levels of household formation in younger age groups is that this should, in theory, also serve to alleviate housing stress. Therefore, a key contention flagged in our previous report is whether a separate “market signals” adjustment is needed at all, as to include one would be to double count the impact of affordability on household formation, which causes those housing pressures.

The use of a market signals adjustment to the OAN is a source of potential confusion depending on the plan period in question and the baseline household projection on which it is based. CWE’s interpretation of the evidence was based on the original plan period 2013-32 with a 10 per cent “market signals” uplift, and in our judgement, this itself double counted impacts of affordability on household formation. The degree of implied market signal adjustment and the relationship with the plan period (as set out in Turley’s original report⁸) is summarised below.

⁸ The implications of the 2018-based SNPP and SNHP on the Welwyn Hatfield OAN, Turley (August 2020), Figure 6.3 pp.24

Table 2: Implied level of Market Signal uplift by plan period

Plan period	Household projection with adjusted demographics (household formation assumption)	Proposed OAN	Implied level of Market Signal uplift
2013-32	650	715	+10%
2016-36	593	715	+21%

As can be seen in the above table, by retaining a level of OAN at 715 dwellings per annum, this implies a “market signal” uplift of 21 per cent for the plan period 2016-36. Turley’s recent note on clarifying the OAN position highlights that this is over double the adjustment made in its 2017 SHMA update⁹. In light of the evidence, we would suggest 650 dwellings per annum for the period 2013-32, or 593 dwellings per annum for the period 2016-36, are suitable levels for the OAN. If, however, it is felt a “market signals” uplift was warranted, an uplift figure of greater than 10 per cent might be considered excessive. On this basis, a maximum of 652 dwellings per annum would be justified for the 2016-36 period.

Shocks to the population as a result of Covid-19 and Brexit

Evidence has recently emerged that the UK population might have fallen by as much as 1.3million persons between survey periods July-September 2019 and July-September 2020 (*“Estimating the UK population during Covid-19”*, 14 January 2021).¹⁰ The authors of that study point out that, if true, this would represent the largest fall in the UK resident population since World War Two. The fall is attributed to a large fall in the number of non-UK born people of almost a million, with a relatively small decline in UK-born population. If such a fall were to persist in terms of the impact on the level of the UK population, the potential implications on planning for housing growth are substantial.

The recent estimates are split by region and are only indicative at this stage, although they are nonetheless instructive as to potential magnitude of changes in the population. The estimates suggest a potential fall in population in the combined South East and East area of 137,545 persons. The ONS’ mid-2019 population estimate for the equivalent area is 15.4million persons, suggesting a fall in the number of persons over the year of 0.9 per cent. Welwyn Hatfield’s population share of the South East and East area is approximately 0.8 per cent. If the fall in population were evenly distributed by area, this suggests a fall of approximately 1,100 persons in Welwyn Hatfield over the past year. We tend to find this cautious given the historically disproportionate impact of migration on Welwyn Hatfield’s population – so the fall could be considerably greater.

If true, this is a non-negligible change to Welwyn Hatfield’s population and if the fall in the level of the population were to persist over the plan period, would have serious implications for the level of housing need. Turley’s analysis highlighted that the recent change to population projections (the move from the 2016-based population projections to the variant 2018-based projections) reduces

⁹ EX218 Appendix F, Turley Technical Note: Clarifying the OAN position for Welwyn Hatfield (November 2020), footnote 15 pp.281

¹⁰ <https://ukandeu.ac.uk/estimating-the-uk-population-during-covid-19/>

the anticipated cumulative population growth to 2036 from 22,931 to 20,366, an 11 per cent fall. A further fall of 1,100 persons would represent a total 16 per cent fall in the level of projected population change. Turley note a coincident fall in the level of the OAN of 11 per cent as a result of the change in population projection. A 16 per cent fall would, indicatively, reduce the OAN from 800 to around 670.

As highlighted, the evidence is emerging and it might be some time before the actual numbers and the impact on the resident population becomes clear. However, in our view, this also lends considerable weight to lowering of the OAN from the current suggested level of 715 dwellings per annum.