

# Impact of Formation Rates on OAN

## Based on ONS proposed changes to household projections

1. The Government has announced that as of 23 January 2017, responsibility for the Household Projections has been transferred to the Office for National Statistics (ONS).<sup>1</sup> Following this announcement, the ONS has launched a technical consultation on the on the household projections methodology.<sup>2</sup>
2. The ONS consultation focuses on three changes that the ONS propose to make to the household projection methodology:
  - » Use of the 2011 Census definition for household reference person, which would remove out-of-date definitions from use;
  - » Use of an age only projection model, which would make the projections easier to understand and use; and
  - » Move to a one stage production approach; which would simplify the methodology significantly and be comparable with methods used in Scotland, Wales and Northern Ireland.
3. The household projections are currently produced in two stages, and it is Stage One that projects the household numbers for local authorities based on Census data from 1971 to 2011; so recent formation trends from 2001 to 2011 only have a very marginal impact on the projections. The proposed “*one-stage production approach*” is based on Stage Two, which only uses Census data from 2001 and 2011; so formation trends from 2001 to 2011 provide the basis for the projection and it will be important to take proper account of any suppressed household formation when assessing overall housing need.

### Local Implications for the Household Projections

4. The West Essex and East Hertfordshire SHMA (September 2015) was based on demographic projections that were informed by the ONS 2012-based sub-national population projections (SNPP) and the CLG 2012-based household projections, and migration assumptions were informed by trends in population change based on Census data from 2001-2011. On this basis, the SHMA concluded an overall housing need of 38,400 dwellings associated with the household projections; however, an uplift of a further 5,600 dwellings was proposed to provide for additional net migration to the housing market area, yielding a total of 44,000 dwellings to ensure alignment between future jobs and workers.
5. Following publication of the ONS 2014-based SNPP and the CLG 2014-based household projections, the SHMA demographic projections were fully updated to take account of the latest information and considered migration assumptions informed by trends in population change based on ONS Mid-Year Estimates for 2005 and 2015. This interim assessment (August 2016) identified an overall housing need of 45,500 dwellings based on the household projections; and concluded that this would be sufficient to ensure alignment between future jobs and workers without any need for any further uplift.

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<sup>1</sup> <https://www.gov.uk/government/collections/household-projections>

<sup>2</sup> <https://consultations.ons.gov.uk/communication-division/changes-to-household-projections-for-england>

6. This analysis considers the changes that the ONS propose to make to the household projection methodology in the context of the latest population projections from the interim assessment (using 2014-based SNPP data and migration trends for the period 2005-15). The projected increase in households across the West Essex and East Hertfordshire HMA is summarised in Figure 1:
- » The upper section of the table summarises the outcome from the interim assessment, with household representative rates from the CLG 2014-based household projections;
  - » The lower section of the table presents the outcome from the latest analysis, with household representative rates based on the ONS proposed changes.
7. It is evident that the ONS proposed changes reduce the projected household growth from 43,759 households (as identified by the interim assessment) to 36,440 households over the 22-year period 2011-33; thereby projecting 7,319 fewer households (equivalent to a reduction of 16.7%) based on exactly the same population projections.
8. Figure 1 also provides an estimate of dwelling numbers, which takes account of vacancies and second homes based on the proportion of dwellings without a usually resident household identified by the 2011 Census. This identified a rate of 3.0% for East Hertfordshire, 4.5% for Epping Forest, 3.2% for Harlow and 4.7% for Uttlesford. The rate was 3.8% across the West Essex and East Hertfordshire HMA as a whole.

**Figure 1: Projected households and dwellings over the 22-year period 2011-33 for West Essex and East Hertfordshire**  
(Note: Dwelling numbers derived based on proportion of dwellings without a usually resident household in the 2011 Census. Data may not sum due to rounding)

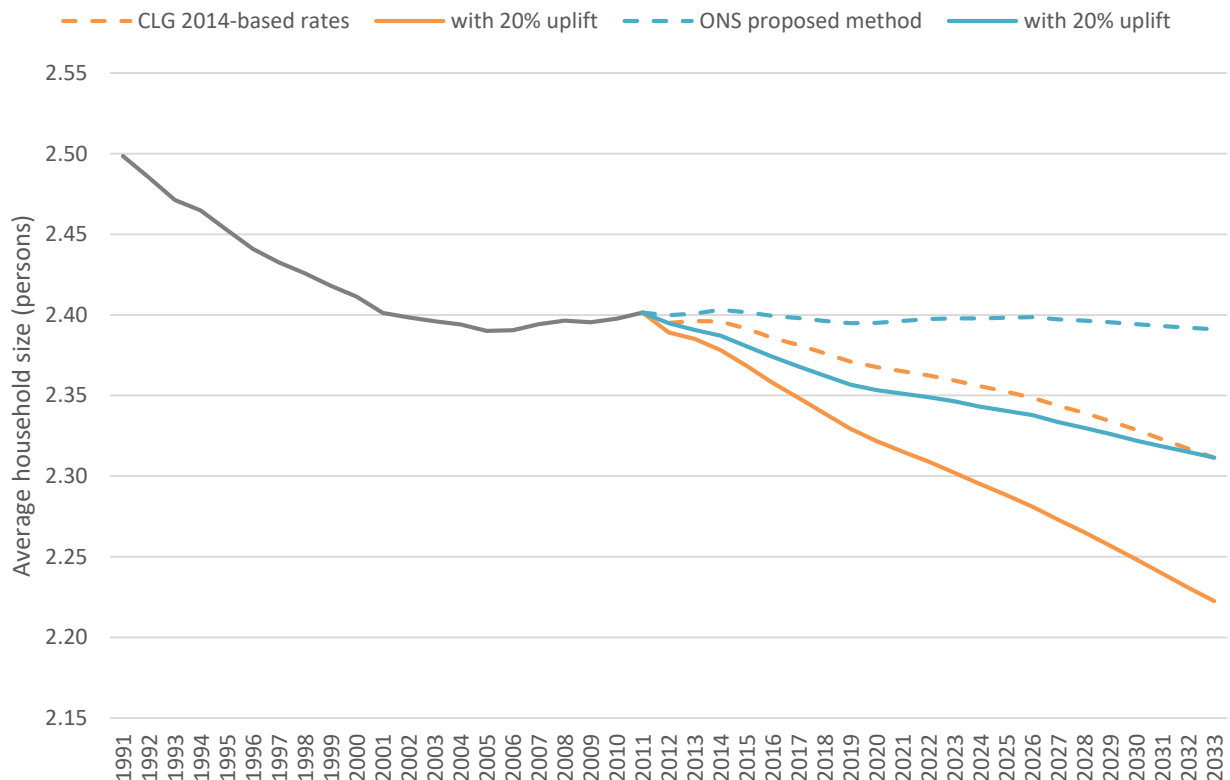
Scenario	Households				Dwellings			
	2011	2033	Net change 2011-33	Average annual change	2011	2033	Net change 2011-33	Average annual change
<b>HOUSEHOLD REPRESENTATIVE RATES USING CLG 2014-BASED PROJECTIONS</b>								
East Hertfordshire	56,813	72,506	<b>15,696</b>	713	58,600	74,789	<b>16,189</b>	736
Epping Forest	52,083	62,651	<b>10,568</b>	480	54,540	65,605	<b>11,065</b>	503
Harlow	34,701	41,008	<b>6,313</b>	287	35,835	42,355	<b>6,520</b>	296
Uttlesford	31,579	42,749	<b>11,181</b>	508	33,138	44,871	<b>11,733</b>	533
<b>TOTAL</b>	<b>175,186</b>	<b>218,915</b>	<b>43,759</b>	<b>1,989</b>	<b>182,113</b>	<b>227,620</b>	<b>45,507</b>	<b>2,068</b>
<b>HOUSEHOLD REPRESENTATIVE RATES BASED ON ONS PROPOSED CHANGES</b>								
East Hertfordshire	56,813	71,066	<b>14,253</b>	648	58,600	73,301	<b>14,701</b>	668
Epping Forest	52,083	60,452	<b>8,369</b>	380	54,540	63,291	<b>8,751</b>	398
Harlow	34,701	39,182	<b>4,481</b>	204	35,835	40,463	<b>4,628</b>	210
Uttlesford	31,579	40,916	<b>9,337</b>	424	33,138	42,936	<b>9,798</b>	445
<b>TOTAL</b>	<b>175,186</b>	<b>211,616</b>	<b>36,440</b>	<b>1,656</b>	<b>182,113</b>	<b>219,991</b>	<b>37,878</b>	<b>1,722</b>

9. The original SHMA proposed an uplift of 20% as an appropriate response to the market signal indicators; in particular house prices and affordability, which were both considerably higher than national figures and had also been increasing at a faster rate. Inspectors elsewhere have considered 10% to be an appropriate response to “moderate” pressures in areas where the indicators were notably lower than those in the West Essex and East Hertfordshire HMA.
10. The interim assessment did not revisit the rationale and consequences of this adjustment, but identified that an uplift of 20% would yield an extra 9,101 dwellings in addition to the housing need based on household

projections; an overall housing need of 54,608 dwellings. Applying an uplift of 20% to the latest analysis would yield an extra 7,576 dwellings, an overall housing need of 45,454 dwellings.

11. Both of these interim assessments are based on the same population projections, which will yield sufficient workers to align with future jobs across the housing market area. Furthermore, both include an uplift of 20% in response to market signals, which is consistent with Inspectors' views elsewhere. However, it is evident that the overall housing need identified is different.
12. To understand this difference, it is helpful to consider the average household sizes that are implied by both projections (Figure 2):
  - » From 1991-2011, the average household size reduced from 2.50 persons to 2.40 persons, an overall reduction of 0.10 persons over 20 years. On this basis (and based on trends going back to 1971) the CLG 2014-based rates suggested that average household sizes would reduce from 2.40 persons to 2.31 persons over the period 2011-2033, a reduction of 0.09 persons over 22 years;
  - » The average household size recorded in 2001 and 2011 was the same at 2.40 persons. On this basis, the ONS proposed method suggests that average household sizes will remain stable over the period 2011-33, reducing from 2.40 to 2.39 persons; a change of only 0.01 persons over the 22-year period.
13. Nevertheless, applying a 20% uplift in response to market signals to the ONS proposed method yields an average household size of 2.31 persons, which is the same as projected by the CLG 2014-based rates. In other words, the 20% uplift addresses the suppressed household formation introduced by basing the household projections on the period 2001-11 in isolation.

**Figure 2: Average household size trends and projections based on alternative scenarios**



14. The demographic projections from the original SHMA projected that average household sizes would reduce to 2.29 persons (taking account of the additional net migration to align jobs and workers) and the final OAN yielded an average household size of 2.27 persons. This was based on the CLG 2012-based rates, included a specific adjustment to address suppressed household formation and a further adjustment in response to wider market signals (in addition to the uplift to align jobs and workers). On this basis, the average household size of 2.22 persons identified by the interim update is markedly lower than concluded by the original SHMA; so the 20% uplift proposed by the original SHMA needs further justification in the context of the update.
15. To establish the extent of any possible suppression in the CLG 2014-based projection, it is possible to consider a number of scenarios. Preventing the household representative rates for all younger age groups (aged under 35) from falling over the period 2011-33 would yield an average household size of 2.28 persons; and if these rates were to return to the levels recorded in 2001, the average household size would be 2.26 persons. It is evident that both of these averages are broadly consistent with the OAN conclusions from the original SHMA.
16. Figure 3 sets out the projected household growth for each area based on the latest population projections from the interim assessment (using 2014-based SNPP data and migration trends for the period 2005-15) and a range of different assumptions relating to household representative rates. The baseline scenarios include the CLG 2014-based rates and the method based on the ONS proposed changes. Alternative scenarios show the impact of preventing the rates for younger age groups from falling over the period 2011-33; and the implications of these rates returning to 2001 levels.

**Figure 3: Projected households and dwellings over the 22-year period 2011-33 for West Essex and East Hertfordshire based on alternative household representative rate scenarios (Note: Data may not sum due to rounding)**

Scenario	Baseline		Rates for younger age groups:			
	CLG 2014-based	ONS changes	Prevented from falling		Return to 2001 rate	
			CLG 2014-based	ONS changes	CLG 2014-based	ONS changes
<b>HOUSEHOLD GROWTH 2011-33</b>						
East Hertfordshire	15,696	14,253	15,699	16,380	15,782	16,686
Epping Forest	10,568	8,369	10,578	13,419	11,109	14,167
Harlow	6,313	4,481	6,310	6,929	6,658	7,550
Uttlesford	11,181	9,337	11,275	10,075	11,507	10,325
<b>TOTAL</b>	<b>43,759</b>	<b>36,440</b>	<b>43,863</b>	<b>46,803</b>	<b>45,056</b>	<b>48,728</b>
<b>HOUSING NEED 2011-33</b>						
East Hertfordshire	16,189	14,701	16,193	16,895	16,278	17,211
Epping Forest	11,065	8,751	11,075	14,049	11,631	14,832
Harlow	6,520	4,628	6,516	7,156	6,876	7,797
Uttlesford	11,733	9,798	11,832	10,572	12,075	10,835
<b>TOTAL</b>	<b>45,507</b>	<b>37,878</b>	<b>45,615</b>	<b>48,672</b>	<b>46,860</b>	<b>50,675</b>
<b>AVERAGE ANNUAL HOUSING NEED</b>						
East Hertfordshire	736	668	736	768	740	782
Epping Forest	503	398	503	639	529	674
Harlow	296	210	296	325	313	354
Uttlesford	533	445	538	481	549	492
<b>TOTAL</b>	<b>2,068</b>	<b>1,722</b>	<b>2,073</b>	<b>2,212</b>	<b>2,130</b>	<b>2,303</b>

## Establishing Overall Housing Need

17. The SHMA concluded an overall housing need of 38,400 dwellings associated with the household projections; however, an uplift of a further 5,600 dwellings was proposed to provide for additional net migration to the housing market area, yielding a total of 44,000 dwellings to ensure alignment between future jobs and workers. A further uplift of 2,100 dwellings was included to take account of suppressed household formation and the associated market signals indicators. On this basis, the SHMA identified the Full Objective Assessed Need for Housing to be 46,100 dwellings over the 22-year period 2011-33, equivalent to an average of 2,095 dwellings per year.
18. The interim assessment (August 2016) identified an overall housing need of 45,500 dwellings based on the household projections; and concluded that this would be sufficient to ensure alignment between future jobs and workers without any need for any further uplift. On the basis of a 20% market signals uplift being applied, the interim assessment identified that an overall housing need of 54,608 dwellings could be identified over the 22-year period 2011-33, equivalent to an average of 2,482 dwellings per year. Nevertheless, this uplift would yield an average household size that was markedly lower than concluded by the original SHMA; so the 20% uplift proposed by the original SHMA would need further justification in the context of the update.
19. The changes proposed by the ONS to the household projection methodology yield a much lower housing need based on the same population projections as the interim update; an increase of 37,900 dwellings over the 22-year period 2011-33. Nevertheless, formation trends from 2001 to 2011 provide the basis for the projection, so it is important to take proper account of any suppressed household formation when assessing overall housing need. Preventing the rates for younger age groups from falling over the period 2011-33 would imply a need for 48,700 dwellings across the housing market area, whilst these rates returning to 2001 levels would imply a need for 50,700 dwellings.
20. Given this context, it seems likely that there will still be a need to plan for more than 46,100 dwellings across the West Essex and East Hertfordshire housing market area over the 22-year period 2011-33. This is consistent with the conclusions from the interim update; however, it is unlikely that the housing need will be as high as the 54,600 dwellings originally identified. On the basis of the latest evidence, the objectively assessed need for housing is likely to be around 48,700-50,700 dwellings and it remains appropriate to consider this level of growth as the emerging Local Plans are developed. This represents an overall increase of 2,600-4,600 dwellings in addition to the OAN identified by the SHMA, equivalent to an increase of 5-10%; but changes to the population projections and uncertainties about the household representative rates mean that the housing need identified in some areas may change more than in others.
21. The changes that ONS propose for the household projection methodology are currently subject to a technical consultation, so it will be important to take account of the outcomes from this which the ONS will publish in summer 2017. The Housing White Paper has also confirmed that the Government will publish proposals for a *“standardised approach to assessing housing requirements”* and will be consulting on options later this year.
22. It is probably not appropriate for the councils of West Essex and East Hertfordshire to fully update the SHMA until the Government has published its proposals for a standardised approach and there is greater clarity about the ONS changes to the household projections. Nevertheless, it will be important to properly consider the consequences of both once more certainty has been established.