The Housing Requirement for the North Somerset Core Strategy 2011:

A Technical Perspective

Keith Woodhead

1. The purpose of this paper

1.1 This paper describes the background to, and the methodology used in, the housing requirements set out in the North Somerset Core Strategy adopted in April 2012. Its primary purpose is to provide contextual information for the re-examination of the North Somerset Core Strategy showing how the original work on housing requirements for the period 2006-26 links to the revised proposals in the re-submitted policies of the Plan.

2. Introduction

2.1 The examination of the Core Strategy was concluded in December 2011 and, following the Inspector's report of March 2012, was adopted by the Council in the April following. In February 2013 a High Court appeal lodged by the University of Bristol resulted in the judgement that the Inspector had "failed to give adequate or intelligible reasons" for his conclusion that the Council's housing requirement figure of 14,000 figure made sufficient allowance for "latent" demand i.e. demand unrelated to the creation of new jobs in the area covered by the plan. As a consequence the Council's adoption of Core Strategy Policy CS13 based on the Inspector's recommendation was held to be unlawful.[1]

2.2 The judgement followed a period of considerable uncertainty in national planning policy as the reforms announced by the Coalition Government following the May 2010 General Election received clarification and a more secure legislative basis. This culminated in the publication of the National Planning Policy Framework (NPPF) in March 2012 and the subsequent period of "bedding in" as the precise meaning of parts of the framework have been clarified through decisions by the Planning Inspectorate, the Secretary of State and the courts. Also during this time, and since the Core Strategy examination was held, the bulk of the results of the 2011 Census have been released although, at the time of writing, the detailed migration and travel to work statistics are still awaited.[2]

3. Economic context to the 2011 North Somerset Core Strategy housing requirement

3.1 The work to establish the housing requirement for North Somerset Core Strategy was carried out in the context of what was only then starting to be generally recognised as the worst recession since the 1920s, and probably for a century. A modest return to positive economic growth had been recorded in early 2010, but from a much reduced base compared with economic output immediately before the onset of recession in early 2008. The production of a housing requirement total for the Core Strategy therefore had to take into account the likelihood that a highly significant break from recent (i.e. pre 2008) trends

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[1] High Court Of Justice Queen's Bench Division Administrative Court Case No: CO/5259/2012, 14th Feb 2013.
[2] 2011 Census Fifth Release origin-destination data is currently timed for February 2014 onwards.

had occurred. This, together with the incoming coalition government's plans for a dramatic and sustained immediate cut-back in public expenditure and its declaration of a more "localist" set of national planning policies, were regarded as key reasons for adopting an approach that fully reflected the dramatically changed economic landscape, while still regarding the draft Regional Spatial Strategy of July 2008 as material evidence.

3.2 It is helpful to look at the economic growth assumptions used in the 2010 paper in the light of those used in the Regional Spatial Strategy (RSS), the last strategic plan covering the North Somerset that had at least reached Examination.   The draft RSS was submitted to the Secretary of State in 2006. It identified a requirement for 26,000 dwellings (1,300 p.a.) for the District for the period 2006-26, including provision for 9,000 dwellings as part of an urban extension totalling 10,500 on the south west fringe of Bristol.[3] This was predicated on a number of assumptions including that of an average rate of region-wide economic growth of between 2.8% and 3.2% GVA[4] per annum. In the 21 "Strategically Significant Cities and Towns" (SSCTs) of the South West, of which North Somerset was one, this rate was projected to reach 3.2% p.a. (equivalent to 3.1% for the whole UK) in line with the RSS strategy of urban concentration and the ambitions of the Regional Economic Strategy 2006-15 that was published by SWRDA at the same time.[5]

3.3 Outside of the SSCTs and their immediate labour market areas, the remaining areas of the region were comprised mainly of smaller market and coastal towns and rural areas accounting for approximately one third of the South West's 5 million residents. The economies of these areas were projected to grow at a still relatively high long term trend rate equivalent to a regional average of 2.8% p.a. The derivation of these regional figures is shown in Table 1.

3.4 The 3.2% level was taken from the South West's GDP growth averaged over the period 1992 – 2004, which included the initial period of rapid change as the economy utilised spare productive capacity as it recovered from the recession of 1990-91. This at the time was regarded as the highest long term rate that was feasibly sustainable in the long term. The lower 2.8% figure was derived from the more recent five year period from 1999 to 2004 which was felt to represent a high long term regional average in historic terms. It should be noted that neither of the two growth rates had been calculated over periods that included a recession in the UK, although on average recessions in the past have typically tended to recur on a 7 to 9 year cycle.[6] These periods of recession inevitably reduce long term average

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[3] SWRA (2006) The draft RSS for the South West 2006-2026 (draft submitted to the Secretary of State for Examination) Table 4.1. and Fig 4.1.

[4] Gross Value Added. Like GDP (Gross Domestic Product) GVA is a measure of total economic output but, unlike GDP, does not include taxation elements or transfer payments such as national social benefits and pensions.

[5] SWRDA (2006) Regional Economic Strategy for South West England 2006-2015 Table 3. and SWRA (2006) op.cit Section 2.3.

[6] See for example Paul Ormerod (2008) Recessions and the Resilience of the Capitalist Economies Volterra Consulting, London and Institute of Advanced Study, University of Durham. The UK was not affected

growth figures, although this is rarely taken into account by forecasters in longer term plans who are more likely to project GVA forward at rates more typical of the growth periods between recessions.[7] Over the fifty year period 1956-2006, just before the onset of the recent recession, the UK's long term trend was just 2.4% p.a., a figure that approximates to the SWRDA's "low growth" scenario in the 2006 strategy.[8]

Table 1 RSS for the South West economic growth assumptions:
        SW historic economic growth 1992-2004

	Real GVA (2002 prices)	Annual GVA growth %
1992	49802	
1993	51084	2.57
1994	53324	4.38
1995	54922	3.00
1996	56866	3.54
1997	59149	4.01
1998	61388	3.79
1999	63116	2.81
2000	65334	3.51
2001	67276	2.97
2002	68520	1.85
2003	70322	2.63
2004	72516	3.12

Real growth averages (compound)	
1999-2004	2.82%
1992-2004	3.18%

Source: SW RDA 2005

3.5 In 2006 and 2008 revised sub-national household projections were produced by the DCLG.[9] These presented higher projected rates of household growth throughout the South West based on trends apparent since the 2001 Census.   As a result, the total building requirement for North Somerset was subsequently raised to 26,760 (1,338 dw pa) in the RSS Examination in Public Panel Report recommendations and retained in the Secretary of State's Proposed Changes to the RSS.[10]   At the same time, the Panel asserted in its report of December 2007 that the overall average economic assumption on which this should be based should be raised to 3.2% for all parts of the region.

3.6 This historically high growth assumption was accepted by the Panel in spite of a number of gathering indications that severe economic difficulties were likely in the near future. In fact the previous summer at the RSS EiP warnings were voiced by some parties that there were already visible signs of stress in the American mortgage banking sector that could well have severe consequences for the UK as well as the US economy. This message was

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[7] The reason for this example of so-called "optimism bias" is not clear. One possible explanation is the understandable fear amongst forecasters of accusations of "undue" pessimism or of prejudicing growth potential by "talking down" the economy.

[8] SWRDA (2006) opcit Table 3.

[9] Respectively 2003 based and Revised 2004 based sub-national household projections for England.

[10] RRS for the SW EiP Panel Report Dec 2007, Appendix A(ii): Draft Revised RSS for the South West, incorporating the Secretary of State's Proposed Changes July 2008, Table 4.1.

underlined in September 2007 by the Northern Rock bank collapse and the well publicised fact at the time that much of the banking system were also heavily exposed to parts of the financial derivatives market that were "contaminated" by high risk mortgage lending.

3.7 During 2008 revised 2004 based DCLG projections were published that suggested somewhat higher rates of trend growth in household for North Somerset than the final recommendation in the Proposed Changes RSS. Since that time a further set of DCLG household projections had been produced (2008 based, published in November 2010) and an interim 2011 based set (2011-21) published in April 2013. The 2008 based set showed rates of growth increased to 36,000 (1,800 dw p.a.), though again this was based completely on pre recession data.

Fig 1   UK GDP at 2008 prices

£ millions, chained volume measures, seasonally adjusted
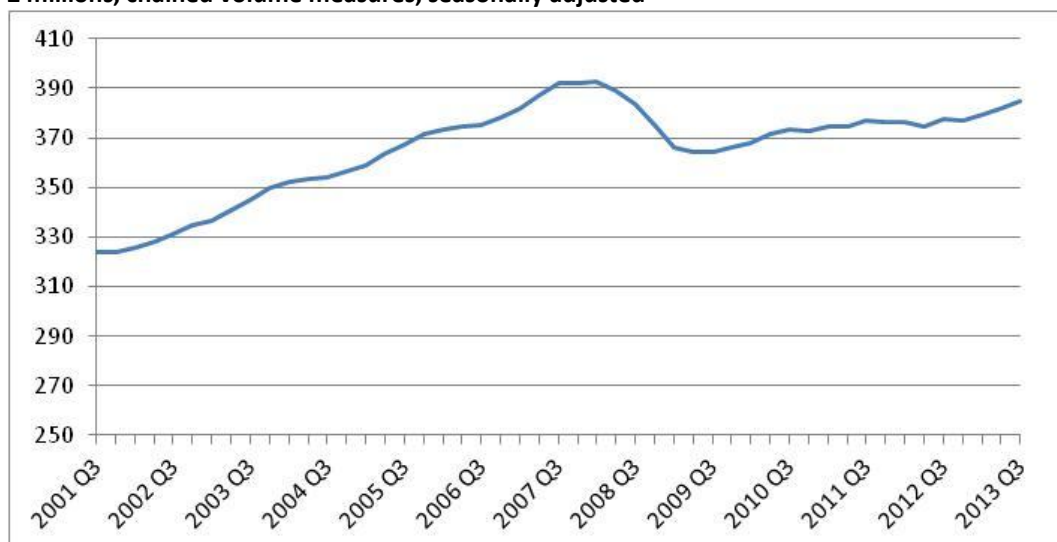
Source: Office for National Statistics

3.8   During 2013 there has been a recent and welcome return to growth but this is still a fragile recovery. Total economic output remains below the level reached in the first quarter of 2008[11] and the UK's main European markets are also still registering low rates of growth. Fig 2 shows national economic performance since 2008 compared with previous recessions.
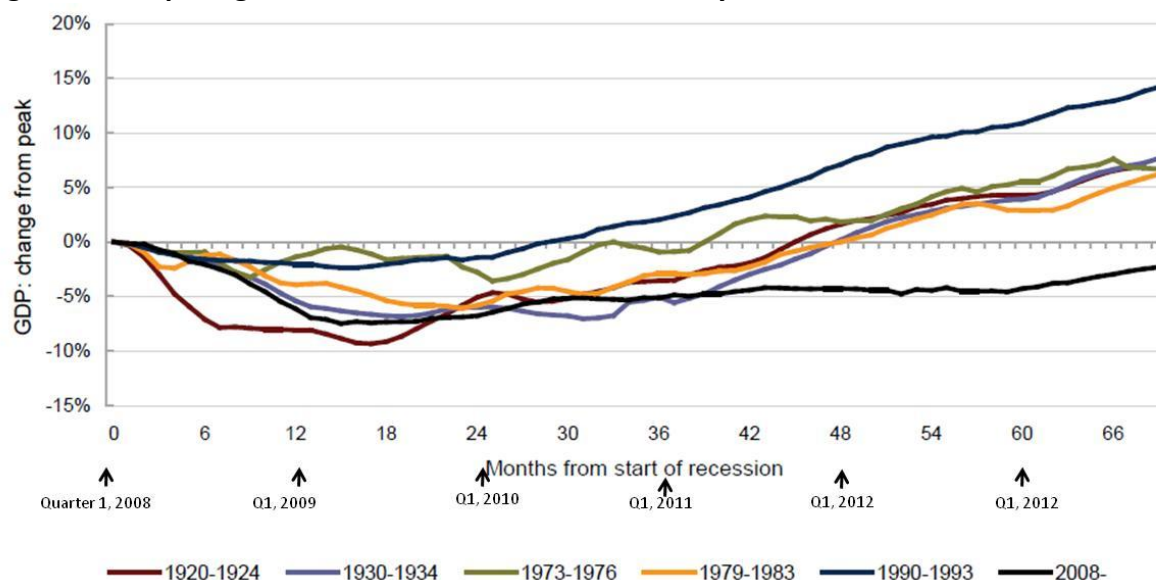
3.9 From the early 2008 peak to the trough in 2009, the economy shrank by 7.2%, followed by growth of 1.7% in 2010, 1.1% in 2011, 0.3% in 2012 and a current forecast of 1.4% in 2013.[12] Since 2010, official economic forecasts have been persistently over optimistic about when the economy would return to substantial growth. Only three and a half years ago in

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[11]   Estimates of GDP by the National Institute for Economic and Social Research (NIESR) suggest that output grew by 0.7% in the three months ending in October after growth of 0.8% in the three months ending in September 2013. This indicates that while GDP was 5.6% above the trough of the 2008-9 recession (April 2009), it remained 2.3%below its pre-recession peak (January 2008). Values are calculated from three month moving averages of GDP. NIESR forecasts (published 5th November 2013) GDP growth of 1.4 per cent per annum in 2013 and 2.0 per cent in 2014. http://niesr.ac.uk/sites/default/files/publications/gdp1113.pdf

[12] HM Treasury Autumn Statement 2013 (Nov 2013).

June 2010 the Office for Budget Responsibility (OBR) forecast[13] that projected 2011 growth of 2.3% would be followed by 2.8% in 2012 and 2.9% in 2013 (Fig 3).

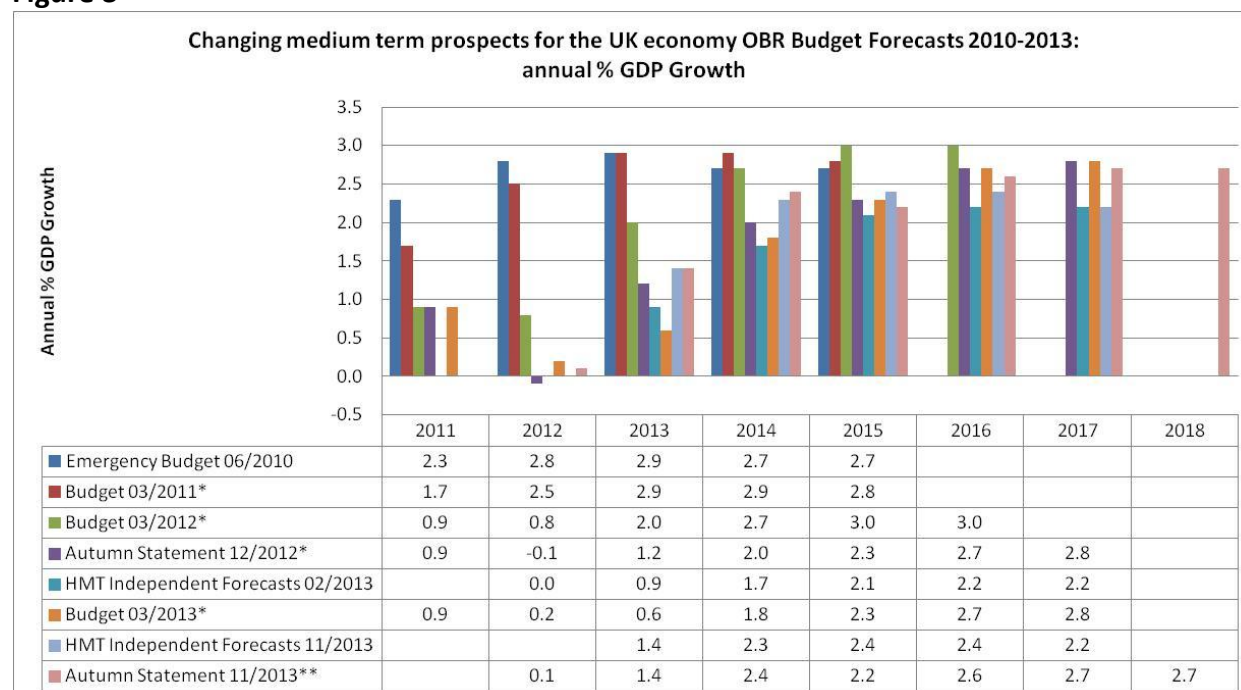**Figure 2 Comparing the 2008/09 recession and recovery with recessions since 1920**

Q1= end of Quarter 1 (January – March)   Source: NIESR 06/11/2013

Figure 3

	2011	2012	2013	2014	2015	2016	2017	2018
Emergency Budget 06/2010	2.3	2.8	2.9	2.7	2.7			
Budget 03/2011*	1.7	2.5	2.9	2.9	2.8			
Budget 03/2012*	0.9	0.8	2.0	2.7	3.0	3.0		
Autumn Statement 12/2012*	0.9	-0.1	1.2	2.0	2.3	2.7	2.8	
HMT Independent Forecasts 02/2013		0.0	0.9	1.7	2.1	2.2	2.2	
Budget 03/2013*	0.9	0.2	0.6	1.8	2.3	2.7	2.8	
HMT Independent Forecasts 11/2013			1.4	2.3	2.4	2.4	2.2	
Autumn Statement 11/2013**		0.1	1.4	2.4	2.2	2.6	2.7	2.7

Source: HM Treasury

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[13] OBR Budget June 2010.

3.10 What were the implications of this on housing demand and delivery? Following the onset of the recession, housing starts and completions nationally fell rapidly until, by 2010/11 the latter were 37% below their 2007/08 level. A slight improvement in completions during 2010/11 was then followed by a substantial fall-back to 2010/11 levels in 2012/13 (Table 2 and Figs 4 and 5). House prices started to increase rapidly during 2012 and 2013 in response to Government and Bank of England (BoE) stimuli such as the Funding for Lending programme (now being withdrawn from mortgage lending to focus on loans to businesses) and the Help to Buy equity loan guarantee scheme. Also BoE lending rates have been maintained at the historically low level of 0.5% since 2009. By mid 2013 there were signs in the quarterly construction statistics that the rate of house building in general was slowly starting to respond.
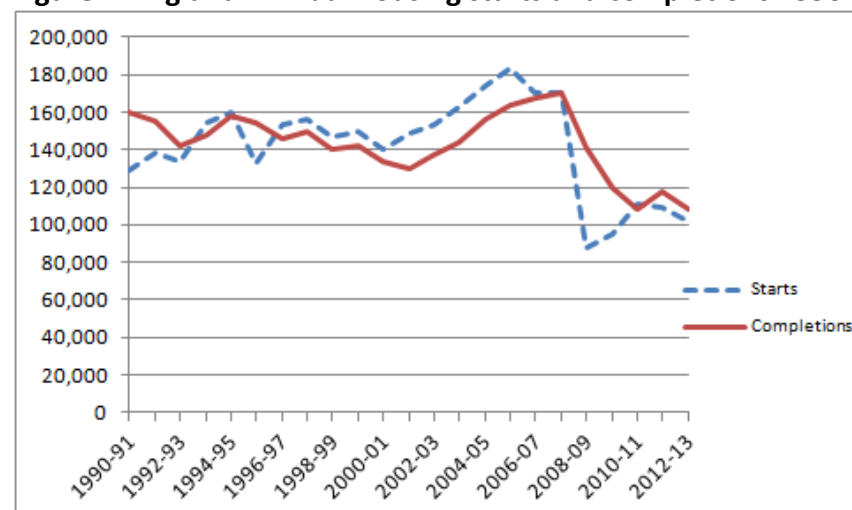
Table 2 England: Housing starts and completions financial years 2007-13

|	Starts	Completions
2007-08	170,440	170,610
2008-09	88,010	140,990
2009-10	95,560	119,910
2010-11	111,150	107,870
2011-12	109,570	117,600
2012-13	101,670	107,820

Source: DCLG Live Housing Tables 208 & 209
Note: 2008/09-2012/13 are provisional figures.

Figure 4 England: Annual housing starts and completions 1990-2013

Source: DCLG Live Housing Tables 208 & 209

Figure 5 England : Seasonally adjusted trends in quarterly housing starts and completions
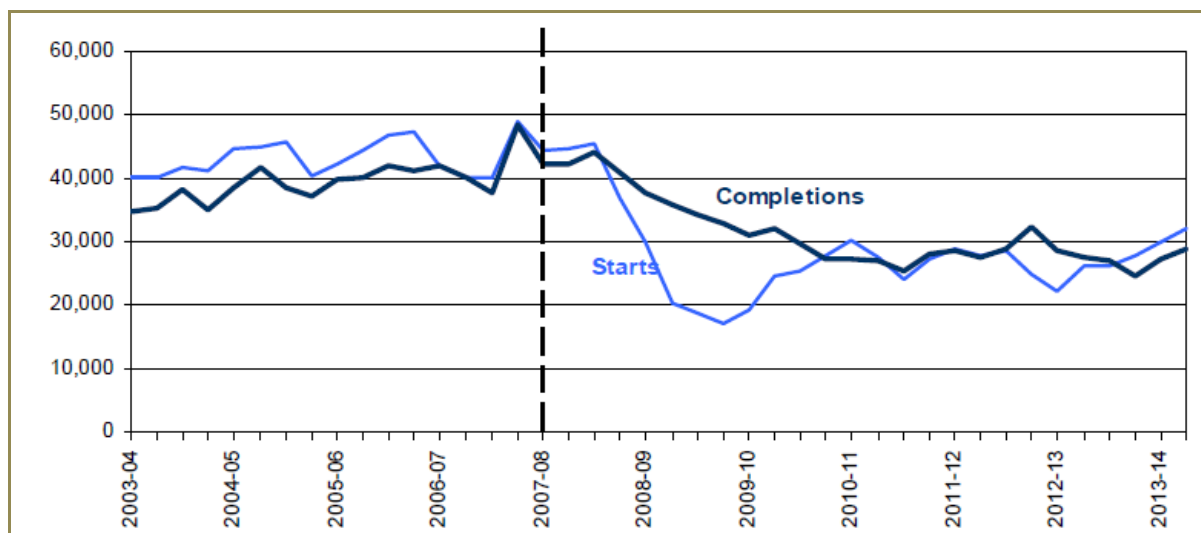
Source: DCLG House Building: September Quarter 2013, England 21/11/13

3.11 Against this now improving picture, however, household real incomes have declined sharply since 2008 personal indebtedness is again rising to pre recession levels.[14] Lending criteria applied by mortgage providers have been significantly tightened since the 2007-09 credit crisis and longer term effects of recent relaxation, via the Home Buy scheme and continued low interest rates, are likely to be countered to some extent by the effects of the withdrawal for housing loan purposes of Funding for Lending. In addition, Government grant levels for affordable housing have been reduced by more than 65% since 2010 and remain at an historic low.

3.12 With a typical level of around 400,000 dwellings with permission currently in the planning pipeline in England,[15] immediate supply is not in general terms constrained by the planning system but by the factors limiting effective demand. This is not to say of course that there are not large numbers of households across the UK desiring and/or requiring additional housing to be built, just that the financial means of providing them with access are absent. At the time of writing there remains little sign that the Government will deviate significantly from its policy of fiscal austerity.[16]   The prospects for a sustained significant upward turn in house building in the short to medium are therefore tenuous to say the least.

3.13 This situation is reflected at the local level with completions since 2010 struggling to reach even one half of figures immediately preceding the recession. Fig 6 shows quarterly housing starts and completions within North Somerset since 2005. During the period from

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[14] Paul Johnson, Institute for Fiscal Studies "The Chancellor's Autumn Statement: Opening remarks" 6/12/13 http://www.ifs.org.uk/budgets/as2013/openingremarks_AS13.pdf;   R Peston "Britain's curious consumer-led recovery" 06/12/13 http://www.bbc.co.uk/news/business-25259381;

[15] According to findings from research commissioned by the LGA, there were 6,500 schemes with planning permissions yet to be completed on 31 March 2013, consisting of 381,390 unbuilt homes. Building work had yet to start on 61 per cent of the uncompleted schemes. Planning Resource 22/08/13 http://www.planningresource.co.uk/article/1208566/figures-show-little-progress-reducing-unimplemented-permissions-backlog

[16] Even after the prospective 2015 General Election, the Chancellor has stated that the current Government, if returned to power, will continue to make very severe cuts to public spending ("Osborne targets welfare as he warns of £25bn more cuts" http://www.bbc.co.uk/news/uk-politics-25617844).

the first quarter of 2005 to the first quarter 2008, completions per quarter averaged an historically high 256 (1,024 p.a.).

3.14 Since 2010 Q1 completions have averaged only 110 per quarter (440 p.a.)[17] in spite of an adequate land supply and vastly below the Core Strategy allocation of 700 dw p.a. This situation is a reflection of the post recession economic reality that, though there are signs of some recovery, there is far from sufficient realisable demand in the market to support the 335 dw per quarter (1,340 p.a.) originally proposed in the RSS. This should not be viewed as under delivery by the Council but as severe failure of the market which clearly is not currently capable of translating potential demand from households into financially attainable accommodation.

Figure 6 North Somerset: Quarterly housing starts and completions 2005-2013
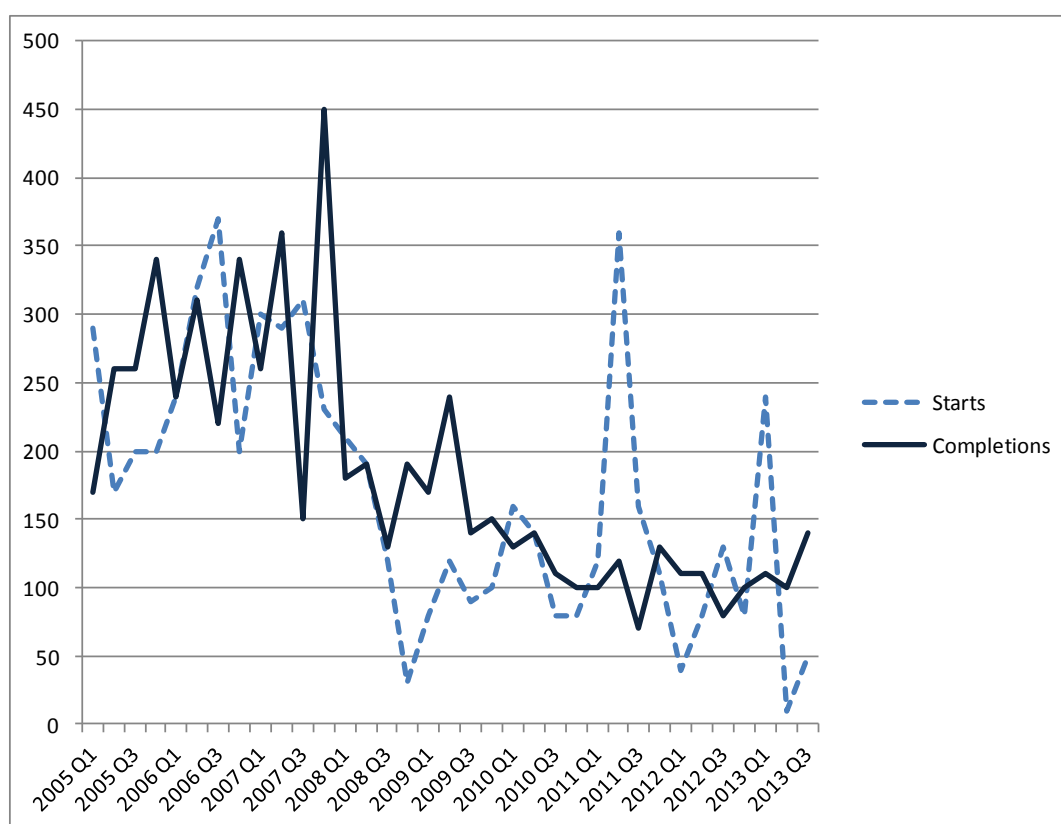
Source: DCLG Live Housing Tables 253a (not seasonally adjusted)

3.15 The cure for this situation lies squarely with the fiscal policies of central Government and not through continuing to over vastly allocate levels of housing in the local planning system relative to what can be delivered by house builders in the current market context. Over allocation in many ways can be as damaging as under allocation as the Plan surrenders much control in the short to medium term over priorities as to where development will come forward, and developers understandably maximise returns by "cherry picking" the more profitable sites.

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[17] Taken up to the third quarter (Q3) of 2013, the latest DCLG figure available at the time of writing (Feb 2014).

3.16 It was pointed out in the 2010 housing requirements paper that the official projections are just a reflection of trends that are current at the base year for the projection.[18] The forecasts and assumptions made about both housing and economic growth based on trends from before 2008 could no longer be regarded as realistic. By the time that the 2010 paper was written and subsequent updates and modifications were made in 2011, it was already apparent that the economy had experienced a prolonged step change in its growth patterns since the recession and that this would have significant implications for the future. Even allowing for the eventual take up of under-used productive economic capacity when substantive growth eventually returned, there were (and still are) real concerns about the longer term damage of the recession and subsequent period of very weak recovery.[19]

3.17 It is now abundantly clear that the need to take adequate account of the seriousness of the economic situation, and therefore its likely impact on future housing prospects and requirements in North Somerset, has been subsequently fully justified.   From late 2010 until late 2012 very little further growth was recorded across the UK economy. The path of recovery since 2009 has been far slower than all but the most pessimistic forecasters at that time anticipated.

3.18 In conclusion, it is clear that the 2010 housing requirements paper was fully justified in taking a highly critical view of then extant official population and housing projections which were entirely reliant on pre-recession data series from the long period of uninterrupted growth from 1992 until early 2008. The issue was, however, how could this be achieved when the consequences of severe recession were only just becoming known and the prospects of prolonged weak recovery was still being denied in many quarters, not least HM Treasury (Fig 3). The following section looks at the response to this difficult challenge regarding the methodology used to identify North Somerset's housing requirement.

4. The 2010 draft Core Strategy housing requirement report methodology

4.1   The main report on the North Somerset housing requirement was completed in October 2010[20] and a set of updates and amendments in October 2011.[21] The report's main recommendations for North Somerset's housing requirements were based on a detailed analysis of up-to-date economic growth forecasts and projections for the UK in general and for variant local projections of future local economic performance.

4.2 The key issues surrounding the production of the projections were:

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[18] Keith Woodhead (2010) North Somerset Council: Determining a locally derived District Core Strategy housing requirement to 2026: Stage 2 Report . para 3.3. See ONS (2009) 2008-based Subnational Population Projections for England : methodology guide.

[19] For example see NIESR "Prospects for the UK economy" 4 May 2012 http://www.niesr.ac.uk/pdf/030512_163008.pdf ; also John Irons (2009) "Economic scarring: The long-term impacts of the recession", Economic Policy Institute, 30/09/09 http://www.epi.org/publication/bp243/

[20] Keith Woodhead (2010) North Somerset Council: Determining a locally derived District Core Strategy housing requirement to 2026: Stage 2 Report .

[21] Ibid. Corrigenda (2011).

- A need to reflect the key policy objectives of the draft Core Strategy, including the need to address the persistent historical imbalance towards "dormitory" housing growth;

- A need to reflect the impact of changing household headship rates and the impact of demographic ageing on future household formation;

- A concern that virtually all major data series used to project forward migration, household and economic change then pre-dated the onset of what was becoming apparent as the severest recession since at least the 1930s and probably before;

- A need to take account of the erstwhile draft Regional Spatial Strategy which, although the incoming Coalition Government had indicated its intention to revoke, was still regarded as an important part of the evidence base.

4.3 A further consideration was that the requirement identified in the RSS for accommodating some of Bristol City's housing requirements within North Somerset, as part of a south west Bristol urban extension, had been pre-empted by the fact that the Bristol Core Strategy had recently been to Examination and was subsequently found sound. This plan accommodated Bristol's entire identified housing requirement to 2026 within the boundaries of the City. This also meant that North Somerset's declared priority to avoid intrusion into the Green Belt could be upheld.

4.4 Under these conditions, the problems involved in identifying North Somerset's housing requirements were clearly highly complex. The conventional methods of using established migration trend driven household projections and/or labour force driven household growth linked to economic and employment growth prospects were not adequate in this situation. It was appreciated that uncritical use of projections that pre-dated the economic upheaval that had taken place only two years or so previously would result in extremely high, unsustainable and undeliverable housing figures in the Plan. This was apparent from the RSS housing figures that, as we have seen above (para 3.2), were based on very optimistic assumptions about national, regional and therefore sub-regional growth.

4.5 The solution used was to take key elements of the RSS evidence base and then project the housing requirement to reflect the greatly reduced economic growth expectations post recession derived from what were then newly published detailed economic forecasts by Oxford Economics. The approach used attempted to conserve as far as possible the key relationships between economic growth, employment growth, population change and household growth that were shown in the RSS evidence base. The reasons for this were:

- The RSS evidence had at that time only quite recently been subjected to Examination and was clearly an essential material consideration as far as the Core Strategy was concerned.

- The discontinuities in the economic and demographic data series were so dramatic, while so little at the time was known about precise severity of the recession and its continuing aftermath, it was clear that applying conventional projection risked producing unstable and unrealistic results. This was particularly critical as the

incidence of, and relationships between, key variables such as migration numbers and composition, economic activity rates, household representative rates, access to housing finance economic productivity, unemployment and the balance between full and part-time employment were all likely to have been significantly affected by the economic crisis.

4.6 It was essential that the resulting housing requirement was not just employment driven but also allowed for the appreciable element of migration that was driven by social or lifestyle considerations, such as retirement migration. The important point here was that these types of migration should be broadly proportionate to the changing rates of economic growth and employment change. This is a reasonable assumption as the majority of moves are affected to some degree by the national economic situation. Thus most retirement migrants, for example, are dependent on being able to sell a house elsewhere in order to move to their choice of destination.

4.7 The broad method used is described in detail in the 2010 housing requirements report.[22] For this there were two main sets of data:

- The 2003 based Chelmer population and household model datasets (updated 2006 to incorporate 2003 based household representative rates), the ONS Revised 2004 based sub national population projections and the Cambridge Econometrics (CamEcon Jan 2008 update) economic projections used in the RSS, equivalent to pre 2008 trend based 2.8% p.a. average growth in GVA across the South West.

- Oxford Economics' (OE) economic growth scenarios for NUTS 2 areas (counties and unitary authorities) in the South West and the 2008 based Cambridge Econometrics (Jan 2008) trend scenario projections at NUTS 3 (District and unitary authorities) rebased for the estimated emerging effects of the recession 2008-2010 and then re-estimated to fit the (OE) scenarios.   The OE scenarios are described below.

4.8 The approach aimed to maintain the broad balance between economically driven and non economically driven inward migration to the area which prevailed in the recent past. This was to ensure that sufficient allowance was made for the needs of the local economy regarding the housing of people working in North Somerset, while making adequate provision for non locally economic migrants, many of whom will always tend to compete more effectively in the local housing market than many local employees. This was done by calculating an overall ratio between the key variables of jobs and houses at the end of the plan period (i.e. the projected data for 2026) but avoiding any distortions in the relationship that could result from attempting to crudely factor the possible impacts of the recession into the calculation.[23] The basis for this was the historic <u>trend</u> economic projection (CamEcon 2.8% SW scenario - in this situation the "demand side") and <u>trend</u> demographic (ONS and Chelmer) projections (the "supply side") for the wider labour market area (here approximated to by the West of England Partnership area). The relationships between the

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[22] K Woodhead (2010) op cit.Sections 4- 5.
[23] This avoids basing the future relationship between jobs and houses on a situation where a drop in demand for housing from economically active migrants would be simply matched by an equivalent increase in take up of housing by the non economically active. The aim is to avoid limiting the needs of the economy on the one hand without stoking up purely housing-led inward migration on the other.

projection and the method by which the elements were integrated are set out in the 2010 Housing requirements report.[24]

4.9 The relationship between the pre-recession trend economic projection and the population and household projection at District level was assumed to be representative of the long term "policy off" relationship between the two elements, as established by the RSS evidence base. This resulted in a standard "homes/jobs ratio" (H/J) of 1.39. That is, for every job created there would on average be a requirement for 1.39 additional homes.

4.10 By using the ONS and Chelmer projections and the CamEcon forecast, the ratio automatically included implicit allowance for ageing population structure, trends in migration numbers and age structure, numbers of economically active and non active migrants, changing household representative and economic activity rates, increasing pension age and so on. All of these important relationships were built into the projections in line with the situation just before the recession. This is important, as it ensures that the results were fully compatible with the assumptions in the RSS which had already been through a recent Examination.   Moreover, because the starting point was pre-recession in nature, this ensured that the results were weighted towards more, rather than less, housing (i.e. as opposed to what would have been the case if purely post recession derived variables for e.g. household headship and economic activity had been available and applied).

4.11 It is important to note that if the homes/ jobs relationship had been calculated purely on the basis of houses required for the employed population then the H/J ratio would have only been about 0.8. This is because of the number of additional households, local and migrant, with more than one employed member. By using the H/J figure of 1.39 there is therefore a generous allocation of just under 0.75 dwellings for entirely non local job related households and new households forming within the existing local population, the so-called "latent" demand for housing.[25]   This quite generous allocation shows that this point was misunderstood by the Feb 2012 High Court ruling (above para 2.1).

4.12 The relationship between additional homes and additional jobs was calculated for the whole of the West of England Partnership (WEP) area, comprising Bristol, BaNES and South Gloucestershire as well as North Somerset. The question was asked at the Plan Examination why the H/J ratio just for North Somerset was not applied. This would have resulted in a ratio of over 1.8 homes per job and would have resulted in a requirement for over 18,500 additional homes compared with the 14,000 recommended for the Plan. This was, unsurprisingly, quite a popular view amongst some of the house builders. The reason for using the WEP ratio lay in the Plan's high priority policy concern that North Somerset needed to deal with its very large "dormitory" population of commuters particularly to Bristol and South Gloucestershire. It was therefore highly appropriate that the WEP figure was used owing to the domination of the wider WEP labour market across North Somerset. To have used the local H/J ratio would have resulted in the undesirable effect of further

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[24] Woodhead (2010) op cit. Appendix 2, Corrigenda (2011).
[25] The Stage 2 study demonstrated a requirement for 2,500 net additional dwellings plus an allowance for a small number of vacancies (about 75) vacancies by 2026 and this is allowed for within the H/J Ratio.

reinforcing additional commuter homes not dependent on local job growth, thereby reinforcing the dormitory problem and under mining one of the Plan's key objectives.

4.13 The final stage in producing the housing requirement was to apply the H/J ratio of 1.39 to the alternative economic scenarios. The three main economic projection scenarios used for the West of England Partnership area and their key assumptions at UK level are set out in Tables 3a and 3b. An additional projection scenario to those used in the Oxford Economics exercise, the Pre Recession Trend scenario, was also produced to illustrate both the key assumptions underlying the dRSS figures. Here the UK shows steady growth at 2.75% pa for every year after 2006, the equivalent of approximately 2.9% pa for the SW and 3.1% for the combined four West of England unitary authorities. A comparison with out-turn data in Fig 3 shows that the Central Projection – the "best estimate" forecast – if anything was much more optimistic than what so far has actually happened.

Table 3a: Economic Growth Scenarios for the UK – key assumptions
        (GVA growth % per annum)

Projection Scenario	1997-2006	2007 & 2009	2010	2011-20	2021-26	2007-26 annual average
Central	2.7	-2.3	1.0	2.3	2.1	1.5
High Growth	2.7	-2.3	1.0	2.7	2.7	1.9
Low Growth	2.7	-2.3	1.0	1.5	1.3	0.9
Pre recession trend	2.7	2.7	2.7	2.7	2.7	2.7

Table 3b: Economic Growth Scenarios for the South West Region & West of England Partnership area – key assumptions   **(GVA growth % per annum)**

Projection Scenario	1997-2006		2007-09		2010		2011-20		2021-26		Annual average 2006-26	
	SW	WoE	SW	WoE	SW	WoE	SW	WoE	SW	WoE	SW	WoE
Central	2.9	3.4	-4.5	-2.1	1.1	1.4	2.4	2.7	2.2	2.5	1.6	1.8
High Growth	2.9	3.4	-4.5	-2.1	1.1	1.4	2.9	3.1	2.9	3.1	1.9	2.1
Low Growth	2.9	3.4	-4.5	-2.1	1.1	1.4	1.6	1.9	1.4	1.7	1.0	1.2
Pre recession trend	2.9	3.4	2.9	3.1	2.9	3.1	2.9	3.1	2.9	3.1	2.9	3.1

4.14 The three variant UK economic projections were drawn directly from what were at the time very recent forecasts produced by Oxford Economics published in June 2010.[26] The scenarios were:

- A central case scenario centred around the Oxford Economics baseline forecast (with UK output growth averaging around 2.3% over 2011-2020, declining slightly to 2.1% pa over the following five years 2021-26).
- An upper band scenario consistent with a UK trend growth estimate of 2.7% a year averaged over the post 2010 period.[27]
- A lower band scenario which will consist of a lower level of output growth, perhaps around 1% in the first 5 years and rising to 1.5% thereafter.
- Further scenarios were explored illustrating the consequences if North Somerset performed 25% above or below its historic relationship with national growth.

4.15 The Central Projection – the "best estimate" UK forecast – was used in the Stage 2 Report as a basis for producing revised projections for North Somerset as well as for the South West Region, the West of England Partnership area.   These were based on known differentials between national and local general economic performance and employment mix. Employment in North Somerset was projected to increase by 10,100 jobs (Central projection) with an outer range of between 5,900 (low UK growth) and 15,200 jobs (high UK growth) over the 2006-26 period.

Figure 7. (Stage 2 report Table 10) *Economic Scenarios: Ranges of total housing requirements 2006-26 allowing for varying local job growth performance relative to UK total*

North Somerset	Modified Oxford Employment Projection 2006-26 (95% Confidence interval +/- 2,490 jobs)	Average Housing requirement	Upper range housing requirement[28] (North Somerset performs above historic average relative to UK)	Lower range housing requirement[29] (North Somerset performs below historic average relative to UK)
Central UK Projection	**10,100**	**14,000**	17,400	10,500
Higher UK Growth	15,200	21,100	24,500	17,600
Lower UK Growth	5,900	8,200	11,600	4,700

Key: Outcome probabilities -

'More likely' ▮   'Less likely' ▮   'Least likely' ▮

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[26] Oxford Economics "South West Growth Scenarios: Final Report" June 2010. See Woodhead Stage 2 Report (op.cit.) para 6.4 et seq.

[27] Oxford Economics 20th April 2010 http://www.oxfordeconomics.com/free/pdfs/ukmfeat1_0410.pdf

[28] Local economy outperforms UK average employment growth.

[29] Local economy underperforms compared with UK average employment growth.

4.16 The headline results of this were set out in Table 10 of the Stage 2 report and are reproduced in Fig. 7 below. Using the "best estimate" Central projection, this resulted in a total of 10,100 jobs and an average housing requirement of 14,000 for the period 2006-26. Figure 7 also shows the complete range of scenario outcomes classified as "more", "less" or "least" likely outcomes depending on the mix of probabilities used. At the extremes, the range is as wide as 4,700 (lower UK growth assumption and N Somerset performs below historic average) to 24,500 (higher UK growth scenario and N Somerset performs above historic average). A somewhat less unlikely range is between 10,500 and 17,400 dwellings.

5. Issues raised at Examination

5.1 The methodology used in the N Somerset 2010 housing requirements report had some similarities to aspects of the process used in producing the draft RSS in 2006. The overall housing total for the South West was reached through a "triangulation" of employment/ workforce size requirements based on ensuring that forecast job creation to 2026 was met by sufficient housing to accommodate incoming workers and to compensate for future workforce changes through population ageing were , assessment of the scale of unmet housing needs within the region and the pressures from long migration However, the first stage of distribution of this growth between the draft RSS' three main policy sub regions or "strategy emphasis" areas[30] used a homes/ jobs ratio to provide the "first cut" distribution of the regional total requirement, before an initial District level distribution was generated based on a combination of labour force area employment growth projections and past migration driven population growth trends. This provided a starting point for testing by the County and Unitary authorities (the so-called Section 4(4) authorities) and consultation with their partner District Councils.[31]

5.2 The sub division of the South West into three Strategic Emphasis areas did not however find favour with the RSS EiP Panel, which advocated using the Housing Market Areas only as the main geographic sub divisions for policy purposes. This was flagged up by some making representations at the North Somerset Core Strategy Examination claiming that this rejection raised questions about the application of the H/J ratio method in the Core Strategy. This view is incorrect however in that the application, while it had some similarities to a part of the RSS methodology and benefitted from the experience gained there, was in reality an entirely fresh approach.

5.3 The North Somerset methodology was developed specifically to counter the very real problems and dangers faced in 2010 to project housing requirements so soon after the huge economic shocks of 2007-2009 and their continuing aftermath. As economic recovery has progressed in the years since, economic and demographic data trends have stabilised and the H/J method, while valid in 2010/11, would no longer be required as more conventional methods can again be applied.

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[30]See draft RSS for the SW (2006) Section 3.1 and Map 3.1. The three emphases were: North – "realise economic potential", South East - "manage growth" more actively balancing economic potential against strong environmental designations and constraints, and Peninsula – "stimulate the economy".
[31] See SW Regional Assembly *RSS Discussion Paper 6, July 2005 "*Strategic assumptions about the future and projections of population and economic change".

5.4 Hardisty Jones (H-Jones) acting for the University of Bristol during the Examination[32] made the criticism that the Core Strategy's use of the New Homes/New Jobs ratio (H/J ratio) is wrong. This was because the relationship between the two variables in reality is not "fixed and linear" and also that the it fails to "properly capture latent demand for housing" as shown by an extreme case where it is claimed that no jobs growth would equal no additional housing requirement. H-Jones also criticised the fact that the 2006-based and 2008-based ONS population "forecasts" (H-Jones' terminology) are discounted in favour of the 2004 revised set.

5.5 In answer to this, the methodology uses an H/J ratio calculated from projected pre-recession relationships <u>for 2026</u> (and not 2006 or any other intervening point) and is clearly shown in the sequence of calculations in Appendix 2 of the Stage 2 report. This means that the impact of declining household size, changing household representative rates, ageing population structure, improving industrial productivity etc are all incorporated in the calculation via the projected assumptions within the Chelmer population projection model runs and the pre-recession trend CamEcon economic projections. The use of 2026 as the projection year for the H/J ratio means that all of these anticipated changes are automatically factored into the calculation. "Latent demand" for housing was fully addressed within the internal structure of the methodology as pointed out earlier in this paper (above para 4.11).

5.6. H-Jones also pointed out that, according to their methodology, even if no jobs were created in the Plan period, North Somerset would still require 14,000 houses to address needs arising from the local population. H-Jones claimed the H/J Ratio could not produce a realistic result in these circumstances and therefore was not a valid method.

5.7 The Council's team in rebutting this point stated that the use of extreme cases goes beyond the scope of the Stage 2 study. The model was designed to be used within a <u>narrower range of much more likely growth outcomes</u>. Nevertheless, the model itself did contain a built in growth "floor" which would operate in situations where there is no job growth. This was based on a calculation of what the underlying demand for additional housing would be from the "local population" of the District. This was approximated to in this instance by taking the 2006 population base and projecting it forward to 2026 under conditions of zero net migration, i.e. where the number of migrants out of the area is matched numerically by inward migrants. Differentials in terms of the age structures of the inward and outward stream, based on observed Census and NHSCR[33] data were allowed still to remain in the projection, however. This projection in North Somerset's case showed an underlying demand of 2,500 additional houses required by the "local" population, to which must then be added a further allowance to account for vacant dwellings (say 3%) and losses from the housing stock due to changes of use (most losses due to demolitions will usually be accounted for by standard monitoring processes. This would provide a minimum growth figure of approximately 2,600 dwellings below which the model would not be allowed to

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[32] "Rebuttal to Council Paper: HD01a", Hardisty Jones Associates for University of Bristol (Dec 2011), section 2 ("Assessment of latent demand").

[33] National Health Service Central Register of patients.

fall. Data from the zero net migration projections were set out in Table 2 of Examination document HD01a.[34]

6. Conclusion

6.1 The H/J Ratio method for reaching a housing requirement for North Somerset was a specific response to exceptional circumstances caused by the major disruption that was caused by the then recent and on-going recession of 2008-09 and its aftermath. The Stage 2 paper demonstrated the significance of the resulting discontinuity in the key data series and the inevitable fact that, at that time, the application of more traditional methods would not be appropriate as there would have then been an over dependence on pre recession trends. The H/J method offered a way to establish a stable and realistic projection of the housing requirement to 2026 that was proportionate to the latest forecast of the post recession performance of the national and local economies. At the same time, a substantial degree of continuity with the pre recession evidence base used in the RSS could be shown. This was an important consideration given the relative recency of the EiP and the subsequent publication in 2008 of the Proposed Changes document.

6.2 The validity of the assumptions used has been demonstrated by the actual pattern of modest growth and recovery since 2010. The clear constraint was, and still is, the limited capacity of the market to deliver housing to meet needs due to both demand and supply side constraints, the latter having been particularly limited by very large reductions to affordable housing subsidies at a time when real incomes have fallen[35] and high job insecurity remains.

6.3 The approach to the housing requirement in 2010/11 was therefore very much a response to the very real challenges of the time. Since then, the post recession trajectory of the economy and its impact on demographic change has become more established. Datasets have now settled down after the 2008-09 shock to a large degree although the full implications of a likely future of more constrained economic growth are still being realised. In particular, detailed data from the 2011 Census has become available and there is now ample scope and justification for returning to more "conventional" methods of projection.

6.4 The appointment of Edge Analytics Ltd to undertake a new round of projections to re-evaluate North Somerset's housing requirement reflects this change in circumstances. Using the PopGroup system of demographic models Edge have applied a robust approach to improving the understanding of the new evidence and of the more recent projections. Their cautious treatment of the Interim 2011 projections reflects the known characteristics, strengths and weaknesses of this source. In particular Edge addresses the issues that arise from the hybrid nature of the Interim 2011 projections which use a mix of data from both the 2011 Census and also older data owing to the unavailability of the detailed Census

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[34] N Somerset Council Core Strategy Examination: Response to "Rebuttal to Council Paper: HD01a", Hardisty Jones Associates for University of Bristol (Dec 2011)

[35] Bovill, D (2014) Patterns of Pay: Estimates from the Annual Survey of Hours and Earnings, UK, 1997 to 2013 ONS Bulletin 27th February 2014. http://www.ons.gov.uk/ons/rel/ashe/patterns-of-pay/1997---2013-ashe-results/patterns-of-pay-2013.html

migration flows information.[36]   Edge's robust, scenario based approach to understanding the new evidence and more recent projections meets the requirements not only of the NPPF but also the latest practice guidance commissioned by the RTPI.[37]

6.5 Bearing in mind the updated evidence from Edge, the recommended level of 17,130 dwellings is consistent with the principle of ensuring a better balance between jobs and homes over the plan period and securing improved self-containment. Building more houses will in my view dilute the overall approach. Nevertheless, it is important to recognise the potential for improving commuting ratios over time as the employment-led strategy begins to bite and this should remain a key requirement in monitoring the Plan. "Latent demand" is accounted for in the original work in the 2010 report,[38] but the use of a more "conventional" approach means that this is no longer an argument.

Keith Woodhead, BSc, PhD, Dip TP, MRTPI   28th February 2014

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[36] The detailed migration and travel to work flow data is now not expected until the second quarter of 2014.

[37] McDonald, N and Williams, P (2014) Planning for housing in England: Understanding recent changes in household formation rates and their implications for planning for housing in England, RTPI Research Report No.1 Jan 2014.

[38] See para 2.2 above.