
NORTH WEST LEICESTERSHIRE
LOCAL PLAN
EXAMINATION IN PUBLIC

FURTHER COMMENTS OF BARTON WILLMORE
(ON BEHALF OF GLADMAN DEVELOPMENTS)

HOUSING AND ECONOMIC DEVELOPMENT NEEDS ASSESSMENT
JANUARY 2017

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HOUSING AND ECONOMIC DEVELOPMENT NEEDS ASSESSMENT**

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Further Comments on Housing and Economic Development Needs Assessment (HEDNA)

- 1.1 The contents of HEDNA were noted in our initial comments (February 2017). Here we provide a more detailed response concerning the economic activity rate and commuting assumptions used by HEDNA.

Introduction

- 1.2 Whilst not precisely the same as our own analysis, we agree that the following projections from HEDNA represent a quantum of growth that is positive and realistic in the context of the Core Planning Principles of the Framework (para 17, 3rd bullet).
- 1.3 A planned growth scenario for 54,300 jobs across the HMA, of which 13,000 will be created in North West Leicestershire, over the period 2015 to 2031 (see EX65, table 24, page 65).
- 1.4 Full objectively assessed need for 96,520 dwellings, 2011 to 2031 (4,829 per annum), across the eight LLHMA districts (see table 1, EX69).
- 1.5 We are also content with the approach taken by HEDNA to the first four years of the plan period (2011 to 2015); that the ONS mid-year population estimates for 2012, 2013, 2014 and 2015 should determine population change by age and gender, in each district, over that period.
- 1.6 However, we do not find the HEDNA assessment of economic led housing need (future jobs OAN) to be sound, because the future jobs OAN is, in our opinion, unrealistically low. It is also unnecessarily low, at 3,963 dwellings per annum (EX65, page 79, table 30), in the context of the HEDNA demographic OAN for 4,368 dwellings per annum (EX65 page 26, table 12 and paragraph 2.49 and 2.50) and full OAN (market signals and affordability adjusted) of 4,829 dwellings per annum.
- 1.7 In summary, the HEDNA future jobs OAN is found to be unrealistically low on two grounds.
- 1.8 First, in the context of the economic activity rate projections from the Office for Budget Responsibility (OBR), HEDNA makes ambitious, and apparently unrealistic assumptions about future increases in economic activity.
- 1.9 Second, HEDNA assumes that the housing market area and North West Leicestershire will increasingly rely upon labour from outside of the HMA. This is risky and the available evidence

(annual population survey resident and workplace based employment estimates) does not appear to support such an approach, but instead supports holding the commuting ratio constant over the plan period.

Economic Activity Rates

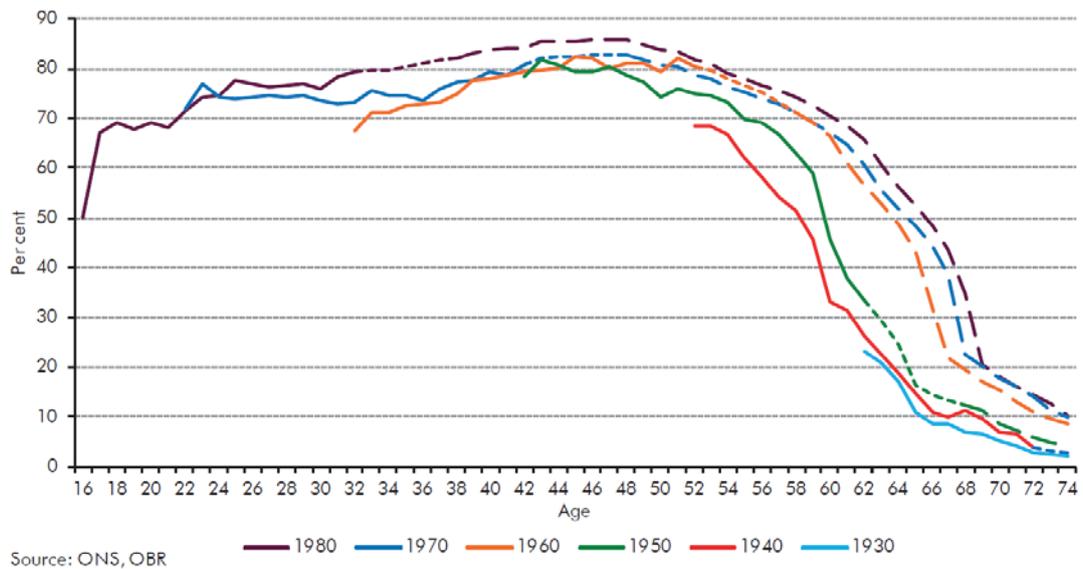
- 1.10 Our reasons for preferring the OBR economic activity rates are as follows. We are persuaded by the considered, evidence based approach taken by OBR to projecting labour market participation (economic activity). HEDNA dismisses the OBR approach lightly and erroneously; incorrectly stating that the results do not reflect trends, offering little insight into how OBR models projected change in economic activity and frankly, presenting misleading analysis. (EX65, page 73 to 75, paragraph 5.20 to 5.27).
- 1.11 Below, we provide a more detailed insight into how OBR produce their long-term labour market (economic activity) projections than is offered by HEDNA, through relevant extracts from Annex A to FSR 2014 and Chapter 3 to FSR 2017. First, in appendix A of the July 2014 FSR, an explanation is provided as to how OBR produce their long-term labour market (economic activity) projections:

“Our labour market participation projections are based on historic profiles of different cohorts of the overall population – subsets that are grouped by year of birth and gender. This allows us to capture dynamics that are specific to particular ages and those that cut across generations. In essence, we project each cohort into the future using age-specific labour market entry and exit rates as they age across time. These exit and entry rates are generally held constant, although we adjust entry rates for younger cohorts (discussed further below), and exit rates for people approaching the State Pension age (SPA), since the SPA rises over our projection period.

Although most individuals will choose to exit the labour market either before or after they reach the SPA, exit rates do spike around that point. In order to capture this effect, we shift exit rates along with changes in the SPA, so that a 65-year old when the SPA is 66 has the equivalent exit rate to a 64-year old when the SPA is 65. We smooth this transmission over earlier periods, as individuals would be expected to adapt their labour market participation choices over a longer period.

Chart A.1 shows our projections for female participation rates, by year of birth: the solid lines reflect outturns; the small dashes are illustrative rates over the medium-term forecast period, where our participation forecast is produced top-down rather than by age and gender; and the longer dashes show our long-term projections. It illustrates that we project participation rates for women reaching old age in the future to be higher than for earlier cohorts, principally related to SPA changes, but also due to cohort effects. We project that women born in the 1980s will have higher participation rates than women born in the 1970s across all comparable ages.”

Chart A.1: Female participation rates by cohort



(Source; Fiscal sustainability Report, July 2014, Annex 1, page 139 and 140, paragraphs A4 to A6)

1.12 Second, from the recent the January 2017 FSR:

*“We project long-run employment growth by combining ONS population projections with our **participation** and **employment rate projections***

We adjust participation rates for changes in the SPA which have been revised since our last report due to the updated population projections.

Combining the population projections with our participation and employment rate projections, we can then project future employment levels as the population ages and cohort sizes vary accordingly ...

*We have also updated the methodology we use for modelling entry and exit rates in our cohort model. **The most important change has been to base entry and exit rates on averages from the 19-year period up to 2015, rather than a pre-crisis average from 1997 to 2008.** This has led to an upward revision to the employment rate.”* (Source; Fiscal sustainability Report, January 2017, page 45, paragraphs 3.35 to 3.37)

1.13 From the extracts, it is quite clear that the OBR approach does reflect past trends and, from the illustration extracted (chart A1) anticipates progressive expansion of economic participation by women into older age due both to changes to the SPA and cohort effects (younger generations assumed to work into older age than the generations that preceded them).

1.14 We also note the refinement made by FSR 2017, to base entry and exit participation rates on the 19-year period up to 2015 a clear reference to OBR utilising past trend in a meaningful way; that is, one that reflects real behaviour over time.

- 1.15 This appears to me to be a more suitable and relevant approach to that evidently advocated by HEDNA, which can be characterised as an extrapolation of age and gender specific values that bear no relationship to one another from one year to the next, because they ignore the fact that economically active people (like all people!), age, year on year.
- 1.16 We do not deny that economic activity rates *might* turn out to be as high as expected by HEDNA and Experian, however the considered analysis and projections of OBR lead us to conclude that there is a significant risk that they will not. In the context of an HMA wide full OAN for 4,829 dwellings per annum, 866 dwellings per annum greater than the HEDNA jobs led OAN, why take that risk?
- 1.17 Furthermore, we find there to be a close correlation between i) the change in the number of economically active residents that result of applying the OBR (FSR 2017) economic activity rates to the 2014-based UK population projections for the UK and ii) the most recent labour force predictions of Oxford Economics. Noting that Oxford Economics (OE) and not Experian are the source of the job growth forecasts used by HEDNA.

Reconciling OE projections and OBR rates

- 1.18 OE estimate that the UK has a labour force of 35,210,000 persons in 2016 and predicts that this will grow by 2,120,000, to reach 37,330,000, in 2031. (Appendix 1, tab A)
- 1.19 The term 'labour force' describes the number of people that are economically active (the number of labour market participants, using OBR's language). Labour force is defined by OE as the sum of total employment (total jobs) and the claimant count.
- 1.20 The number of economically active persons or labour market participants is commonly taken to be the number of employed and unemployed (ILO definition) residents. OE estimate that the sum of employed and unemployed residents to be 33,890,000 in 2016 and predicts that this will grow by 1,930,000 to reach 35,810,000 in 2031. (Appendix 1, tab A)
- 1.21 Economic activity (sum of employed and unemployed residents), calculated by applying the FSR 2017 OBR rates to the UK population projections, is 33,750,000 in 2016 and increases by 2,110,000, to reach 35,860,000 in 2031. (Appendix 1, tab B)

- 1.22 Evidently, the OBR rates, applied to ONS' UK population projections, supply growth in the economically active population that is on a par with the OE projections for both labour force and employed plus unemployed (ILO definition) persons.
- 1.23 Parity between the OE projections and the projections derived from applying the OBR rates to the ONS population projections is explained by the fact the population assumptions used are different. OE produces its own UK population projections and assume growth of 5,240,000 persons between 2016 and 2031, whereas ONS assumes growth of 6,140,000 persons (Appendix 1, tab A and B).
- 1.24 In terms of growth in the working age population, defined by OE as all persons between the age of 16 and 64, the difference is more dramatic. OE projects growth of 370,000 working age persons, whereas the ONS project growth of 1,080,000 persons in the 16-64 age group (Appendix 1, tab A and B).
- 1.25 The difference between the population projections, specifically the greater population growth envisaged by ONS explains why the less aggressive OBR rates deliver growth in the economically active population that is equivalent the level of growth envisaged by OE.
- 1.26 Thus, there is no need to be concerned, as the Council's Mr Gardner clearly was during the first housing need hearing session, that the OBR rates are incapable of delivering the level of job growth, nationally and locally, envisaged by the forecasting house; they clearly are.
- 1.27 Substituting the economic activity rate projection used by HEDNA with OBR based rate of change (indexed to local economic activity rates observed through the 2011 Census) gives rise to higher growth in the number of employed residents in both North West Leicestershire and LLHMA than envisaged by HEDNA.

Commuting assumptions

- 1.28 The additional data on the OE and HEDNA economic assumptions released by the Council (EX83) on March 3rd 2017 includes information, for each district, on resident employment (the total number of residents that are employed, irrespective of whether they work in the district or not they work) and people based employment (the number of employed people whose place of work is in the district, irrespective of whether they are residents or not).
- 1.29 We understand this to be data that relates to the OE baseline forecast and not the planned growth scenario that underpins HEDNA's future jobs OAN. The latter would have been useful

and was the subject of the request made for additional data (EX80, point 1). Nevertheless, the data supplied provides a basis for understanding the result of applying the OE (and HEDNA) commuting matrix (EX65, page 71, table 25) and concluding upon its suitability.

- 1.30 From the data, we can calculate that at housing market area level (LLHMA) the commuting balance (the sum of people based less resident employment) changes over time from +2,700 to +10,100, an increase of 7,500 persons over the plan period, reflecting a change in the commuting ratio (resident based employment divided by people based employment) from 99.4% to 98.1% (Appendix 1, tab C).
- 1.31 This change indicates that the housing market area is becoming increasingly reliant upon labour from outside LLHMA to fill jobs that are being created within it. The same trend is evident within North West Leicestershire, however the shift to relying upon workers from outside of the HMA is more pronounced. North West Leicestershire's commuting ratio reduces from 86.2% (Census 2011 based) to 76.9% in 2031, a reduction 9.3%, reflecting an increase in the excess of people based employment over resident based employment from 7,425 persons to 16,051 persons (+8,600) over the plan period (Appendix 1, tab C).
- 1.32 To understand whether the above projections reflect past trends, we have compared North West Leicestershire district and LLHMA wide resident based and workplace based employment for the 11-year period, 2005 to 2016 and the 16 to 64 age group, from the Annual Population Survey (Appendix 1, tab D).
- 1.33 The results are presented in Appendix 1 (tab D), as both a commuting balance number and a commuting ratio percentage. There is no discernible pattern, rather change over time can be best described as volatile and unpredictable, both at district and LLHMA level. To address observed volatility, we have also calculated the rolling three-year average (2005 to 2007, 2006 to 2008, etc.).
- 1.34 At HMA level, after applying the three-year average, the relationship between people based and resident based workers smooths out to a ratio of between 1.00 and 1.03. At North West Leicestershire level, the position is still volatile at between 1.01 (2005 to 2007) and 0.81 (2012 to 2014). Since falling to 0.81, the three-year average has risen first to 0.84 (2013 to 2015) and most recently to 0.89 (2014 to 2016) (Appendix 1, tab D).
- 1.35 Considering our analysis from the Annual Population Survey, and noting that locally the commuting balance is inevitably volatile, we conclude that it more appropriate, for assessing housing need and to avoid the risk of undersupply, to hold the commuting ratio constant over

the plan period. For North West Leicestershire, the 2011 Census based commuting ratio of 0.86 should be used.

The commuting matrix

- 1.36 HEDNA uses a commuting matrix to allocate employed residents from each LLHMA resident, and residents from the rest of the UK (plus other residents), to the LLHMA district where they are assumed to work, and if they don't work in LLHMA, to a 'rest of the UK' and 'other' place of work (EX65, page 71, paragraph 5.13, 5.14 and table 25).
- 1.37 We are told (EX65, paragraph 5.13) that the commuting matrix method '*assumes the commuting interactions do not change over time but the numbers do, influenced by relative economic growth in different areas.*'
- 1.38 The above statement unintentionally masks the fact that whilst employed residents are allocated, each year, at Census 2011 proportions to each LLHMA district, and the rest of the UK, a consequence of an increasing gap between the number of employed LLHMA residents who also work in LLHMA and the number of employment opportunities being created there.
- 1.39 For example, at LLHMA level using the OE baseline data, it is evident that, for each year of the plan period, the commuting matrix allocates 87% of employed LLHMA residents to employment within LLHMA. However, presumably because the number of employed residents living within the UK (and 'other') but outside of LLHMA grows at a faster rate, the proportion of workers commuting into LLHMA increases over the plan period; from 13.7% to 14.8%, and in turn, the proportion of LLHMA employment opportunities filled by LLHMA residents falls from 86.3% to 85.2% (See Appendix 1 tab F).
- 1.40 Once more, the change in North West Leicestershire commuting pattern is even more pronounced. Each year, 58.6% of employed residents are retained locally (79% retained in LLHMA) to fill jobs there. However, whilst North West Leicestershire's employed residents fill 50.5% of employment opportunities in 2011, this reduces to 45.1% in 2031. Over the same period, the proportion of commuter from outside LLHMA increases from 34% in 2011 to 40.8% in 2031 (Appendix 1, tab G).
- 1.41 This change in commuting patterns revealed by applying the commuting matrix at LLHMA and North West Leicestershire level is an alternative (more detailed) way to describe the commuting ratio change from 99.4% to 98.1% at LLHMA level and from 86.2% to 76.9% at North West Leicestershire Level revealed in paragraph 1.28 and 1.29.

- 1.42 For North West Leicestershire, applying the HEDNA/OE commuting matrix assumes that the number of people commuting into the district from outside of LLHMA will increase by over 10,000 over a 20 year period; potentially 10,000 unsustainable long distance commutes, every day, that should be avoided by planning to accommodate more workers within North West Leicestershire and LLHMA. Accepting that a third of North West Leicestershire based workers, but no more than that, will travel from districts outside of LLHMA, into North West Leicestershire.
- 1.43 For the reasons stated at paragraph 1.33, the commuting ratio (describing the relationship between employed residents and workplace employment) should be held constant. Maintaining the commuting ratio at the level observed through the 2001 Census gives rise to higher growth in the number of employed residents in both North West Leicestershire and LLHMA than envisaged by HEDNA.

Conclusions

- 1.44 Taken together, the implication of using the OBR (FSR 2017) economic activity rates and holding the commuting ratio constant, increases the future jobs OAN (planned growth scenario) to 4,755 dwellings per annum at LLHMA level and 642 dwellings per annum at North West Leicestershire level.
- 1.45 Our alternative future jobs OAN for LLHMA is less than the full OAN of 4,892 dwellings per annum calculated by HEDNA after making a market signals/affordable housing need based adjustment to demographic projections.
- 1.46 In North West Leicestershire, our future jobs OAN is higher than the full OAN proposed by HEDNA. We conclude, for the reasons stated above, that the HEDNA economic activity rate and commuting assumptions should be disregarded in favour of more suitable alternatives (OBR economic activity rates and holding a 2011 Census based commuting ratio constant).
- 1.47 Accordingly, a full OAN of 642 dwelling per annum for North West Leicestershire should be preferred to the HEDNA alternative (see table 1.1).

Table 1.1, North West Leicestershire OAN, Barton Willmore Assessment

	2011	2031	2011 -2031	
			Total and per annum	
Population	93,670	121,012	+27,342	+1,367
Households (adjusted HFR)	39,234	51,677	+12,444	+622
Dwellings (adjusted HFR)	40,507	53,355	+12,848	+642
Economically active	49,244	62,248	+13,004	+650
Employed residents	46,535	60,505	+13,970	+699
Commuting balance	+7,455	+9,693		
Jobs supported	53,991	70,198	+16,207	+810

Table 1.2, LLHMA 'future jobs' OAN, Barton Willmore Assessment

	2011	2031	2011 -2031	
			Total and per annum	
Population	980,806	1,153,389	+172,583	+8,629
Households (adjusted HFR)	390,910	483,186	+92,276	+4,614
Dwellings (adjusted HFR)	403,019	498,123	+95,105	+4,755
Economically active	500,810	573,080	+72,271	+3,614
Jobs supported	466,490	553,715	+87,226	+4,361

