B&NES Future Housing Growth Requirements to 2026: Stage 2 Report

Keith Woodhead, September 2010

Preface

This report takes forward the Stage 1 report dated 18 May 2010, together with subsequent modifications and suggestions made by B&NES officers in preparing a draft Report to Cabinet. An expanded section (Section 4 of the report) providing further details of the calculations on the housing and jobs relationship has been included and this is accompanied by further details of calculations in Appendix 2. A commentary on affordable housing requirements has also been added.

Since the Stage 1 initial work was carried out in May, revised (2008 based) ONS sub national population projections have been published (at the end of May), the "Business Growth and Employment Land Update" report produced by Roger Tym & Partners for the Council earlier this month, the "South West Growth Scenarios Final Report" by Oxford Economics for SWRDA and SW Councils (published on 21st June) and the Office for Budget Responsibility's Budget Forecast was published with the Chancellor's Budget Statement on 22nd June. The report is now able to take these into account

Keith Woodhead
20th September 2010

Executive Summary

The Coalition Government has announced that Regional Strategies are now revoked and that projected legislation will abolish them altogether. The current advice of the Planning Inspectorate is that whilst Regional Strategies (including RSS) longer have the status of material considerations to any planning policy or decision, Local planning authorities may, if they wish, use elements of the evidence base from an abandoned Regional Strategy if appropriate, evidence based and clearly justified in line with non RSS-related requirements of Planning Policy Statement 3.

This study has been commissioned to provide evidence based guidance as on future housing requirements for B&NES in the light of changing economic and social trends.

The issues considered include:

Population growth and declining household size;
The effect of, and prospects for, economic growth;
The dynamics of the local housing market.

It is concluded that the key point is that there is no "right" answer to the question as to what is an appropriate level of housing growth in an individual community. Attempts have been made at the national and regional levels based on simple household growth projections and, latterly, supplementing these with economic modelling aimed at reducing, or at least stabilising house prices whose growth has been propelled over the last fifty years by an excess of demand over supply. The problem is that housing is simultaneously both a basic human necessity and, for many people, at the same time the ultimate consumer good . Alongside this sits a finite capacity for the public purse to accommodate needs that cannot be met by the market.

Unfortunately any shortfalls in provision not only have an impact on significant sections of the area in question, its local population and to some extent its economy, but they also increase the pressures felt by surrounding local authorities. Between local authorities this is a highly exportable problem, often leading to housing stress or excessive commuting to access jobs and services outside the immediate area. The solution unavoidably lies in achieving the best balance between the many constraints and requirements through open consultation and debate.

Five key policy principles are set out to help guide the process of identifying an appropriate level of housing development. This results in two methods of linking future house building both with economic change and other requirements for sustainable development. The first is based on establishing direct links between future housing and projected economic growth within B&NES itself The second approach, based on a broader assumptions connecting projected job growth in the wider West of England Partnership area with housing requirements within B&NES, is then used to verify the conclusions reached from an application of the direct method.

The analysis is based on four economic scenarios for the WoE Partnership area:

- A central projection equivalent to UK output growth averaging around 2.1% pa over the medium term).

- A high growth projection consistent with the trend UK trend growth estimate of 2.75% a year after the dip and period of recovery caused by the recession 2007-12 and broadly in line with Office for Budget Responsibility projections.
- A low growth projection consisting of output growth of around 1% in the first 5 years and rising to 1.5% thereafter.
- A pre-recession trend projection showing 2.75% pa growth consistently since 2006.

The Central and High projections for the WoE Partnership area are shown to be equivalent to the geographically more focussed "Consensus" and "Green Budget" forecasts recently carried out for the B&NES area by Roger Tym and Partners. These then provide the economic reference point for the analysis of housing requirements, which also take into account factors such as population ageing and other social factors leading to increasing household formation and smaller households, non job related migration relating to the attractiveness of the area as a place to live and evidence for currently unmet housing need.

Comparisons are also drawn with the results of the recent Oxford Economics Ltd economic growth scenarios produced for SWRDA and SW Councils. In spite of the use of identical national growth assumptions compared with those used by the Stage 2 study and by R Tym, there are important points of difference in the final projected job growth outcomes for both B&NES and WoE. In particular, the results of the new Oxford Economics projections at local authority level imply a surprisingly low share of overall WoE growth for B&NES. Further investigation of this is recommended as a priority.

Finally, the assessment concludes that the requirement for additional housing in B&NES 2006-26 is

11,600 dwellings 2006-26 (580 units p.a.)

It is recommended that 35% of this total (4,060 dwellings total, or 203 p.a.) should be used as the initial target for affordable housing completions, subject to the results of viability testing currently being undertaken by the Three Dragons consultants to establish what level is deliverable. Although this is considerably lower than the absolute level of need indicated by the recent SHMA study (850 affordable dwellings annually), this is suggested as a practical and achievable starting point, particularly when added to the 430 or so relets from existing stock expected each year identified by the SHMA. Whilst the weight of evidence behind the SHMA estimate of need is acknowledged, there is no practical means of new affordable dwelling delivery foreseeable at the rate suggested by the SHMA, even before the onset of the economic downturn in 2008. If relets are (rightly) combined with new then a total 633 dwellings p.a. are available to let, then the existing backlog of unmet housing need identified in the SHMA would nominally be cleared in under four and a half years. It is strongly recommended that the affordable housing figure proposed in this study should be reviewed regularly, however, to take account of changing opportunities for delivery.

B&NES Future Housing Growth Requirements to 2026: Stage 2 Report

1.0 Introduction: the purpose of this study

1.1 This study was commissioned to look at potential ways of approaching a review of the North Somerset LDF Core Strategy housing totals to 2026. The requirement has been brought about by the need to respond to changing national government planning policy (the "localism agenda") including revocation of Regional Spatial Strategies (RSS) and their associated housing targets, and the impact of much more adverse national economic conditions since those original targets were set.

1.2 The Bath and North East Somerset Spatial Option Consultation document published in October 2009 was based on the targets set out in the Draft RSS for the South West. Published in 2006, the Draft RSS was based on rates of expected regional and more local economic growth that predated the current severe recession. It also included broader regional objectives that many local planning authorities may wish to reappraise to reflect their local circumstances following RSS revocation.

1.3 The current study has been commissioned in the light of these issues to provide evidence based guidance on an appropriate future housing requirement for B&NES. In particular the brief required that the work should take into account the effect of projected increases in productivity of the area, the population growth this leads to and the housing that this requires. This of course is in addition to the effects of the current severe global economic downturn on both the UK and the local economy.

1.4 Stage 1 of the study set out alternative methods of approach. The objective of Stage 2 is to arrive at indicative housing totals for eventual inclusion in a revised Core Strategy document for further public consultation. Please note that some key elements of the Stage 1 report are included in the present document in order to provide a complete picture of the evidence base and its interpretation.

2.0 Background: the changing planning requirements for housing growth

2.1 Following the May 2010 General Election, the Coalition Government announced that Regional Strategies are revoked and that subsequent legislation will abolish them altogether. The Conservative Party stated before the General Election when still in opposition that it wished to create a proposed national planning framework with reference to which local authorities will publish new "Local Plans". [1] This remains the broad intention of the Coalition Government and will be included in the proposed Localism Bill during the forthcoming session of Parliament.[2]

[1] The Conservative Party "Open Source Planning: Policy Green Paper No. 14" (Feb 2010), p5
[2] "The Coalition: our programme for government", May 2010, p 11

2.2 In the meantime, guidance issued by the Chief Planner, DCLG on 6 July 2010 states that:

- Local planning authorities should continue to develop LDF core strategies and other DPDs but they may decide to revise emerging policies in the light of the RS revocation,

- Adopted DPDs and saved policies will continue to provide the statutory planning framework. Local authorities may decide to review these now that Regional Strategies have been revoked. There is no need to review the whole LDF, only those issues or policies which local authorities wish to revisit.

- Some authorities may decide to retain their existing housing targets that were set out in the revoked Regional Strategies. Others may decide to review their housing targets. This includes the possibility if the local authority wishes of returning to the level of provision submitted to the original Regional Spatial Strategy examination.

- The figures concerned will still need to be evidence based and clearly justified in line with the requirements of Planning Policy Statement 3 (PPS3) but omitting the requirement to conform with a RSS regional target. [3]

2.3 Given that work on the RSS was largely carried out around five or more years ago in very different economic circumstances a re-examination of the question of growth would by now be required in any case. However, a brief summary the sequence of events following the publication of the original draft RSS in 2006 is useful in understanding the current position.

2.4 The Draft RSS proposed a total of 15,500 dwellings to be completed over the period 2006-26 in the District. This included 6,000 dwellings to be built as a major part of an urban extension on the south east side of Bristol and a further 1,500 as an extension south of Bath. The subsequent RSS Proposed Changes document of 2008 raised the overall District figure to 21,300,[4] the total construction requirement for the wider West of England Housing Market Area[5] increasing sharply from 104,500 to 137,960. The Council submitted formal objections to the Proposed Changes on grounds which included concerns about deliverability due to the

[3] http://www.communities.gov.uk/documents/planningandbuilding/pdf/1631904.pdf
Guidance from the Planning Inspectorate states that "With immediate effect Regional Strategies have been revoked and they and their policies do not now exist in law; they cannot be given any weight. They are no longer part of the development plan for the purposes of s38(6) of the Planning and Compulsory Purchase Act 2004. The development plan now consists only of adopted DPDs; saved policies; and any old style plans that have not lapsed." However, it goes on to say that the evidence used in the RSS "may also be a material consideration, depending on the fact of the case."
http://www.planning-inspectorate.gov.uk/pins/advice_for_insp/rs_revocation_20_07_10.pdf
For further details see:
http://www.communities.gov.uk/documents/planningandbuilding/pdf/1631904.pdf

[4] The Proposed Changes figures included increased totals for the SE Bristol and South of Bath extensions and added a further substantial extension south of Bristol.

[5] Comprising the four unitary authorities of the West of England Partnership, plus Mendip and the former West Wiltshire Districts.

deteriorating national and international economic climate, and likely damage to the integrity of the Green Belt and World Heritage Site status.[6]

2.5 The revocation of Regional Strategies means that the figures in the draft RSS for the South West, and the Proposed Changes document of 2008, are now not material considerations. However, according to the Chief Planner's letter the evidence behind RSS figures, where still relevant, may still be material to the case put forward for revised housing totals locally. Since the Draft RSS was published, two major factors influencing the housing requirements for Bath and NE Somerset have therefore changed and will therefore need to be factored into revised housing totals in the Core Strategy:

- Under "localism" the frame of reference for the setting of housing numbers has seen a shift towards greater focus on the ambitions – the "vision" – of the local community concerned, with greater attention to achieving greater local consensus regarding "tensions" between development and conservation.[7]

- The economic forces driving many of the assumptions of previous plans have undergone changes arguably beyond precedent in the period since World War Two.

3.0 Key Issues in considering the numbers

3.1 **Population growth and declining household size:** Household projections from CLG have shown progressively higher levels of trend population and household growth for the SW in general and West of England area in particular. The rise in projected household numbers reflects increasingly rapid decline in household size due to ever increasing life expectancy, more households separating and higher inward migration both from other areas of the UK and internationally. It is argued here that the 2006 based ONS population projections may have overestimated the long term trend in net gains from international migration reflecting booming economic conditions before the onset of the current economic downturn and this is likely to result in a slight overall reduction in future trend based projections. However, most of the factors leading to a continued decline in household size and the corresponding

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[6] Grounds for objection included severe concerns about capacity for delivery of adequate infrastructure and essential community facilities within the plan period, and the consequent risk to the aim of building sustainable communities, the impact of the then growing economic recession, and unacceptable impact on the integrity of the Green Belt, and the need to uphold the principles underlying the Green Belt, the AONB and the World Heritage Site status. See http://www.bathnes.gov.uk/SiteCollectionDocuments/Environment%20and%20Planning/RSS%20Council%20response%20letter%2023.10.08%20.pdf

[7] Though still expressed through their local authority representatives:
"Communities should be given the greatest possible opportunity to have their say and the greatest possible degree of local control. If we get this right, the planning system can play a major role in decentralising power and strengthening society – bringing communities together, as they formulate a shared vision of sustainable development. And, if we enable communities to find their own ways of overcoming the tensions between development and conservation, local people can become proponents rather than opponents of appropriate economic growth." The Conservative Party "Open Source Planning: Policy Green Paper No. 14" (Feb 2010), p 1
"We believe that the planning priorities and policies – the vision for the development of a community, produced by local democratically-elected representatives following a process of collaborative democracy – should not be overridden by central government inspectors." Ibid p6

increase in their numbers already exist in the demographic structure of the area; a discussion on the likelihood of this trend continuing is set out in Appendix 1 to this report.

3.2 The results of these projections potentially have very significant implications for all of the West of England. The step from RPG10 levels of growth (74,000 dwellings over 20 years up to 2016) to the level set out in the draft RSS for 2006-26 (92,500 for W of E, 15,500 for B&NES), are difficult enough to plan for. Although the draft RSS figures were based on pre 2001 Census data on household formation, the distribution for the West of England authorities was very close to the 2003 based CLG household projections.[8] Subsequent ONS/ CLG projections however have increased the levels significantly beyond this point (Tables 1 and 2 below). However, ONS are at pains to point out that their projections simply reflect recent trends (which include the impact of current and previous – but not of course future - planning policies). The tendency for EiP Panels to give very considerable weight to the projections is understandable but in reality just amounts to an exercise in "predict and provide". However, there are dangers in appearing to select an arguably out of date projection because it provides a "better" answer. The problem is that in B&NES, owing to the strong attraction of the unique historical and physical environment, the potential demand for housing is very widespread, being UK-wide, or in some respects even international, in nature.

3.3 This is also augmented by demand for housing from other people moving to the area, some related to jobs in B&NES or elsewhere in the West of England, but other also from long distance commuters, and people such as retirees who might be moving, at least in part, to social as well as environmental/ lifestyle reasons.[9] Taking a straightforward direct relationship between economic and job related growth and the determination of new housing provision is clearly over simplistic. To attempt to do this would ignore the perfectly legitimate market preferences of people who wish to move to the area for a host of reasons, and also the fact that very many of them have, in any case, the means to outbid many people working locally. There is no realistic possibility of "building our way out" of the problem and another rationale on which to base rates of development is essential.

3.4 **The effect of economic growth:** Development growth in many parts of the UK is, even in the age of the so-called post industrial economy, very much influenced by the local economy and the rate at which employment is created. The buoyancy of the local economy, for the reasons of environmental attractiveness set out above, is not the major determining factor for growth pressures in B&NES. In fact the "environment driven" growth of population itself

[8] Although the 2003 based projections implied considerably higher total household and housing numbers for the region as a whole compared with the draft RSS levels, the RSS was based on a strategy of dealing with the past trend towards more rapid dispersal of population to the more rural, and less accessible, parts of the region and trying to achieve a better geographical balance between population and the growth of employment and services.

[9] It is estimated that, in 2009, 75% of adult migrants to B&NES were economically active. To this also has to be added the current residents of the District who become inactive economically, mostly through retirement. Many of the local retirees will have moved to the area during their working lives and then stayed on rather than moving to the area when already at retirement age. For example, in the year ending June 2009 ONS internal migration data (NHSCR based) shows that 800 people (gross) moved to B&NES aged 45-64 compared with 400 aged 65+.

adds to the growth of employment locally. Roughly speaking, every three in-migrating households to the area on average creates one service job.[10] The problem is of course that many of these jobs are poorly paid and, without sufficient affordable housing close at hand, service sector employees are often unable to access adequate housing locally. This is not a unique problem and characterises much of the South West although Bath experiences the problem particularly severely. Nevertheless, local economic growth in the West of England apart from Bristol City has been high over the past few years averaging 3.6% p.a. and 3.9% p.a. between 2000 and 2007, and between 1996 and 2007 respectively. The equivalent figures for the whole of the West of England were 2.8% and 3.4%, while regionally and nationally they were 2.6% and 2.9% (SW), and 2.4% and 2.7% (UK). (See Figs 1 to 3). The picture is complicated somewhat by an apparently dramatic fall in economic growth in the W of England (measured by Gross Value Added) after 2003 and by the apparently generally less buoyant growth of Bristol's economy since 2000. These figures need to be treated with some caution however owing to the difficulty of measuring local GVA.[11]

3.5 The issue of future growth prospects for the South West and for its sub regions is currently the subject of work by Oxford Economics, commissioned by SWRDA and SW Councils. The results were published in June 2010[12], based on three economic scenarios:

- A central case scenario centred around the Oxford Economics baseline forecast (with UK output growth averaging around 2.1% over the medium term).
- An upper band scenario consistent with the trend UK trend growth estimate of 2.75% a year.[13]
- 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.

3.6 SW growth rates relative to the UK total have typically been around 0.2 of a percentage point higher (1996-2007) but this was reduced to only 0.1 from 2000-07. However, the above scenarios compare with a range of 2.7% - 3.2% p.a. across the South West in the draft RSS and the Proposed Changes. This equated to just over the regional average (around 2.9% - 3.3%) for the West of England as a whole. The new central case scenario is therefore considerably lower than the RSS target and, in fact, is significantly lower than the assumption of 2.4% p.a. used in RPG10. However, for the reasons set out above, the impact of lower economic growth figures on overall housing demand is not clear in an area that is able to attract some of the wealthiest migrants from London and the South East. Two of these three scenarios are based on similar levels of economic growth to those used by R Tym and partners in their recent study for B&NES Council, whereas the lower band scenario is significantly lower. Section 5 compares assumptions in the two sets.

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[10] Eric McVittie Experian Business Strategies, formerly Plymouth Business School, personal communication

[11] Gross Value Added

[12] Oxford Economics "South West Growth Scenarios: Final Report" June 2010

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

West of England: 2003, 2004, 2006 and 2008 Based ONS Projections[14]

Table 1a Population

	Population Change2006-26 (Share of West of England Partnership total)							
	ONS 2003		ONS 2004 Revised		ONS 2006		ONS 2008	
	2006 Projected	Change 2006-26	2006 Projected	Change 2006-26	2006 Projection Base estimate	Change 2006-26	2006 Revised Estimate	Change 2006-26
B&NES	173,400 (17.1%)	14100 (12.4%)	175,700 (17.0%)	20,900 (12.6%)	175,600 (16.9%)	30,800 (11.9%)	173,100 (16.6%)	27,100 (9.5%)
Bristol	393,700 (38.7%)	29,500 (25.9%)	404,200 (39.0%)	53,800 (32.4%)	410,500 (39.4%)	109,300 (42.2%)	413,600 (39.6%)	134,500 (47.1%)
N. Somerset	196,500 (19.3%)	33,200 (29.2%)	200,500 (19.3%)	45,600 (27.4%)	201,400 (19.3%)	65,000 (25.1%)	200,800 (19.2%)	67,600 (23.7%)
S. Glouc	252,900 (24.9%)	36,800 (32.4%)	255,800 (24.7%)	45,700 (27.5%)	254,400 (24.4%)	53,700 (20.8%)	257,500 (24.6%)	56,100 (19.7%)
WoE	**1,016,500**	**113,600**	**1,036,300**	**166,000**	**1,041,900**	**258,800**	**1,045,000**	**285,300**

TABLE 1b Households

	Households: Baseline (actual levels) 2006	Household Change 2006-26 (share of change)			
		CLG 2003	CLG 2004 Revised	CLG 2006	CLG 2008
B&NES	74,000 (16.7%)	13,000 (13.9%)	17,000 (14.2%)	19,000 (12.6%)	*(data not available: expected Oct/ Nov 2010)*
Bristol	175,000 (39.6%)	29,000 (31.2%)	42,000 (35.0%)	63,000 (41.7%)	
N. Somerset	87,000 (19.7%)	24,000 (25.8%)	29,000 (24.2%)	36,000 (23.8%)	
S. Glouc	106,000 (24.0%)	27,000 (29.0%)	32,000 (26.7%)	33,000 (21.9%)	
WoE	**442,000**	**93,000**	**120,000**	**151,000**	
Mendip	*45000*		*11000*		
W.Wilts	*52000*		*18000*		
WoE HMA	***539000***		***149000***		

[14] It should be noted that projected that population growth is often little higher than accompanying household growth. In B&NES for example, the ONS 2003 based projections of 14,100 extra people is accompanied by a growth of 13,000 households. The reason lies in the difference between the impact of household size change which applies across the entire local population, and the contribution made towards migration by increasing the housing stock at the margin through new build. The relationship is further complicated of course by the fact that declining household size also affects migrants. Also note the very significant increase in the level of growth between the 2003 based and (Revised) 2004 based ONS projections due largely to changes in net migration assumptions.

Fig 1 Recent economic growth trends (a)

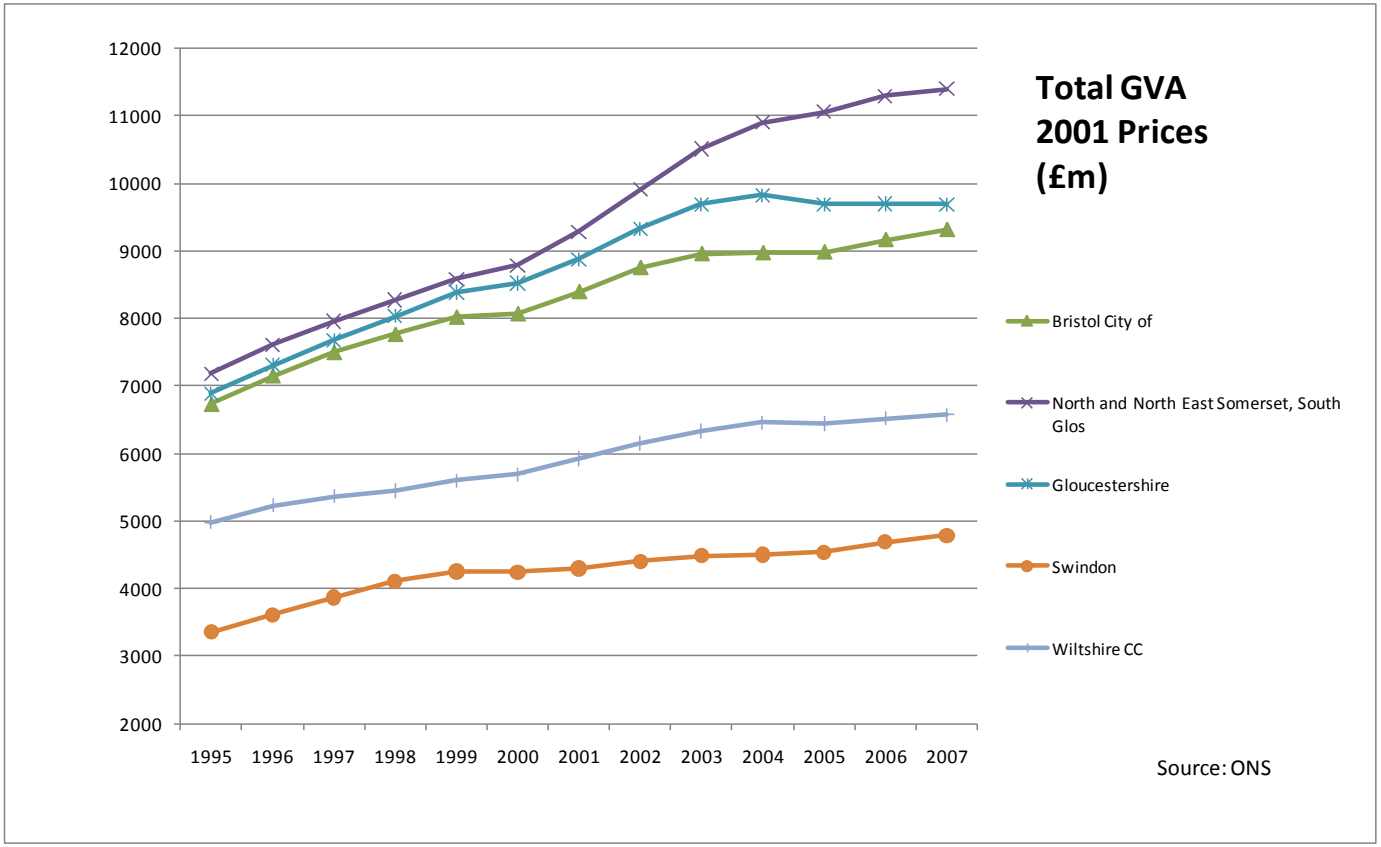


Fig 2 Recent economic growth trends (b)

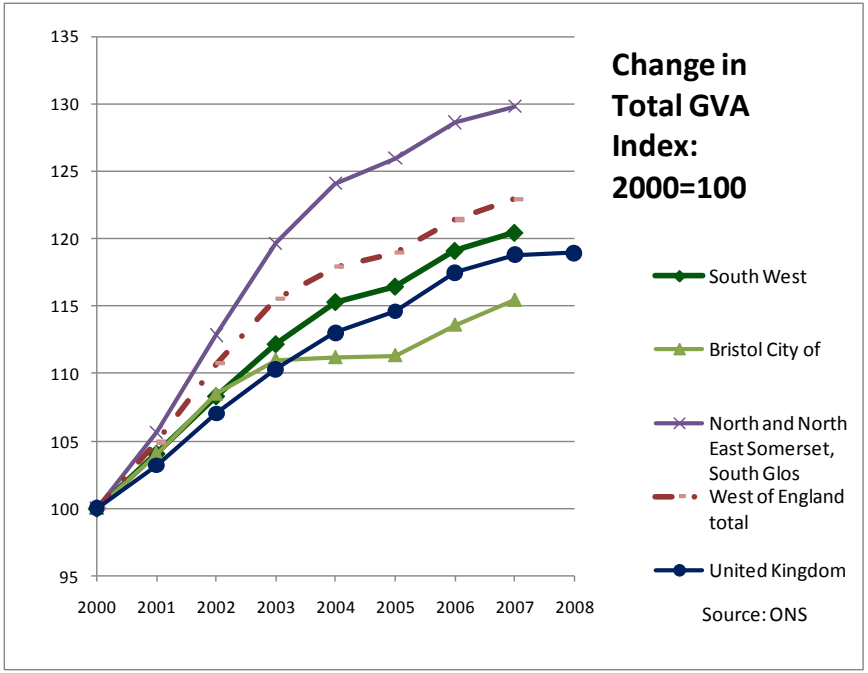
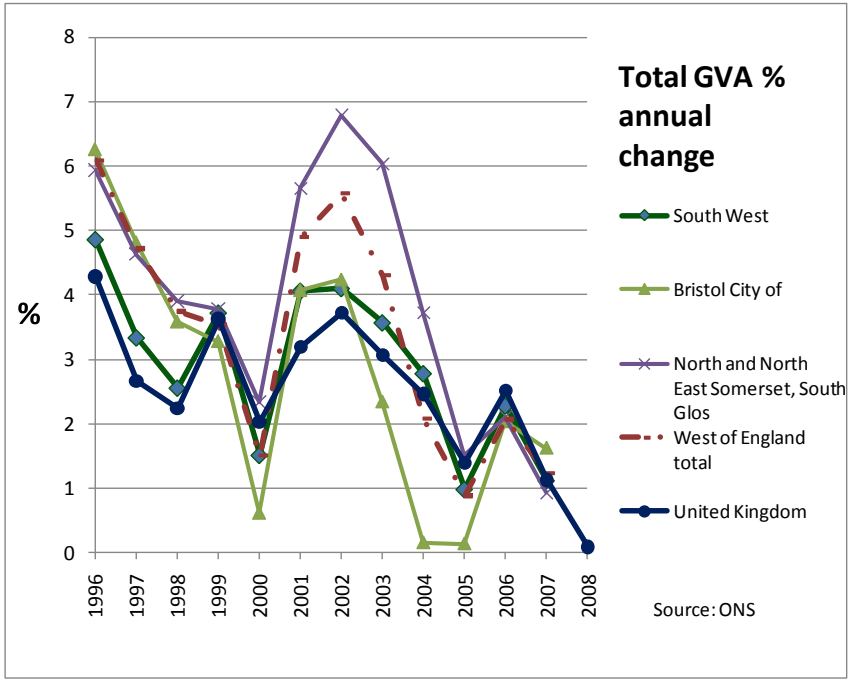


Fig 3 Recent economic growth trends (c)



3.7 **To summarise**, the key economic and demographic elements to be taken into account include:

- the emerging future prospects of B&NES' local economy and it's neighbours in and around the West of England Partnership area,
- the impact of global competition and technological change on rising productivity levels in a large number of economic sectors,
- the increasing shift towards part-time working and portfolio careers,
- the changing demographic make-up of a labour force that is growing as a result of high rates of net inward migration to the South West (both from elsewhere in the UK and internationally), and also whose average age is increasing,
- the impact of planned rises in statutory retirement age, particularly of women, and the effect of poorly performing private pension funds on the number of older people wishing to stay at work,
- the trend towards smaller households largely through the effects of demographic ageing and increased independence in old age, but also as a consequence of a longstanding trend towards more people choosing to live separately,
- the continued impact of migration into the region of people wishing to move for lifestyle related reasons not primarily connected with work, and the additional housing demand that that generates.

4.0 Setting an appropriate level for growth

4.1 Following from the issues set out above, it is clear that it is the capacity of the local housing stock that provides, however crudely, the key constraint on local population (but not *economic*) growth. This is owing to the large potential pool of migrants not tied to any one location of work who could potentially choose to move to the area attracted by its environment. This is one of the key challenges facing areas such as Bath and its surrounding area. A method of setting the level of growth needs to be applied which follows the requirements for sustainable development but, at the same time, is realistic about the way the housing market operates in the real world. In the case of B&NES, this is shown in Fig 4. The following principles can be applied to resolve the difficulty of defining an appropriate housing growth figure in a situation in where there is no effective local economic/ employment based limiting condition on inward migration and housing demand:

a) Help ensure a healthy economy by closely linking housing growth to employment (employment led growth).

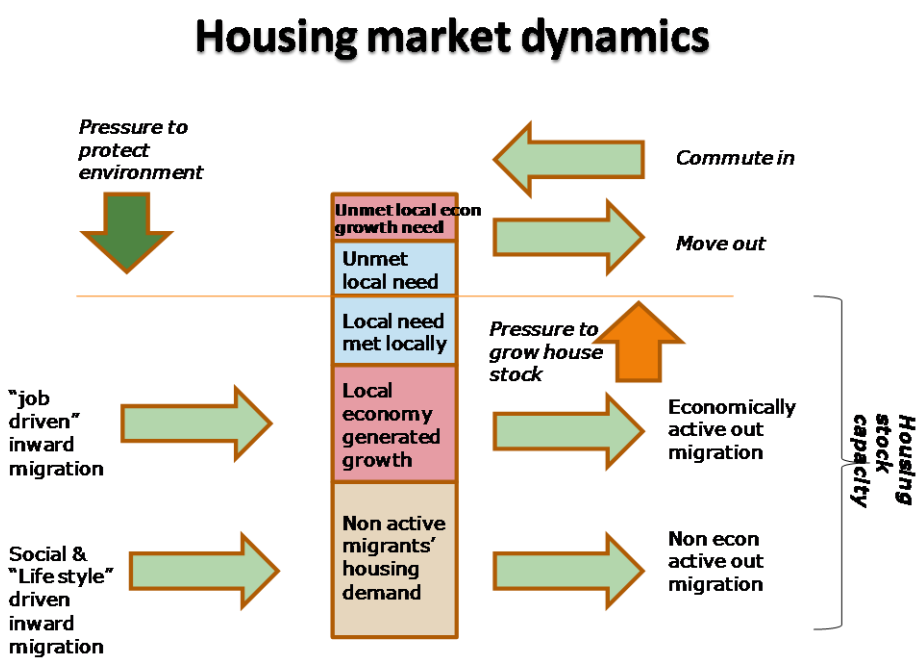
b) Provide sufficient housing to meet needs arising locally through the delivery of mixed and balanced communities. This should allow for a stretching, but achievable, target for affordable housing provision and an adequate allowance for dealing with any current backlog of unmet need identified in the Council's Strategic Housing Market Assessment (SHMA).

c) Accept that the operation of market forces permits movement and freedom of choice for those with the financial means to exercise it; non economically active migrants will choose to move into the District and the pressures that this creates need to be recognised.

d) Finally, identify and test identify alternative general total levels of housing and ascertain which options can be built within acceptable environmental limits following a critical assessment of environmental, infrastructure delivery and transport capacity constraints and opportunities for mitigation, and also District-wide and/or area specific affordable housing delivery viability testing to ensure that housing land development values are sufficient to support the levels of housing required. The requirement must be met from a subsequent exercise which also takes on board the results of the SHLAA and SA/SEA.

4.2 The remainder of this paper deals with principles a) to d): the setting of an overall planning total for housing in B&NES up to 2026. The requirements of e) must be met from a subsequent exercise which takes on board the results of the Strategic Housing Land Availability Assessment, an Appropriate Assessment under the Habitat Regulations and an SA/SEA and including a full programme of public consultation.

Fig 4



4.3 In terms of the method used to estimate the requirements, it is highly recommended that key assumptions and outputs such as the relationship between demographic change and economic growth should be readily understandable, and therefore open to public scrutiny and discussion. This should be achieved by making sure that overall levels of growth for the region, and the key elements of the way in which housing numbers were then distributed to individual local authorities and housing market areas, were visible. The unavoidably complex technical elements of the process can then be confined strictly within the demographic and economic

models with a clear and visible relationship between the input assumptions to the models and eventual outputs.

4.4 The dynamic relationships between elements of the housing market locally are set out in Fig 4. The final planned capacity of the District's market and affordable housing stock is depicted as the area of the central coloured column between the two horizontal blue lines in the diagram. This capacity is arrived at in policy terms by the outcome of any potential tensions between community views expressed together with objective measures environmental capacity to protect the local environment (the vertical green arrow to the top left of the diagram) on the one hand, and the political and market pressures plus measures of housing need (the vertical upward pointing orange arrow) on the other. This has always been the case of course. In a "localist" approach, however, local opinion, vision and objectives receive greater weight than perhaps has previously been the case. As a result, factors such as the external pressures that help to determine the growth of local market and affordable housing capacity and degree of environmental protection, whilst still very potent, are less automatically dominant than before. The externally generated pressures can still make themselves felt on local opinion eventually, for example through market mechanisms such as increased house price inflation and homelessness, or through adverse environmental consequences. The role of the planning process is to anticipate these consequences using clear, objective evidence and ensure that this is considered fully in public consultation.

4.5 The key point is that there is no "right" answer to the question as to what is an appropriate level of housing growth in an individual community. Attempts have been made at the national and regional levels based on simple household growth projections and, latterly, supplementing these with economic modelling aimed at reducing, or at least stabilising house prices whose growth has been propelled over the last fifty years by an excess of demand over supply. The problem is that housing is simultaneously both a basic human necessity and, for many people, at the same time the ultimate consumer good (see Appendix 1 below for further discussion). The task of trying to meet both types of demand effectively in a unified market place is extremely difficult. Ideally, all people who cannot compete in the market place for one reason or another would have reasonable aspirations as well as their basic needs met through the social sector. The problem with this of course is that people's needs and ability to pay the market rate for housing change over time, as do their aspirations. Alongside this sits a finite capacity for the public purse to accommodate needs that cannot be met by the market.

4.6 The solution unavoidably lies in achieving the best balance between the many constraints and requirements, including those set out in paragraph 4.1 through open consultation and debate. The reality is that, any shortfalls in provision not only have an impact on significant sections of the area, its local population and to some extent its economy, but they also increase the pressures felt by surrounding local authorities. Between local authorities this is a highly exportable problem, often leading to housing stress or excessive commuting to access jobs and services outside the immediate area.

4.7 In this exercise, some elements of the original projections produced for the Draft RSS during 2006-2008 have been used in highly modified form in the absence of a completely updated and integrated population/ household / labour market projections on the one hand and revised economic projections on the other. This has required a number of interim estimates and proxy

measures to be substituted based on material already available but updated as far as possible to reflect recent trends and prospects and provide a sufficiently robust basis on which to plan revisions to housing numbers.

4.8 The remainder of this paper deals the setting of an overall planning total for housing in B&NES up to 2026 via the principles in paragraph 4.1 set out a) to c) as listed and part of d) relating to the results of the Strategic Housing Land Availability Assessment. The remaining requirements of d) will need to be met from a subsequent process to meet requirements for SA/SEA, and an Appropriate Assessment under the Habitat Regulations[15] including a full programme of public consultation.

5.0 Modelling the scenarios for testing

5.1 The first step in the process is to identify a housing provision level, and then a distribution that satisfies each of the conditions in para. 4.1. The results of this exercise as applied to B&NES are set out later in this paper (Section 7) and the detailed calculations in Appendix 2. The key stages of the process with the associated key principle a) to d) are:

5.1.1 (Principle a) Using economic growth scenarios and forecasts under a range of different conditions (including changing levels of productivity, technical change and national and international competition), identify the most likely range of the local economy's labour force requirements; basically - how many additional jobs are likely taking into account the impact of losses due to the current economic downturn and accompanying reductions in Government spending?

5.1.2 (Principle a) Identify the relationship between filling a given number of new local jobs and the working population needed locally to fill those jobs allowing for reasonable assumptions for the inevitable balance of commuting in and out of the area, realistic minimum unemployment levels[16] and changing economic activity rates/ labour force participation (the proportion of those of working age – taking account of legislation, and other factors likely to affect the numbers staying active in the workforce.

5.1.3 (Principles a, c) Project the changing housing future requirements of the labour force and non economically active due to ageing, relationship breakdown etc. There is no "right" answer to this as the active and inactive compete for housing and the balance will change over time in different economic conditions. Here this is taken as an average over the plan period taking into account forecast economic growth levels. Assumptions and available evidence about the incidence of vacant properties, second homes and losses from the housing stock (due for example to change of use or demolition)[17] are also incorporated at this stage.

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[15] Directive 2001/42/EC on assessment of the effects of certain plans and programmes on the environment.
Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora (the 'Habitats Directive') implemented through The Conservation (Natural Habitats, &c.) (Amendment) Regulations 2007 S.I.1843

[16] Variously taken as the notional practically irreducible minimum level of unemployment (often estimated at around 3% of the workforce), this is so-called "frictional" unemployment and consists of people between jobs and the almost unemployable. To this can be added estimates of "structural" unemployment resulting from a mismatch of skills and job opportunities when the pattern of demand or production changes (eg through technology or competition). Alternative approaches have used the NAIRU (non accelerating inflation rate of unemployment) which attempts to measure the point at which any decrease in unemployment will lead to labour shortages and wage inflation. The current NAIRU is at 5% - 6% (Oxford Economics, "UK Long-term growth outlook" April 2010.

[17] In mid 2010 B&NES Council estimated that a total of around 500 houses were long term vacant. The projected future housing figures do not take account of the relatively marginal effects of any policies aimed specifically at reducing this vacancy total.

5.1.4 (Principles a, c) The approach is based on maintaining the broad balance between economically driven and non economically driven inward migration to the area which prevailed in the recent past. This is in an attempt to ensure that sufficient allowance is made for the needs of the local economy regarding the housing of people working locally, whilst recognising that an adequate allowance will need to be made 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 is done by calculating an overall ratio between the key variables of jobs and houses at the end of the plan period but avoiding any distortions in the relationship that could result from attempting to crudely factor the possible impacts of the current recession into the calculation.[18] The basis for this is historic trend economic projection (in this sense the demand side) and trend demographic projections (supply side) for the wider labour market area (here approximated to by the WoE Partnership area) and allowing within the projections for the factors set out in 4.6.1-3, As shown in Appendix 2 for the West of England area this ratio is estimated at 1.33 new houses for every new job.[19] In addition, an average balance of non active net migrants from the historic trend projections is inferred to round up the new homes / jobs ratio to 1.33.

5.1.5 (Principle c) The next step is to generate realistic economic growth and employment projections or forecasts for the area concerned. The details of the scenarios used in the Stage 2 project are described in Section 6 and comparative testing against alternative projections in Section 7. Using the latest forecast/ scenarios of job growth in the local authority area concerned (here B&NES), multiply the total number of additional jobs in the area by the homes / jobs ratio to obtain the appropriate housing levels likely to be sufficient to allow the local economy to grow at a rate unconstrained by local labour shortages or, alternatively, without generating proportionately higher levels of commuting into the area than has historically been the case.[20] This is to provide a reasonable allowance for people to make commuting choices in a complex urban environment with a huge range of work and residential options available, based on current behaviour. The current study uses two variations on this method to arrive at the final housing numbers for B&NES:

- The first involves a direct application of the new homes / jobs ratio to the employment projections for businesses with B&NES itself. Here, following extensive analysis and comparative testing in Sections 5 and 6 below, the ratio is applied to the Tym study forecasts for B&NES.[21]

- The second approach takes the whole WoE Partnership area as a proxy for the larger effective labour market in which B&NES is located[22] and the total dwelling requirement for the WoE is calculated by applying the new homes / jobs ratio to the projected additional WoE jobs. The next step is based on the principle that the integrated nature of the WoE economy, with its very wide range of locations for people's choice of homes relative to where they work, generating intense patterns of cross commuting between the four local authorities. The B&NES total additional housing requirement is then obtained by applying its percentage share of overall

[18] 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.
[19] It should be noted that in reality, across the WoE area as a whole, there will be a large number of multiple earner households meaning that there will actually be rather more new jobs than economically active new households, i.e it will not be a simple one to one relationship. This does not invalidate the new homes / jobs ratio of 1.33 as these relationships are still contained within that value.
[20] In theory it might be possible to reduce inward commuting by providing additional houses but the complexities of the market place are too great for this to happen so easily without much more sophisticated forms of intervention, eg fiscal measures such as carbon or road pricing, which are currently politically or practically beyond the reach of local authorities.
[21] Tym & Partners "Bath & North East Somerset Business Growth and Employment Land Update," June 2010.
[22] The West of England Partnership area, comprising the four unitary local authorities, is used as a the best fit to the ONS NUTS3 level data unit for regional accounts data and a good approximation to the main labour market area.

trend housing growth in the WoE (here using the latest available CLG sub national household projections (2006 based) and for comparison the later ONS sub national population projections (2008 based).[23]

In this exercise, the second approach is used to evaluate the results of the first, directly projected B&NES jobs growth, method.

5.1.6 (Principle b) From the household projections calculate the additional housing need arising new household being formed from within the existing local population. Estimate the proportion of these people likely to require affordable (supported tenure) housing using incomes data etc or evidence provided through a SHMA[24] and apply to the future housing total in para 4.6.5. If the locally generated additional need over the plan period is large relative to the housing total in para 4.6.5 then this might require an addition to the overall total.

5.1.7 (Principle b) Identify the size of the existing backlog of unmet need either from the SHMA or, if this is not available or sufficiently up to date, using housing waiting list totals (allowing for elements of double counting etc) and homelessness trend data. Assess whether the overall housing total is sufficient in itself to accommodate the backlog, or whether some or all of it needs to be added to the overall housing total calculated as in para 5.1.5 to arrive at a final overall total.

6.0 The Economic Projections

6.1 Economic forecasts and projections are inevitably an educated "shot in the dark".[25] A key element in applying the economic projections in this exercise is therefore to compare assumptions and outputs from alternative sources. Projections set out in the recent Roger Tym report for B&NES Council[26] focus on B&NES only. The approach in this study however augments this with a wider look at prospects for the area covered by the four West of England Partnership authorities, as their level of economic interconnectedness and opportunities for cross commuting means that the housing requirement for B&NES needs to take this into account. At the same time comparison is made with the results of the recent work on future economic scenarios for the South West carried out by Oxford Economics on behalf of SWRDA and SW Councils.[27]

6.2 The economic projections are based as far as possible on the latest edition of "Economic Outlook: UK long-term growth outlook". [28] The basic assumptions behind the central Oxford UK growth forecast are then used as the key reference point for developing the scenarios and applied to the original SW trend growth detailed Cambridge Econometrics model outputs used in developing the dRSS. These date from late 2006 (for SW housing market areas) and from early 2008 (local authorities) using the 2004 based ONS sub national population projections as the population component at regional level.[29] The basic relationships between key variables within the Cambridge Econometric Local Economy Forecasting Model, for example assumptions about

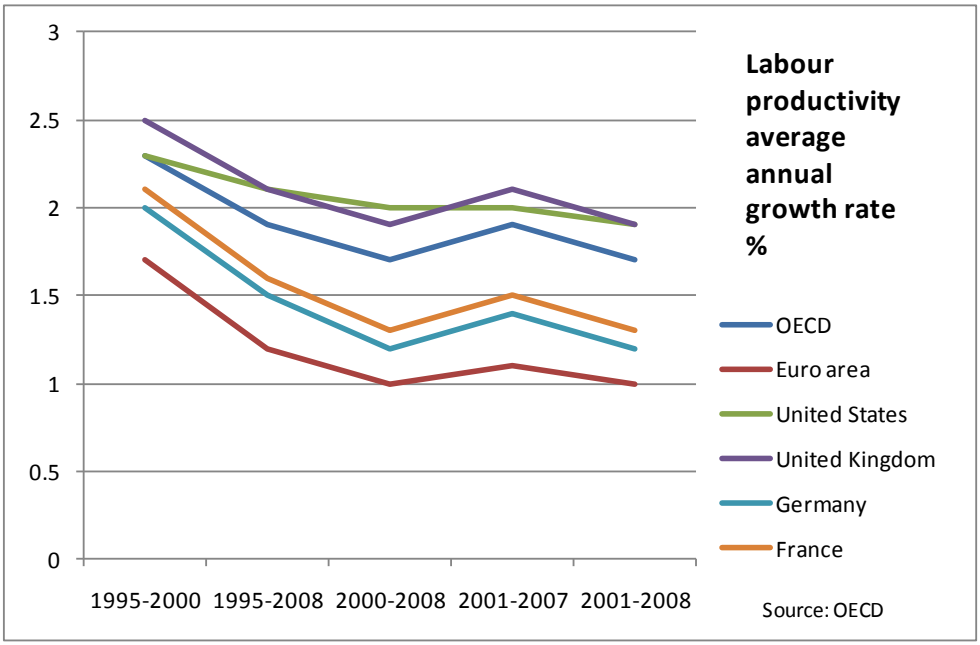
[23] The CLG household projections based on the mid 2008 population projections are not expected to be published until October/ November 2010.
[24] Strategic Housing Market Assessment.
[25] Summed up by Henri Theil, "Models are to be used, not believed." Principles of Econometrics, 1971

[26] Roger Tym & Partners "Bath & North East Somerset Business Growth and Employment Land Update," June 2010
[27] Oxford Economics "South West Growth Scenarios: Final Report" June 2010
[28] Oxford Economics 20th April 2010 (http://www.oxfordeconomics.com/free/pdfs/ukmfeat1_0410.pdf)
[29] Produced in 2006, this was subsequently amended by ONS in 2008 owing to inconsistencies at local authority level and it is this latter projection that has been used within this Study.

key trends in productivity, have been retained. Although increases in productivity are still, along with population growth and capital investment, the most important factor behind economic growth in the South West, it has been in gradual long term decline in common with the rate of productivity improvement in other advanced economies (Fig 6). This is due to factors such as labour force ageing and diminishing returns on productivity investments in areas of mature technology. Broadly speaking, at lower rates of growth, most improvement tends to be absorbed by productivity change leaving little or no room for job growth.

6.3 Table 2 shows the relative importance of productivity growth to overall economic growth potential (ie the overall output capacity[30]) in the UK over recent decades. This shows that output productivity contributed by far the major share of growth counteracted only in additional employment creating potential by the reduction in average working hours, and increased levels of population and increased active participation in the workforce.

Fig 6



6.4 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.

[30] Note that capacity is not necessarily fully utilised, for example during a recession capacity is likely to fall but, initially, at a slower rate than actual output owing to many firms' tendency to retain labour, plant, machinery etc as far as possible in readiness for a subsequent improvement in demand.

Table 2 Historical contributions to UK potential output growth (% per annum)

	1986 Q2 – 1997 H1	1997 H1 – 2006 H2	Change
Trend output per hour worked	2.0	2.3	+0.3
Trend in average hours worked	-0.2	-0.4	-0.2
Trend employment rate	0.4	0.4	0
Population growth	0.2	0.6	+0.4
Total Potential Output	**2.5**	**2.9**	**+0.4**

Source: Oxford Economics, 2010

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

Table 3c: R Tym Report scenarios SW Regional economic growth – key assumptions & B&NES projected employment growth

Projection Scenario	2006-09 %	2009-14 %	2014-26 %	South West annual average 2006-26 %	B&NES Net[31] Employment Growth 2006-26 *('000)*
Green Budget based	-0.7	1.7	2.0	1.6	***8.7***
Consensus based	-0.7	2.2	2.5	1.9	***11.2***

Source: R Tym 2010

6.5 Whilst the projections for this report focus on the West of England Partnership area broadly as a single labour market (i.e. not at the level of the four constituent local authorities) and on the South West statistical region, Tym sets out broad percentage GVA growth at regional level and actual employment growth figures for B&NES only. In order to show how the assumptions and scenarios of the two studies relate to one another, Table 3c sets out the main scenarios provided in the Tym report[32] giving GVA growth assumptions for the South West. Comparison of average annual GVA growth for the South West over the whole period 2006-26 with Table 3b shows that Tym's Consensus based scenario and the Stage 2 Study High Growth scenario are equivalent at 1.9% pa average annual growth over the whole period 2006-26,[33] whilst the Tym "Green Budget" scenario equates to the Stage 2 Central assumption at 1.6% pa.

TABLE 4 SW and West of England Partnership area: Projected Employment (thousands)

Projected figures in *italics*

	1981	1991	2001	2006	2011	2016	2021	2026	Total Change 2006-26
South West (Central Projection)	2001.9	2346.3	2489.5	2613.3	***2611.0***	***2685.1***	***2760.0***	***2831.7***	***218.4***
South West (High Growth)	2001.9	2346.3	2489.5	2613.3	***2613.7***	***2701.9***	***2793.0***	***2887.2***	***273.9***
South West (Low Growth)	2001.9	2346.3	2489.5	2613.3	***2606.1***	***2655.4***	***2704.3***	***2749.0***	***135.7***
South West (pre recession trend)	2001.9	2346.3	2489.5	2613.3	***2701.5***	***2792.6***	***2886.8***	***2984.2***	***370.9***
West of England (Central Projection)	470.1	554.1	586.6	627.2	***626.6***	***644.9***	***663.3***	***681.0***	***53.8***
West of England (High Growth)	470.1	554.1	586.6	627.2	***627.3***	***649.0***	***671.5***	***694.7***	***67.5***
West of England (Low Growth)	470.1	554.1	586.6	627.2	***625.4***	***637.6***	***649.6***	***660.6***	***33.4***
West of England (pre recession trend)	470.1	554.1	586.6	627.2	***648.9***	***671.4***	***694.6***	***718.7***	***91.5***

[31] This includes the net effect of employment losses during the 2007-09 recession.
[32] Op cit Table 3.7
[33] Note that the average annual growth figures in the R Tym's analysis table shown in Table 3c include the impact of negative GVA and employment growth during the 2007-2009 period, a projected period of weak recovery during 2010 and then a period of increased output after that as shown in Tables 3a and 3b.

6.6 The results of the projections in terms of jobs created are set out in the right hand column of Table 4. The results of the varying Stage 2 study assumptions on job growth can be seen in Figures 6 and 7a. These show that the decline in economic output during 2008-09 will have a lasting impact on both the region's overall growth curve and that of the West of England. Fig 7b demonstrates the detailed impact of negative annual GVA growth on employment levels during the recession.In general terms, even the "high" growth rate scenario, by comparison with the pre recession growth trend, lags around five years behind in terms of job growth levels previously expected throughout the entire period to 2026.

Fig 6 SW Economy Total Jobs 2006-2026

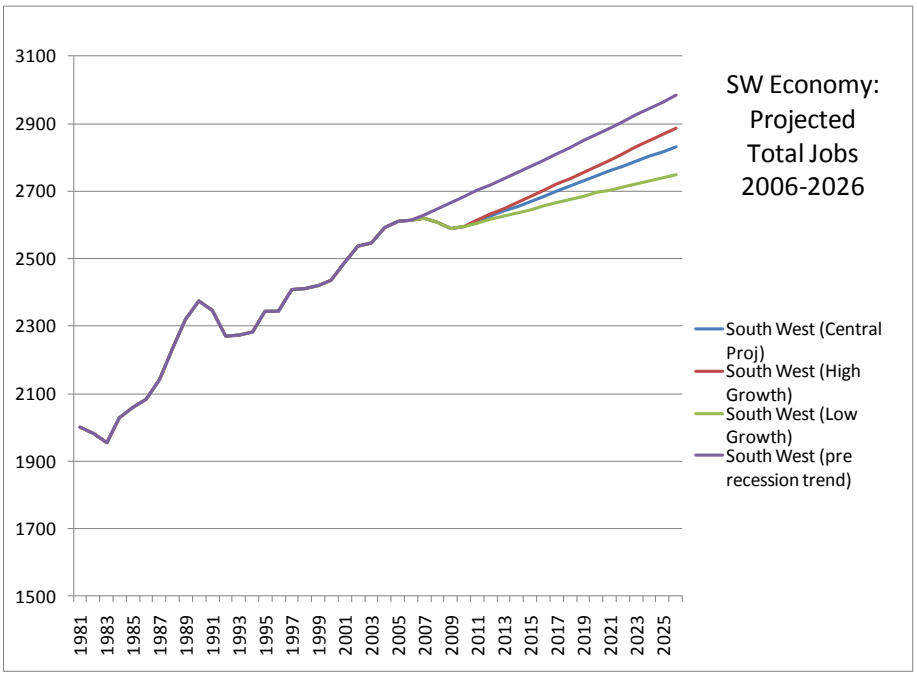


Fig 7a West of England Partnership Area Economy Total Jobs 2006-2026

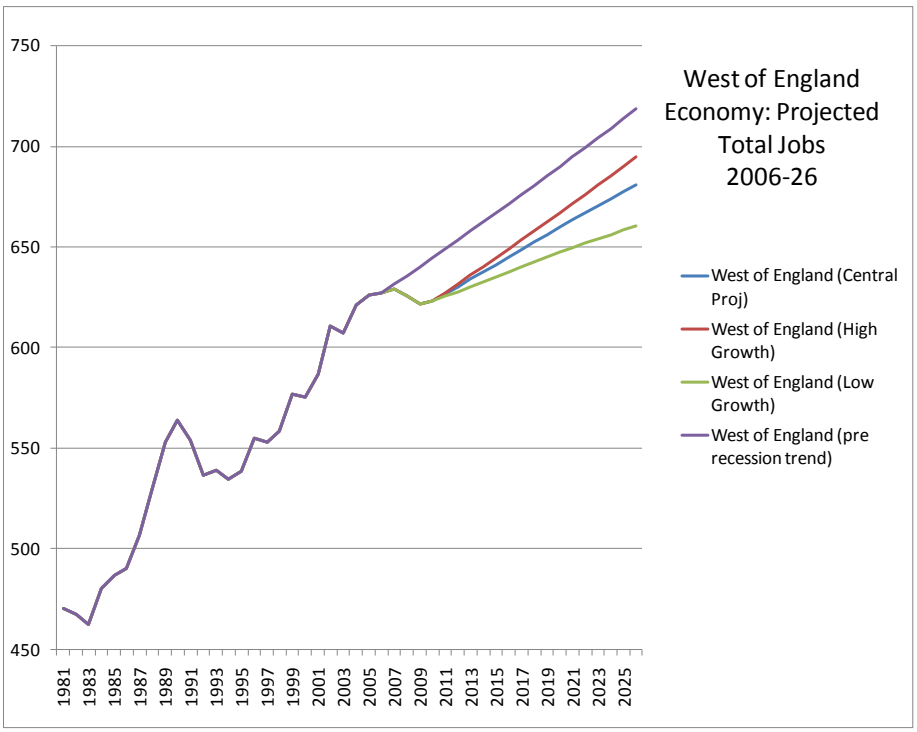
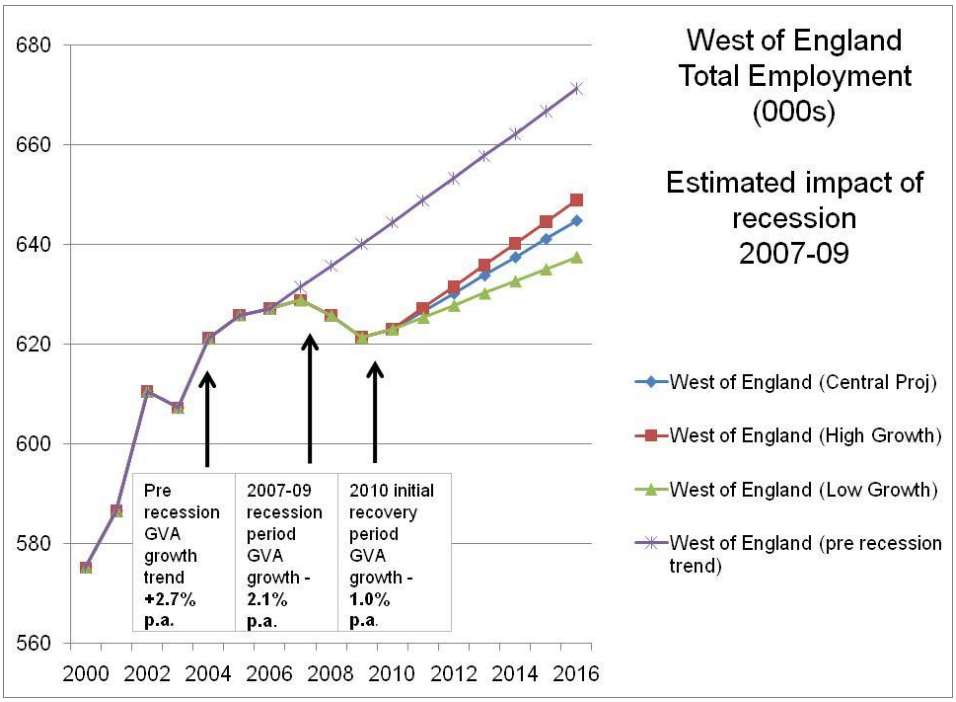


Fig 7b West of England Partnership area recession impacts 2007-2010/16



6.7 Comparing the right hand column of Table 4 (Total job growth 2006-26) with the original draft RSS scenario projections in the grey shaded area in Table 1, it can be seen that as expected the results of the 2.7% GVA growth UK trend scenario (2.9% SW) is close to the RSS South West 2.8% scenario result for West of England Partnership area (91,500 additional jobs for the former compared with 94,600 for the latter, and 116,800 projected by the dRSS 3.2% growth scenario).

6.8 From the discussion in para 5.6, it is reasonable to assume that the Central (C) and High Growth (HG) projections of additional jobs for the SW and West of England given in Table 4 (SW: C= 218,400, HG= 273,900; WoE: C= 53,800, HG= 67,500) are also equivalent to Tym's Green Budget and Consensus projections of employment growth in B&NES over the 20 year period (respectively 8,700 and 11,200 additional jobs). If the housing allocation for B&NES is to accommodate future economic growth in the area without either compelling more of the workforce to commute from elsewhere in the sub region or constraining economic potential to some degree (see Fig 4), then it should at least start from these two jobs figures. The Section 7 sets out how this can be done.

7.0 Assessing assumptions and outputs against other recent economic forecasts

7.1 The Office for Budget Responsibility's Budget Forecast for the UK was published with the Chancellor's Budget Statement on 22nd June. GDP is now forecast to rise by 1.2% and 2.3% respectively in 2010 and 2011. From 2012 growth recovers peaking at 2.9% in 2013 before settling back to 2.7% in 2014 and 2015, a level closer to but not quite at the point where the

economy's "output gap" is removed.[34] These figures are close to the assumptions used in the Stage 2 High Growth Scenario set out in para 3.5.

7.2 The Oxford Economics growth scenarios study was published on 21st June.[35] Whilst the main report is concerned with growth across very broad sub regions of the South West, output data at local authority level was also made available. The results of this for the SW region, the West of England Partnership area and B&NES are shown in Table 5 and, for the latter, in Fig 8. In the Oxford document the "Central Forecast" equates to the Stage 2 Study "Central Projection", "Stronger Trend Growth" to Stage 2's "High Growth" and "Weaker Trend" to Stage 2's "Low Growth". The medium term UK GVA growth assumptions underlying these scenarios remain those set out in para 3.5. Table 6 provides a comparison between the Oxford figures and the Stage 2 report/ Roger Tym scenarios.

Table 5 Oxford Economics Scenarios for the South West: June 2010

	Total employment (jobs, 000s)							
	2006	2011	2016	2021	2026	2030	Change 2006-26	% Change 2006-26
South West								
Central Forecast	2625.5	2644.0	2798.0	2867.3	2922.4	2966.9	296.9	11.31%
Stronger Trend Growth	2625.5	2693.5	2898.9	2991.9	3067.0	3129.4	441.5	16.81%
Weaker Trend Growth	2625.5	2640.6	2774.5	2816.1	2830.8	2842.7	205.3	7.82%
West of England Partnership								
Central Forecast	574.5	578.5	617.5	634.6	648.3	659.1	73.7	12.83%
Stronger Trend Growth	574.5	590.1	641.3	664.3	683.2	698.6	108.6	18.90%
Weaker Trend Growth	574.5	578.1	612.5	623.5	628.1	631.7	53.6	9.32%
Bath & NE Somerset								
Central Forecast	92.2	90.2	94.8	96.7	98.1	99.3	5.9	6.40%
Stronger Trend Growth	92.2	92.0	98.7	101.5	103.5	105.2	11.3	12.23%
Weaker Trend Growth	92.2	90.1	94.3	95.3	95.3	95.2	3.0	3.28%

7.3 It is immediately apparent that the Oxford figures diverge markedly from the Stage 2/ Tym figures and also, if compared with the original RSS projections set out in Table 1. The main issues are:

- The Oxford Stronger Trend projection (2.75% pa GVA growth) produces a 2006-26 jobs growth total for West of England that is midway between the dRSS 2.8% pa and 3.2% pa scenarios (Table 1) in spite of a growth assumption of 2.75% after the cumulative impact of job losses during the recession is taken into account. This seems optimistically high,

[34] The output gap is expressed as the economy's actual output less trend output as a percentage of trend output (disregarding oil). (Source: OBR op cit p81). An output gap of -2% for example would indicate that output was approximately 2% below the economy's broad potential and that the economy is probably in recession. The larger the negative figure, the greater the danger of deflation. Conversely, a significant positive number indicates an increased danger of inflation as aggregate demand exceeds aggregate supply.

[35] Op cit – see http://economy.swo.org.uk/publications/simulations-projections-and-forecasts/sw-growth-scenarios/

as does the SW total growth figure of 441,500 compared with 464,000 produced by the dRSS 3.2% GVA scenario, again with continuous growth and no recession allowed for.

- The Oxford Central Forecast for B&NES appears quite pessimistic at only 5,900 jobs growth compared with a relatively high figure of 73,700 for the West of England. This implies a reduced share of new jobs for B&NES compared with the rest of the Partnership area. The respective Stage 2 / Tym figures are 8,700 and 53,800. In addition, Oxford's weaker trend scenario suggests only a 3,000 increase over 20 years. On the other hand, the growth trajectories that these produce (Fig 8) are not totally out of place in the longer context of change in B&NES job supply back to 1991.

- More encouragingly, the Oxford Stronger Trend/ Higher Growth scenario growth figures for B&NES (11,300) are virtually identical to the Stage 2/ Tym figure of 11,200. However it should be not be overlooked that this is by way of a smaller share for B&NES of a considerably larger total for the West of England as a whole. Nevertheless it does provide some reassurance of the validity of this figure as a potential planning total.

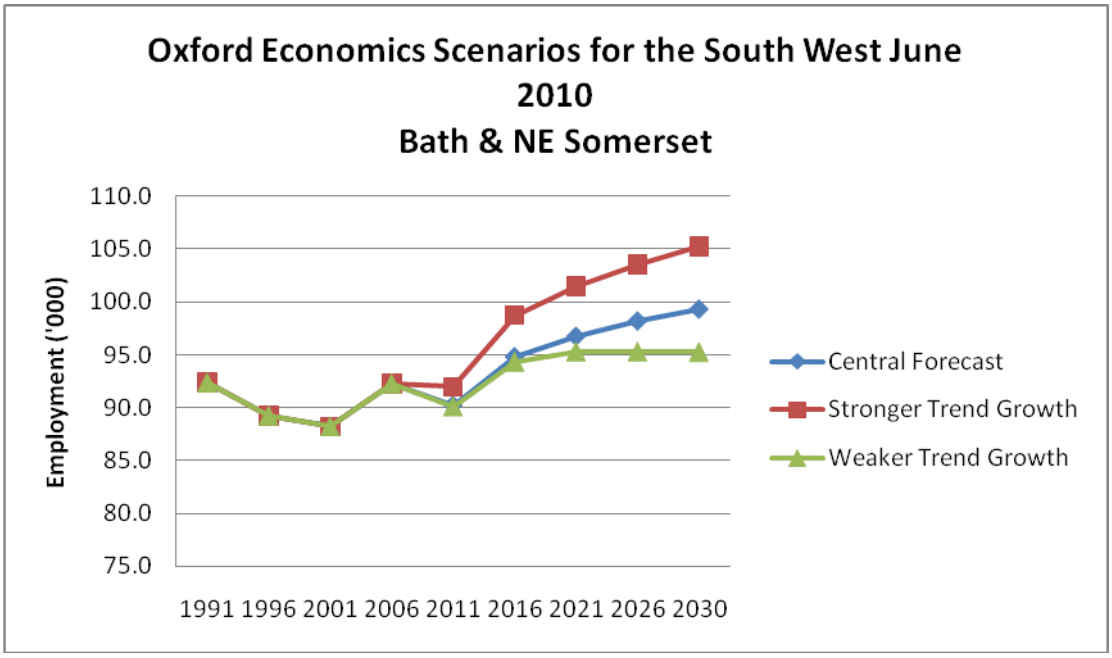
7.4 In conclusion, whilst further investigation is recommended to understand better the reasons for these differences, there appears to a reasonably robust case for expecting between 8,700 and 11,300 additional jobs in B&NES over the 20 years with a reasonable lower bound of 5,900.

Table 6 Comparison between Stage 2 Study & Oxford Economics Projections (equivalent scenarios)

Total employment ('000 jobs)

	Stage 2 Study & R Tym projections		Oxford Economics Scenarios	
Oxford Economics Scenario	Change 2006-26	% Change 2006-26	Change 2006-26	% Change 2006-26
	(000's)		(000's)	
South West				
Central Forecast	218.4	8.36%	296.9	11.31%
Stronger Trend Growth	273.9	10.48%	441.5	16.81%
Weaker Trend Growth	135.7	5.21%	205.3	7.82%
Pre-Rececession Trend	370.9	13.73%	~	~
West of England Partnership				
Central Forecast	53.8	8.59%	73.7	12.83%
Stronger Trend Growth	67.5	10.76%	108.6	18.90%
Weaker Trend Growth	33.4	5.34%	53.6	9.32%
Pre-Recession Trend	91.5	14.10%	~	~
Bath & NE Somerset				
Central Forecast	8.7	9.44%	5.9	6.40%
Stronger Trend Growth	11.2	12.15%	11.3	12.23%
Weaker Trend Growth	~	~	3.0	3.28%
Pre-Recession Trend	~	~	~	~

Fig 8


Oxford Economics Scenarios for the South West June 2010
Bath & NE Somerset
Employment ('000)
110.0
105.0
100.0
95.0
90.0
85.0
80.0
75.0
1991 1996 2001 2006 2011 2016 2021 2026 2030
Central Forecast
Stronger Trend Growth
Weaker Trend Growth

8.0 Producing a revised housing requirement 2006-2026

Direct estimate method

8.1 Applying the method set out in 4.6.5 first bullet point to the employment growth projections produced from the Stage 2 / Tym studies, the resulting housing requirement figures are set out in Table 7. The method's use of detailed employment projections for B&NES itself I would argue make it the more authoritative of the two methods described given the analysis and checks set out above in Section 6. Taking the Central Projection (identified in bold type in the table) as the most robust (i.e. most likely) overall estimate of total houses required to accommodate B&NES projected economic growth the following totals are derived for B&NES:

- **B&NES job based requirement = 11,600 dwellings (580 dw per annum)**

8.2 The estimated total locally generated demand for housing 2006-26 lies comfortably within these totals at 300 dwelling per annum, i.e. 6,000 over the 20 year plan period (see para 5.1.6 above).

Table 7 Stage 2 Scenarios: Total housing requirements 2006-26 Direct Estimate Method

Scenario	Stage 2 Study & R Tym projections Employment Change 2006-26	Employment based housing requirement 2006-26 (New homes / jobs ratio =1.33)
West of England Partnership		
Central Projection	**53,800**	**71,554**
High Growth	67,500	89,775
Low Growth	33,400	44,422
Pre-Recession Trend	91,500	121,695
Bath & NE Somerset		(Direct Estimate Method)
Central Projection	**8,700**	**11,571**
High Growth	11,200	14,896
Low Growth	~	~
Pre-Recession Trend	~	~

Whole labour market share housing requirement method

8.3 This is used here as a check to corroborate the results of the Direct Estimate method above. As set out in para. 5.1.5, this method applies the relationship between employment and housing growth across the entire WoE Partnership area (as a proxy for the labour market area) using the new homes / jobs ratio. B&NES' share of this total for the WoE is then calculated by applying its percentage share of WoE total household growth using policy neutral trend projections of population and household. In this case we have used both the CLG 2004-based Revised Household Projections (B&NES relative share of total WoE household growth 2006-26 = 14.2%), and the CLG 2006-based Household Projections (B&NES relative share of total WoE household

growth 2006-26 = 12.6%). (See Household Change section of Table 1 above for details of the CLG projections). Both projection bases are used owing to concerns that the 2006 set use high estimates of projected UK international net migration gains compared with those that are now likely post 2007. The 2008-based CLG sub national household projections are not expected until later this year.

8.4 The results are set out in the lower part of Table 8. For the Central Projection Scenario this shows that using the CLG Revised 2004 Projections household growth share we get:

(Figures are rounded to the nearest 100)

- B&NES job based requirement = 10,200 dwellings

Using the CLG 2006 household growth projection share applied to the Central Scenario we get:

- B&NES job based requirement = 9,000 dwellings

- From this we conclude that, although these figures are lower than those derived from the Direct Method they broadly confirm the **11,600 dwellings 2006-26 (580 units p.a.)** arrived at in para. 8.1

Table 8 Stage 2 Scenarios: Total housing requirements 2006-26

Whole Labour Market Share Housing Requirement Method

Scenario	Stage 2 Study & R Tym projections Employment Change 2006-26	Employment based housing requirement 2006-26 (New homes / jobs ratio =1.33)	
West of England Partnership			
Central Projection	**53,800**		**71,554**
High Growth	67,500		89,775
Low Growth	33,400		44,422
Pre-Rececession Trend	91,500		121,695
Bath & NE Somerset		(Whole Labour Market Method)	
		CLG (R) 2004 Based *	CLG 2006 Based**
Central Projection	**8,700**	**10,161**	**9,016**
High Growth	11,200	12,748	11,312
Low Growth	~	6,308	5,597
Pre-Recession Trend	~	17,281	15,334

***** CLG (R) 2004 Based = 14.2% of WoE Partnership projected household growth 2006-26

****** CLG 2006 Based = 12.6% of WoE Partnership projected household growth 2006-26

Affordable housing requirements

8.5 PPS3 requires that Local Development Documents should set out the likely overall proportions of households requiring market or affordable housing, and that this should be based on the Strategic Housing Market Assessment (SHMA) and other evidence.[36] The impact on house prices of housing supply levels and access to credit is well documented,[37] as is the extent to which increasing numbers of potential house buyers have been priced out of the market over the past decade or so. The West of England SHMA, for example, found that the number of households able to buy or rent in the market where the main "reference person" was aged under 35 fell from 51% in 2002 to only 41% in 2007.[38] In addition, factors such as increased numbers of employees on short-term contracts and increased levels of unemployment and short-time working since the beginning of the current recession have highlighted the fact that many people who might normally expect to become, and remain, house buyers have become more at risk. The result is an increased number of households needing to be housed in the affordable sector (either in full social rented accommodation or in shared equity, or "intermediate", schemes).

8.6 The West of England SHMA[39] sets out evidence that combined net additional social rent plus intermediate housing requirement, over and above properties available for relet approaches 850 dwellings a year,[40] a figure well in excess of estimated total build requirement (all tenures) of 650 units set out in para. 7.2. The concern must be, if this huge need figure really is the case, there is little chance of making sufficient inroads into the problem. The SHMA itself suggests some policy options but beyond emphasising that the evidence demonstrates high and rising levels of unmet affordable need (not news in itself of course) which is not currently being addressed effectively. The danger is that, even if the evidence is accepted, then inability to address the problem in a practical way tempts policy makers to deliver affordable housing at relatively low, arbitrary and perhaps unchallenging levels.[41]

8.7 The draft RSS attempted to address this issue in 2006 by requiring[42] 30% of dwelling completions to be affordable (this was raised to 35% in the Proposed Changes document). The point made was made however that this was a purely practical approach to the problem following consultation debates between local authority and private and voluntary sector developers and providers based on what was, at a stretch, seen to be deliverable under broad market conditions prevailing in the years immediately up to 2007 [43] and was at times able to be exceeded. It was

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[36] PPS3 Housing (June 2010 edition) Para 22
[37] NHPAU "Housing requirements and the impact of recent economic and demographic change" May 2009
[38] Bramley, op cit p16
[39] Bramley, G, "West of England Strategic Housing Market Assessment June 2009: Summary", Figure 8. The total includes a small element of unmet backlog need for intermediate housing but does not take into account a total of 215 affordable dwellings already committed in B&NES in 2007 (the SHMA reference date) as these are regarded here as part of the total required supply during 2006-26.
[40] Ibid, p 36
[41] Recent guidance provided by the Planning Inspectorate, "Applying lessons learnt in England to the production of Local Development Plans", July 2010 para. 1.8-1.9, points out the importance of viability testing of affordable housing targets as evidence of deliverability and that the often very high total need figures provided by SHMAs on there own are not sufficient.
[42] Draft RSS for the South West, Policy H1
[43] Although these conditions no longer applied during the housing market slump of 2008/9 it is likely that as the market recovers and shortages come to bear again if supply is unable to match demand, that development gain will stay at a high level. The key issue is the likely limited extent to which S106 arrangements and the newly introduced Community Infrastructure Levy (CIL) will be able to make up for the planned large reductions in public expenditure announced in the June Budget. Other measures

recognised that there is a very real danger that were requirements for developer contributions to affordable housing, and other infrastructure, development become too onerous, then this can lead to significant reductions in both market and affordable housing delivery.[44] In the case of revised housing numbers for B&NES, a 2006-26 total of 11,600 dwellings would result in 4060 affordable units at 35% of total construction (203 completions p.a.). These figures will need to be subject to viability testing (para 5.1.7) to determine whether practical delivery will be possible.

8.8 In addition, the SHMA estimated that there was a backlog of unmet housing need in B&NES of 2,787 dw in 2007.) At an average proportion of 35% of all completions (i.e. averaging over both larger and small sites (under ten dwellings potential capacity), 11,600 dwellings total all tenures would on this basis result in 4,060 affordable dwellings over the plan period, or 203 units per annum. At this rate, the current backlog would require 13 years 9 months to clear. If the SHMA recommendation that an attempt to clear the backlog in 10 years is attempted,[45] then this would raise the annual affordable housing delivery requirement to 280 units annually. This is more than the entire annual average total affordable delivery during that period and in reality the shortfall would have to be met from the 430 or so relets from existing stock expected each year. However, taking relets and new build together, 633 affordable units would be available annually giving a period of under four and a half years to clear the backlog. This is well within the SHMA ten year target to clear the backlog and in practical terms would easily meet this objective.

8.9 The target driven approach using a level of affordable housing delivery which evidence suggests is deliverable but only with significant effort. An average delivery level across the unitary authority area of around 200 units a year may be the best that can be actually delivered, at least until practical evidence on subsequent actual performance is available. It is therefore recommended that, whilst perhaps acknowledging the force of evidence set out in the SHMA for far higher levels of affordable housing completions, formidable practical barriers to delivery indicate that a target driven approach, that simply aims to maximise delivery, provides the best basis for LDF core strategy policy. Testing of the financial viability of potential development across the District for delivering against the affordable housing requirements has now been completed.[46]

9.0 Conclusion: applying the numbers

9.1 The onset of severe economic recession has had significant implications for future housing requirements across the West of England. The approach set out above will, however, ensure that sufficient housing can be planned to support a recovering economy and to ensure a balanced approach to meet the needs of all sections of the community.

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included in the Decentralisation and Localism Bill, such encouragement for community land trusts, might improve delivery.

[44] Draft RSS for the South West,2006 para 6.1.8

[45] Bramley op cit p31

[46] This is being undertaken by the Three Dragons consultancy.

9.2 The application of the housing totals in Section 8 to local planning work will still require a cautious approach. It is recommended that the central wth scenario figures should be the starting point, in order not to risk creating more housing stress and hindering economic recovery. However, if subsequent monitoring over a period of a few years suggests that economic recovery is closer to either the high growth (on current evidence unlikely) or the low growth scenario then consideration of a reduced total would be appropriate at a subsequent plan review.

8.3 Finally, the results of the recent Oxford Economics projections at local authority level imply a surprisingly low share of overall WoE growth for B&NES. Even in the context of significantly higher WoE economic performance under each scenario than those arrived at in the Stage 2 Study, the Oxford high growth scenario figures for B&NES are very close to the Stage 2/ R Tym High Growth projection of 11,200 jobs. The Oxford central projection however suggests growth of only 5,900 jobs compared with 8,200 in the Tym projection. Further investigation of the reasons for this is recommended, particularly given the high reputation and credibility that Oxford hold as forecasters.

Keith Woodhead
September 2010

APPENDIX 1

Could the general rate of household growth slow down or reverse?

A1.1 As far as the South West is concerned, around half of the increase in demand for housing is projected to arise from the existing population of the region, and only half to the effects of continuing migration gains. Of the locally arising household demand, most of the change is due to an increase in projected longevity of people already living in the region. In the South West, there is considerable variation between localities, with average household size in some areas with a large proportion of elderly households or students in purpose built accommodation, for example, with an average of below two persons per household.[47] Elsewhere the average can exceed 2.75 persons, for example where there is a significant proportion of housing occupied by armed forces families.

Factors that might have a further effect on household formation

A1.2 The factors shown in Table 1, are subject to a number of risks that could affect the scale of their contribution to household growth. These can be divided into two major types:

- Direct demographic based risks;
- Direct and indirect social, economic, financial and fiscal influences.

Demographic risks

A1.3 As far as demographic risks are concerned, these are already largely already known in that around three quarters of the projected increase is due to changes in the number of adults in the population and population ageing. The make-up of the population nationally in 2026 is broadly known as these are people alive now and the effect of ageing and increasing longevity has already been allowed for in the projections. The factors that can influence this are:

- Changes in the net international migration gain; currently more people are projected to move into the UK than out up to 2026.
- Changes in mortality rates, due to disease, war, terrorism or civil unrest, or increases in poverty.

Direct and indirect social, economic, financial and fiscal influences

A1.4 Examples of indirect influences are changing social norms and consumer economic purchasing power affected by economic growth, its distribution through the economy as individual wealth, access to credit, government fiscal policy (direct and indirect effects) and changes in the relative cost and availability of housing.

A1.5 Over the years since World War 2, part of the increase in household formation has been due to increased desire for personal independence and less willingness to share accommodation. In the UK this has been accompanied by an increase in the desire for home ownership and an increase in people's ability to realise that goal. This has not been confined to the UK of course, and most OECD countries have seen a significant increase in owner occupation. Home ownership has been one of the key drivers during the latter part of the 20th Century for increasing the propensity of

[47] In 2001 Abbey Ward, Bath had the lowest average private household size at 1.59 people compared with 2.31 for both B&NES and the South West as a whole.

many people to form separate households, and there are no reasons to expect this process to reverse itself over the next twenty years.

A1.6 Econometric modelling used by the International Monetary Fund has demonstrated that house prices, and hence demand for housing, is influenced by a number of factors, including the pattern of past house price growth (thereby raising expectations of increased difficulty in access (affordability) and increased investment returns on housing as an asset), the short term interest rate, availability and real growth of credit (i.e. household borrowing power) and population growth. Apart from those factors, the biggest single influence on demand was the occurrence of a major national banking crisis (the impact of a recession is picked up indirectly by the behaviour of the other variables). These findings have been supported by other work across a substantial period of time.

A1.7 In terms of social influences on demand for housing in general, and owner occupation in particular, there are no reasons to assume that these factors are likely to change in the next twenty years. If they do, then it would probably be the result of a much larger social, economic, political or environmental event (in which case the RSS would certainly need to be reviewed with some urgency anyway!) In modern western society, for the majority housing symbolises more than just achieving the basic human need for shelter and it has become both an aspirational and positional consumer good. In addition, easier access to the housing market in recent decades, together with generally favourable tax regime in favour of owner occupation, has made housing the predominant vehicle for savings and, increasingly, in particular for many people's pensions.

A1.8 The housing market has had the effect of leveraging upwards the wealth effects of housing into increased consumption. This makes house price inflation a difficult macroeconomic stimulant for any national economy to wean itself from, and no Government would want to jeopardise economic growth. Apart from the fact that for 70% of the population it would hardly be a vote winner, it therefore becomes less likely that, outside a major national economic crash, the government would voluntarily introduce direct fiscal measures (e.g. a direct imputed rental value benefit for owner occupiers) that would have a have a major effect on the economy.

A1.9 The influence of affordability on the formation of separate households by the young, and also to some extent by others (e.g. those experiencing divorce) is clearly an important factor in the rate of household formation. Affordability also has an impact on the willingness / ability of other existing households to trade up to more expensive housing and freeing lower priced accommodation. This in turn affects the capital value of assets in the private rental market and forces up market rents. This is therefore a factor that could have an effect on household formation (and is probably happening right now anyway), but this would of course lead to social problems where local households, for example, would find it even more difficult to compete with many more affluent inward migrants. In other words, deliberate suppression of demand through squeezing the supply of houses, without very effective provision and targeting of directly subsidised affordably housing, would have too many social, economic and political consequences. The problem, like the discouraged potential households, would be less visible but would still be there under the surface.

1.10 There is of course a direct relationship between affordability, household income and the level of wages in the economy. Wide supply side measures to increase the availability of "affordable" units will have an effect. The existence of a preponderance of lower paid employment in these places, reflected in lower productivity, is a longstanding factor. Even after 60 years or more of state intervention to stimulate business investment and jobs, this has a major affect on the housing market position of "local" people seeking housing.

Economic and fiscal influences on household formation

A1.11 Interest rates affect the cost of borrowing and do have a major effect on the housing market and, therefore on rates of household formation. Control over interest rates has been ceded to the independent Monetary Policy Committee and is largely outside direct Government control. Given the degree of overall indebtedness due to the recent history of low credit restrictions and low interest payments, the risks of using this tool to more than just "damp down" an inflationary housing market are obvious.

1.12 Existing direct taxes, notably Stamp Duty on house sales and Council Tax, already exert a growing impact on the market as tax thresholds fail to keep pace with house prices. This presumably has the effect of deterring household formation at the margins. This can be overcome to some degree by positive fiscal measures that target those most in need. Some other possible fiscal measures such as reductions in inheritance tax thresholds or on second home ownership currently are politically highly unlikely and would, in any case, have only a marginal bearing on housing pressures in B&NES. Given that these types of area are also popular amongst others, such as retirement migrants, local people would not necessarily benefit from such a move unless the revenues raised locally went straight into subsidised forms of housing.

Conclusion

A1.13 The longstanding trend to smaller households still has further to go. The link between this socio-demographic trend and expressed demand for housing is not certain, however, given unforeseen factors in the macro-economic environment and possible fiscal measures designed to manage these. The process of mapping forecast demand for single person households, for example, against potential supply is necessarily crude. In the short term the market is left to respond, with some additional public funded affordable housing provision. In the longer term, the influence of individual aspirations and purchasing power on revealed market demand is a complicating factor when trying to estimate not only the numbers but also the types of dwelling required in the future.

APPENDIX 2

Calculating the housing requirement: the long term trend homes/ jobs ratio

A2.1 Step 1 involves estimating the WoE private household population. Table A1 shows the ONS Revised 2004 based total populations of the WoE Local Authorities. Table A2 gives the non private household population of WoE area (Chelmer projections derived). The ONS Revised 2004 based private household population (Table A4) is obtained by subtracting Table A2 from A3.

A2.2 Table A4 shows projected average household size derived from the application of dRSS ONS based household formation rate data[48] to the Revised 2004 based (pre recession trend) population data for the West of England. Table A5 sets out the projected ratios between total dwelling stock and total household resident locally allowing for the effects of vacant properties, shared dwellings, second homes and losses from the housing stock.[49] By multiplying Table A4 by A5 we get Table A6, the estimated total additional housing requirement under the Revised 2004 based ONS Projections. The WoE area ratio of total additional homes to total additional jobs is calculated by dividing the total 2004 based increase WoE population/households (bottom right hand cell of Table A6) by pre recession trend economic growth/ jobs projections (bottom right hand cell of Table A7); i.e. 122,052 WoE total dwellings divided by 91,500 additional. This gives a final ratio of 1.334 homes per job, slightly higher than the earlier figure of 1.25 based on pre 2003 household data used in the dRSS.[50]

A2.3 This shows relationship between the pre recession trend requirement for housing based solely on the 2004 ONS sub national population projections, and the trend set used by the 2008 Cambridge Econometrics (CE) GVA and job projections. Using these two projections as a base preserves the key relationships in the CE projections regarding the relative growth prospects and future productivity change for individual industrial sectors, migration, population growth, labour force change and household growth. These assumptions are then reflected implicitly in the relationship between additional dwellings "normally" (i.e. within a reasonable range of future growth circumstances) required to support (i.e. not to constrain) a given increase in jobs created but allowing for non job related migration and household growth. This reflects the average proportion of non economically active migrants and the requirements of newly forming households from the local population etc, whilst automatically providing a link to revised rates of projected economic growth.

A2.4 The homes/ jobs ratio is then applied to the 2006-26 total growth in WoE jobs for each of the non pre recession scenarios in Table 6 of the main report above. This provides the basic additional housing figures required shown in Tables 7 and 8. Baseline unmet housing need totals provided in the West of England Strategic Housing Market Assessment are then added (Table A8 below) to the housing totals for the scenarios from Table 8 to arrive at final housing totals for each economic scenario. These final results are set out in Table 10.

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[48] More accurately referred to as "household representative rates"
[49] Ie through demolition and changes of use
[50] SWRA, "Strategic Assumptions about the Future and Projections of Population and Economic Change", Summer Debates 2005, Paper 6
http://www.swcouncils.gov.uk/media/SWRA/RSS%20Documents/Summer%20Debates/Strategic_Assumptions.pdf

Table A1 ONS Revised 2004 based projections: Total Population

					'000
	2006	**2011**	**2016**	**2021**	**2026**
Bath and North East Somerset	175.9	181.7	186.6	191.5	196.8
West of England total	**1036.4**	**1078.9**	**1121.1**	**1162.8**	**1202.4**

Table A2 Non-Domestic population 2006

	2001	**2006**	**2011**	**2016**	**2021**	**2026**
Bath and North East Somerset	4806	4984	5155	5250	5333	5471
West of England total	**21848**	**22524**	**23255**	**23792**	**24598**	**25769**

Source: Chelmer 2006 dRSS Projections (2003 ONS Popn projections compatible)

Table A3 Estimated private household population, ONS Revised 2004 based (Table A1-A2)

	2006	**2011**	**2016**	**2021**	**2026**
Bath and North East Somerset	171094	176716	181445	186250	191467
West of England total	**1014552**	**1056376**	**1097845**	**1139008**	**1177802**

Table A4 Chelmer 2006 dRSS projections output average household size

	2001	**2006**	**2011**	**2016**	**2021**	**2026**
Bath and North East Somerset	2.31	2.31	2.28	2.23	2.18	2.15
West of England total	**2.34**	**2.3**	**2.25**	**2.19**	**2.13**	**2.09**

Table A5 Chelmer 2006 projections dwellings/household ratio

	2001	**2006**	**2011**	**2016**	**2021**	**2026**
Bath and North East Somerset	1.02717	1.02719	1.02718	1.02718	1.02718	1.02718
West of England total	**1.025991**	**1.025972**	**1.02595**	**1.025919**	**1.025904**	**1.025892**

Ie: for every household there are x number of dwellings
Source: Chelmer 2007 dRSS Projections

A2.5 The homes/ jobs ratio is then applied to the 2006-26 total growth in WoE jobs for each of the non pre recession scenarios in main report above Table 5. This provides the basic additional housing figures required shown in main report Tables 7 and 8.

Table A6 Estimated pre recession trend total additional housing requirement

AREA NAME	2006	2016	2021	2026	Change 2006-2026
Bath and North East Somerset	76080	81745	85790	90216	14136
West of England total	**444980**	**500164**	**533979**	**567032**	**122052**

Table A7
Projected jobs pre recession trend

Employment Scenarios			(thousands)
	2006	**2026**	**Increase 2006-27**
West of England (Central Projection)	627.2	681.0	53.8
West of England (High Growth)	627.2	694.7	67.5
West of England (Low Growth)	627.2	660.6	33.4
West of England (pre recession trend)	**627.2**	**718.7**	**91.5**

Pre Recession trend Additional Homes jobs ratio
1.334203