

WEST DORSET, WEYMOUTH AND PORTLAND LOCAL PLAN EXAMINATION

RESPONSE TO NOTE FROM PETER BRETT ASSOCIATES (PBA) OUTLINING APPROACH TAKEN TO THE JOB FORECASTS (WDWP/EX 13)

**ON BEHALF OF
PERSIMMON HOMES SOUTH COAST AND GRAINGER PLC**

Pegasus Group

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1. BACKGROUND

- 1.1 Peter Brett Associates (PBA) produced a Strategic Housing Market Assessment (SHMA, July 2014) for West Dorset, Weymouth and Portland Local Plan which considers the objectively assessed need for housing and underpins the consultation on the Further Proposed Changes July – September 2014.
- 1.2 In response to the consultation on the Further Proposed Changes, objectors produced alternative assessments which were discussed at the Examination Hearing Sessions.
- 1.3 Since the SHMA was produced further information has been made available to Experian (upon whose economic projections the SHMA is based) which has resulted in a change to the projected job growth over the plan period. This came to light in the 2 weeks preceding the deadline for Hearing Statements for the Examination.
- 1.4 PBA have undertaken further work to demonstrate that the revised level of job growth can be supported with the existing housing requirement proposed in the Local Plan. Following the Hearing Sessions PBA produced a Note on Job Forecasts, Economic Activity Rates and Economic Models (WDWP/Ex13, 12 December 2014).
- 1.5 WDWP/Ex13 summarises the different approaches and the relevant assumptions within the PBA and Pegasus assessments; and examines the consequences of these assumptions.
- 1.6 The housing and employment proposals of the Plan have been in a constant state of evolution. The Pre-Submission draft of the Local Plan (as modified in June 2013) contained a requirement for between 12,340 to 13,220 homes and 16,100 jobs from 2011 to 2031. Further Proposed Changes were produced (July 2014) which sought 13,175 homes and 2,300 jobs from 2011 to 2028. The Plan now proposes 13,175 homes (2011 – 2028) and 13,070 jobs (2011 – 2031) following additional work by PBA (although in the latest PBA note the figure for jobs is 13,640 for the period 2011 – 2031). The following response addresses the current assessment in WDWP/Ex 13.

- 1.7 As identified in paragraph 1.2 of WDWP/Ex13, the detailed data of the new Experian Model (21 October 2014) and old Experian Model (22 October 2014) was circulated in advance of the deadline for submitting hearing statements (7 November 2014), which allowed just over two weeks to consider the information and respond in writing. Whilst reams of data was provided (in WDWP/Ex13 and CD/SUS11), the crucial point is that no analysis, commentary or interpretation of the data was provided before the 7th November or before the Examination Hearing Sessions commenced and therefore our ability to fully understand and consider the differences in data and implications for housing requirements was limited.
- 1.8 Contrary to paragraph 1.3, Pegasus Group provided information in relation to both of the models used within the original Housing Evidence Base Review Paper submitted on 11th September 2014 in response to the consultation on the Further Proposed Changes.
- 1.9 PBA has repeatedly criticised the projections of Nexus and Pegasus for utilising economic projections which have population as an input. In terms of the population input to the models used, Pegasus were informed by Cambridge Econometrics (CE)¹ in response to the questions asked by PBA that:
- ‘CE employment projections are not constrained by population/ labour supply and are based on assumptions that historical relationships between growth in the local area relative to the region or UK (depending on which area that industry has the strongest relationship with), on an industry by industry basis, continue into the future. Therefore, no explicit assumptions for population and activity rates are in the model’.**
- 1.10 Further information has been sought in order to further clarify the inputs. CE has confirmed that the above information is correct and that there are no explicit population assumptions used in the local area employment projection used within the Pegasus work. Further details are contained within Appendix 1 to this response.

APPENDIX 1: EMAIL FROM CAMBRIDGE ECONOMETRICS

¹ as set out in Appendix A to Matter 3 Spatial Strategy IE Ref 797

2. INTRODUCTION

- 2.1 This section of the PBA note explains that the methodologies are set out in each of the appendices. In Appendix B, PBA set out the methodology employed by the LEFM model of Cambridge Econometrics (CE) which was used to support work undertaken by CE for the Oxfordshire SHMA. The LEFM model is different to the model that produced the local employment projections used within the Chelmer Model, which does not have population as an input. In this context, Appendix B is irrelevant. The correct position is set out within our Housing Evidence Review Paper at paragraphs 4.44 to 4.47 submitted in September 2014 and in Appendix 1 to this response.
- 2.2 In Appendix C, PBA has presented a note explaining the Oxford Econometrics Model. The majority of relevant information from Appendix C, however, has already been provided within our Housing Evidence Review at paragraphs 4.48 to 4.43.

3. PBA AND THE KENT COUNTY COUNCIL PROJECTIONS

- 3.1 The principal difference between the assessments of Pegasus Group and PBA relates to the economic activity rates that have been assumed. Pegasus Group assumes that economic activity rates will remain constant across the plan period (from those of the HMA in the Annual Population Survey, ONS, 2011); whereas PBA assumes that the rates will change to reflect changes to the state pension age.
- 3.2 PBA identify the Kent County Council (KCC) approach to estimating the change to economic activity rates in the future, as identified in paragraphs 3.3 and 3.4 of the Note from PBA Outlining approach taken to Job Forecasts (WDWP/Ex13). However, these paragraphs are not definitive on the approach taken. Further examination of the figures, suggests that it is not the KCC approach which has been used to determine the relationship between housing and jobs. Indeed, pages 115 and 120 of CD/SUS11 identify that by 2031, 93.77% and 93.60% of the working age populations of West Dorset and Weymouth and Portland will be economically active, as compared to 67.3% in the 2011 Census. However, the KCC approach (as articulated in the Kent Technical Paper (October 2011) identifies that in 2031, economic activity rates vary between 1.64% and 91.04% for particular cohorts. The conclusion is that the economic activity rates employed

in the Experian modelling are significantly in excess of those identified by the KCC approach, even though PBA appear to have used the KCC approach.

3.3 Further explanation of this approach should be outlined, complete with a justification of the approach taken. From reviewing the figures, there is concern that by assuming such high and unrealistic economic activity rates, the planned economic growth may not be achieved.

3.4 Additionally, the PAS best practice guidance (PBA, June 2014) states:

“A common mistake in this context is to make unrealistic assumptions on the relationship between housing, population and jobs. A number of housing assessments have been criticised by Inspectors for their assumptions about economic activity rates. The issue relates especially in relation to older people, where some studies expect the increases in state pension age to produce much increased activity rates over the next 15-20 years. This reduces the population growth, and hence the household growth, that is required to support a given number of new jobs. But unrealistic figures put the emerging plan at risk. Not only could the housing assessment be unsound in itself, but also it could be inconsistent with proposals for employment land, which are also based on expected future employment.”

3.5 It is also contrary to PBAs conclusion in the July 2014 SHMA which states:

“To overcome this, Kent County Council updated the former set of economic activity rate assumptions to make allowances for older age people to contribute to the labour force for longer. At a number of examinations (e.g. South Worcestershire and Cheshire West), Councils have argued that Kent have underestimated the role older people will contribute to the workforce in future years. The arguments for this are detailed but in summary suggest that in addition to state retirement ages increasing older people (in the future) will be poorer and houses more expensive. This will result in older people working for longer.

There is some potential merit in this argument. But for future planning we find such an argument difficult to promote. Firstly it is a key objective of Government Policy to ‘boost the supply’ of new homes to help offset house price inflationary pressures. Secondly there is no (or very limited) evidence on which to base any assumptions. With these caveats in mind, we suggest a precautionary approach when estimating the role older people may play in the future workforce.”

3.6 The PBA report has adopted just such an unrealistic assumption, resulting in reduced household growth. In order to realistically achieve economic growth levels, additional net workers will be required, which would result in the need for additional dwellings as set out in our representations.

4. WHY HAVE PBA WORKED WITH EXPERIAN TO TEST JOBS AND HOUSING?

4.1 Paragraph 4.5 identifies that the 13,175 homes identified to support 2,300 jobs, can also now support 13,070 jobs. This is based on a number of methodological assumptions (including the economic activity rates discussed previously), each of which is addressed in the following paragraphs.

Relationship of economic activity rates and economic growth

4.2 The various economic projections generate an estimate of the growth in the number of jobs (either part-time or full-time) in order to support an identified level of economic growth. In order to translate this job growth into an assessment of the objectively assessed need for housing, a number of projections have been undertaken. PBAs approach to economic activity rates within these projections, results in the future workforce including a far greater number of older persons than the approach of Pegasus Group (or that of KCC). Paragraph 5 of Appendix D identifies that older persons have a greater propensity to work part-time. Therefore, PBA assume that a far greater proportion of jobs will be part-time in the future. As a result, PBA assume that the planned economic growth will be achieved regardless of the ratio of full to part-time jobs.

4.3 In comparison, Pegasus Group applies a constant economic activity rate and will therefore assume a greater number of older workers (owing to the greater number of older people). Therefore, Pegasus Group is also likely to assume an increase in part-time working, but not to the same extent as PBA.

Adequacy of labour force

4.4 The report alludes to the job growth not being constrained by a lack of labour supply, without providing the detail to support this. This argument is used to conclude that the provision of new homes will not support more jobs in paragraph 26 of Appendix D.

4.5 In 2011, the number of jobs in the HMA and the number of working residents are broadly in balance (according to the Additional Information from PBA Regarding Technical Assumptions, pages 111 to 120) with 78,930 workforce jobs supporting a labour force of 80,680. By 2031, the same tables show between 92,000 and 92,570 jobs supporting a labour force of 87,090 to 88,060. This clearly indicates that according to PBAs modelling there will not be a sufficient labour force to support the level of jobs by 2031. This suggests that additional housing will be needed to provide for the level of jobs proposed, or that the projection is dependent on an increase in in-commuting from outside the HMA. As a consequence, West Dorset, Weymouth and Portland are in a similar situation to Thames Valley as identified in paragraph 26 to Appendix D of the report.

Commuting flows

4.6 The reliance on a change in commuting flows to support the proposed levels of employment and housing, as confirmed in paragraph 5.10 of the SHMA (PBA, July 2014), is not within the control of planning policy. Indeed, the PAS best practice guidance (PBA, June 2014) warns against such unjustified assumptions:

“Another risky approach is to plan for recalling commuters, so the ratio of workplace jobs to resident workers – and hence to population and number of dwellings – is assumed to rise over the plan period. Like increasing activity rates, this assumption means that more jobs can be accommodated for a given number of dwellings, or a given number of jobs needs fewer dwellings. But for the shift in commuting ratio to be believable there would have to be supporting evidence, to show what economic factors or policy action will bring it about. In general such evidence is not provided and the assumption of reduced commuting relies on pure aspiration.

In any case strategies of recalling commuters should not be adopted unilaterally. For any area that does succeed in recalling its commuters, increasing its ratio of jobs to workers, there will be areas where the ratio falls, so for any given number of jobs more dwellings are needed. Such shifts in commuting patterns can be positive, as described in the last section in relation to Districts E and F. Alternatively they can be counter-productive, causing labour shortages in the recipient areas from which commuters are withdrawn. In line with the Duty to Co-operate authorities should seek positive outcomes for their neighbours, not just themselves. This needs joint working across labour market areas, as discussed earlier.”

- 4.7 The assumption of PBA is therefore unjustified and contrary to the PAS guidance. It is far more robust to assume that commuting rates will remain broadly constant across the plan period. Nevertheless, the effect of this assumption is considered to be relatively small.

Unemployment rates

- 4.8 In paragraph 22 of Appendix D of the report, PBA identify that their model assumes a reduction of unemployment rates to long term averages. However, Pegasus Group assumes that the unemployment rate will remain constant from 2011. Both approaches could be considered to be robust and in any case the difference that arises from this assumption is relatively small.

Consistency with economic projections

- 4.9 The main objection of PBA to the projections employed by Pegasus Group appears to be their assertion that the CE projections are based upon a population projection which is inconsistent with the modelling work of Pegasus Group. However, CE and OE have confirmed that whilst they do undertake economic modelling that includes population projections (in the LEFM modelling for example) population is not an input to the economic projections used by Pegasus Group. On this basis, the CE and OE projections should be afforded as much weight as the Experian economic projections.

Economic growth rates

- 4.10 Paragraph 24 of Appendix D identifies that higher job growth scenarios were considered, but were dismissed owing to the extent of jobs in sectors which were not considered high growth. Pegasus Group's projections rely on CE and OE projections which similarly apply individual growth rates for each sector produce broadly comparable job growth numbers. There is general support for the job growth numbers, subject to concerns set out below, but not for the way in which these have been translated into housing numbers.
- 4.11 There has been no consideration within any of the evidence presented by PBA of how the economic projections compare with previous economic performance in the HMA and whether the Local Plan will deliver sufficiently aspirational job growth figures. Having reviewed the historic data between 2001 and 2011 (which included a period of double dip recession – the worst experienced since the great depression) and forward projections provided by Cambridge Econometrics and

Experian between 2011 and 2031, there is concern that the level of growth identified by both forecasters over the plan period is conservative. The Experian data (provided at Appendix 2 to this response) identifies growth of 13,070 jobs between 2011 and 2031, which is an increase of 0.83% growth (653 jobs per annum) compared to 9,720 jobs between 2001 and 2011, which is an increase of 1.41% (972 jobs per annum). There is concern that should a higher level of economic growth be achieved, which is very possible when comparing recent trends, there will be insufficient dwellings to provide for additional growth requirements that could exacerbate existing affordability issues.

APPENDIX 2: EXPERIAN DATA FROM CD/SUS11

5. SUMMARY

- 5.1 To conclude, as identified above and also within a Statement of Common Ground agreed with other representatives of the development industry, there remain a number of concerns with the evidence presented by PBA summarised as follows.
- 5.2 The report suffers from a lack of transparency. Indeed, many of the assumptions are not available within the report and can only be estimated. For example, the report alludes to the use of the KCC economic activity rates, but from examination of the figures it is clear that these have not been used in the Experian modelling, rather much more aspirational (and unrealistic) rates have been used. In this context the report is unjustified.
- 5.3 The report relies on several assumptions which are in direct conflict with the PAS guidance and the method used in the SHMA. In particular, the guidance advises against using unrealistic economic activity rates or relying on changes to commuting rates. Both of these have been assumed within the report, which has significantly depressed the need for housing. The report is therefore not justified, positively prepared or consistent with the NPPF (paragraph 154).
- 5.4 The job growth proposed in the Plan is lower than that achieved during the previous ten years (during which time a double-dip recession has occurred). Whilst this is based on reliable economic projections, it demonstrates that the figures set out in the Plan should form an absolute minimum.
- 5.5 In order to achieve this minimum job growth, the report relies on significant increases to the economic activity of older people. This is far from reliable, and in any event would result in many of these jobs being part-time rather than full-

time. This is likely to constrain the economic growth of the area. The report is not adequately justified, effective or positively prepared in this context.

- 5.6 The report identifies that there will be an insufficient workforce to support the jobs by 2031 and yet asserts that additional homes will not support additional jobs. This is clearly unjustifiable, as additional homes will be required to support even the proposed number of jobs.
- 5.7 In light of all these concerns and others expressed previously in regard to the soundness of the plan, it is respectfully requested that the Inspector suspend the examination in order to allow the LPAs to undertake a comprehensive redrafting of the evidence to underpin the Local Plan. This would enable proper consideration of dwelling and job growth targets, with reasonable assumptions that are justified, positively prepared, effective and consistent with the NPPF, none of which are currently achieved.

APPENDIX 1

Email from Cambridge Econometrics

Appendix 1 Email from Cambridge Econometrics

From: Shyamoli Patel
Sent: 06 January 2015 15:47
To: Hanna Staton
Cc: Mike May-Gillings
Subject: Response to PBA West Dorset and Weymouth & Portland note

Hi Hanna,

Please find below a note in response to some of the points outlined in the PBA note.

'Off the shelf' and LEFM employment Projections

CE's 'off the shelf' employment projections and projections from its Local Economy Forecasting Model (LEFM) are both consistent with its UK regional forecasts and are based on the assumption that historical relationships between growth in the local area relative to the Region or UK (depending on which area that industry has the strongest relationship with), on an industry-by-industry basis, continue into the future.

Neither of the baseline projections (LEFM or not) are 'constrained' so to speak by population, in that neither of the projections are constrained by the supply side (ie. Population/labour force). They assume that there will be enough labour (either locally or through commuting) with the right skills to fill the jobs. If, in reality, the labour supply is not there to meet projected growth in employment, growth could be slower. Therefore, no explicit assumptions for population, activity rates and unemployment rates are made in the 'off the shelf' projections.

In LEFM, however, population is an input to the model on the demand side – that is, population in LEFM is taken as given and does not change if economic growth in the local area changes, but output and employment growth in some population-driven sectors (public administration, education, health, residential & social care, and retailing) are influenced by population growth. Population will only affect the projections in these sectors through the demand side. For example, faster population growth will increase demand for goods or services in the population driven sectors, which would feed through into higher output and employment in those sectors only. It does not mean, say, that a higher population will imply a larger labour force and so increase output across all sectors due to supply side effects.

Oxfordshire SHMA

The work CE undertook for the Oxfordshire SHMA included modelling scenarios to develop a forecast using LEFM. It used the ONS 2011-based interim subnational population projections, as they were the latest available source of data at the time the work was carried out. As described above, this only affected the projections through the demand side, and did not provide a population constraint from the supply side.

Pegasus and Nexus Projections

Pegasus and Nexus both purchased 'off the shelf' employment projections from CE for West Dorset and Weymouth & Portland. As mentioned above, there are no explicit population assumptions used in either of the local area employment projections provided. However, due to differences in the timings of their purchases, the projections are from different releases of CE's data.

Kind regards,
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APPENDIX 2

Experian Data from CD/SUS11

Appendix 2: Experian job growth projections (taken from CD/SUS11)

Local/Combined	Variable Name	Baseline/Scenario	Data from CD/SUS11			Job growth 2001-2011			Job growth 2011-2031		
			2001	2011	2031	Total	Annualised	%	Total	Annualised	%
West Dorset	Workforce Job	Scenario	47.23	56.38	66.12	9.15	0.92	19.38%	9.74	0.49	17.28%
West Dorset	Workforce Job	Baseline	47.23	56.38	65.69	9.15	0.92	19.38%	9.31	0.47	16.51%
Weymouth and Portland	Workforce Job	Scenario	21.98	22.55	26.45	0.57	0.06	2.61%	3.90	0.19	17.29%
Weymouth and Portland	Workforce Job	Baseline	21.98	22.55	26.31	0.57	0.06	2.61%	3.76	0.19	16.69%
HMA	Workforce Job	Scenario	69.20	78.93	92.57	9.72	0.97	14.05%	13.64	0.68	17.28%
HMA	Workforce Job	Baseline	69.20	78.93	92.00	9.72	0.97	14.05%	13.07	0.65	16.56%