Strategic Housing Market Assessment

Volume Two: Objectively Assessed Housing Need

September 2016 update

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APPENDIX

1 INTRODUCTION

1.1 This paper is a partial update of the Strategic Housing Market Assessment (SHMA), Volume 2, produced by Peter Brett Associates for Redcar & Cleveland Borough Council in February 2016. The main purpose of that report was to determine the borough's objectively assessed housing need (the OAN) for the plan period 2015-32, in line with national policy and guidance. The report concluded that the OAN was 132 net new dwellings per annum, derived from:

- The 2012-based CLG household projection, which after a small adjustment for unoccupied homes produced a figure of 121 dpa ('the demographic starting point').
- A 10% uplift to account for past underprovision and market signals.

1.2 The report also considered whether the above numbers should be subject to a 'future jobs' uplift, to ensure that housing development in line with the projections would produce enough workers to align with the expected demand for labour over the plan period. For evidence of this we looked to economic forecasts from Experian (September 2015). Our analysis concluded that there was no justification for an uplift, assuming that the demand for labour follows the 'business-as-usual' path set out in the Experian forecast, and economic activity rates are also as forecast by Experian.

1.3 In this paper we review the above findings in the light of new evidence. Section 2 below considers whether the demographic starting point should change in the light of the 2014-based household projections, published in July 2016. Section 3 returns to the issue of labour market alignment, this time taking account of forecasts from Oxford Economics – which also underpin the Council's employment land review – and testing the impact of alternative assumptions about future activity rates.

2 THE 2014-BASED HOUSEHOLD PROJECTIONS

2.1 As explained in the original SHMA, in line with national policy and guidance the assessment of housing need must start from the official demographic projections. These projections comprise the Office for National Statistics' (ONS) Sub-National Population Projections (SNPP), and the CLG household projections – which translate the SNPP into households, using factors known as household formation rates (household representative rates, HRRs). The SHMA used the 2012-based releases of the SNPP ('SNPP 2012') and the household projections ('CLG 2012'), which were the most recent versions available at the time. Since the SHMA was published both projections have been updated to a 2014 base: SNPP 2014 was published in May 2016 and CLG 2014 in July 2016.

2.2 The ONS released 2014 based sub-national population projection (SNPP 2014) on 25th May 2016. This projection shows population from 2014 to 2039 for each Local Authority in England, superseding the 2012 based SNPP. The method used in the two projections is the same - rolling forward past rates of births, deaths and migration for each demographic group (combination of age and sex). At local level the base period from which these past rates are taken is five years (six years for international migration). These local figures are controlled to match the national figures shown in the National Population Projections, which are based on much longer-term trends and expert opinion.

2.3 On 12th July 2016 CLG released the 2014-based household projections, which group the SNPP 2014 into households by applying household formation rates (HRRs, household representative rates). These rates roll forward long-term trends as measured by Censuses since 1971, and updated between Censuses by data from the Labour Force Survey (LFS).

2014 and 2012 projections compared

2.4 Table 2.1 below compares the 2014 and 2012 CLG household projections.

Table 2.1 Households, Redcar & Cleveland, CLG 2012 and 2014

	2015	2032	Change
2012-based	60,294	62,258	1,964
2014-based	60,215	61,920	1,705
Difference	-79	-339	-260
% Difference	-0.1%	-0.5%	

Source: CLG

2.5 The differences between the two projections are insignificant. The 2014-based version shows very slightly lower household numbers for Redcar & Cleveland in 2032 than the 2012-based version, and very slightly less growth in these numbers over the

plan period. The new projection implies housing need of 104 dpa over the plan period, against 120 dpa for the old projection.

2.6 For 2032, the difference between the two projections is just 339 households, equal to half of one percentage point of the stock. Of this insignificant difference:

- 40% is due to the difference between the 2014 and 2012 population projections (SNPP). Although SNPP 2014 shows virtually the same total population as SNPP 2012 (Table 2.2), the profile of that population is slightly different, with fewer people in the 30+ age groups – who are more likely to be household representatives (heads of household) than younger residents (Table 2.3). This change in the projections is due to fractionally higher gross out-migration for males aged 30-64 in the base period of SNPP 2014 than the base period of SNPP 2012.
- The remaining 60% of the reduction in household numbers at 2032 is due to differences in household formation rates between the two projections. These updated formation rates reflect new historical information from the LFS. For Redcar & Cleveland this new information makes very little difference: There is no household type where formation rates in the two projections differ by more than 0.7 of a percentage point.

Table 2.2 Population, Redcar & Cleveland, SNPP 2012 and 2014

	2015	2032	Change
2012-based	134,740	134,658	-82
2014-based	134,863	134,838	-25
Difference	123	180	57
% Difference	0.1%	0.1%	

Source: ONS

Table 2.3 Population by age, Redcar & Cleveland 2032, SNPP 2014 less SNPP 2012

Age	0-14	15-29	30-44	45-64	65+	All
All 2015	125	11	-94	61	24	127
All 2032	247	231	-289	-311	299	177
Males 2015	28	-12	-77	-9	43	-27
Males 2032	116	67	-293	-323	202	-231
Females 2015	95	22	-18	67	-23	143
Females 2032	131	166	5	14	97	413

Source: ONS

2.7 In summary, the move to a 2014 base for both population and household projections has had very little impact on the numbers or profile of Redcar's population and households over the plan period.

Testing the projections – Unattributable Population Change

2.8 In line with national planning guidance, the original SHMA tested the official projections, to see if there was any evidence that they did not correctly reflect past trends. The first test was to consider if the projections should be adjusted to take account of Unattributable Population Change (UPC). The analysis concluded that there was no justification for such an adjustment – which would have taken the projected population loss over the period to over 1,000. The main reason for this conclusion was that for Redcar & Cleveland, unlike some other areas, the 'data tool' produced by the ONS to help understand the UPC does not provide useful evidence on the causes of the problem.

2.9 At the present time this reason for setting aside the UPC still applies, because no further information on its causes has come forward since the ONS data tool was published in September 2015. In relation to SNPP 2014, a further argument against a UPC adjustment is that the UPC only affects past trends for two of the five years whose local trends the projection takes forward. These two years are 2009-10 and 2010-11 – the overlap between the inter-censal period to which the UPC applies, 2001-11, and the base period of SNPP 2014, 2009-14. (By contrast, of the five-year base period behind SNPP 2012 four years were affected by UPC).

Testing the projections – the base period

2.10 As a second test of SNPP 2012 the SHMA considered whether a longer base period, 10 years instead of five, would produce a more robust projection. In general one would expect that a longer base period is a better indicator of underlying long-term trends, because it should smooth out year-to-year fluctuations caused by short-term factors.

2.11 In relation to Redcar & Cleveland, the Edge Analytics demographic projections that informed the SHMA did produce an alternative scenario to SNPP 2012 based on a 10-year reference period. This longer base period made little difference to the result. This suggested that official projection, which is five-year based, was robust.

2.12 Since the Edge report has not been updated, to assess SNPP 2014 we have used a simpler test – comparing migration over the previous five years to migration over the previous 10 years (Table 2.4

Table 2.4 Net migration (inflow) p.a., alternative base periods

	Within UK	International	Total
5 years (2009/10 to 2013/14)	-301	25	-277
10 years (2004/05 to 2013/14)	-341	12	-329
Difference	-40	-13	-53

Source: ONS, PBA

2.13 The five-year and 10-year averages are very close. Migration levels in the borough have been very stable, with consistent outflows to the rest of the UK and very little international migration. In the 2014-based projections the impact of using a 10-year average would be to reduce future household growth, and hence housing need, by around 20 per year.

Conclusion

2.14 The move to a 2014 base has little impact on the official demographic projections for Redcar & Cleveland for the plan period 2015-32. The 2014-based projection is very close to the 2012-based one both in terms of population change and household formation, and it passes the tests that the SHMA applied to the 2012 version, suggesting that the two projections are equally robust.

2.15 The Council may wish to adopt the 2014-based projections as the demographic starting point of its housing need calculation. If so, that starting point would fall from 120 to 104 dpa, and after the 10% market signals adjustments the OAN would be 114 dpa.

2.16 Whether the Council should adopt this slightly different number is a matter of judgment. The argument in favour is that in line with national policy and Guidance the Local Plan should be informed by up-to-date evidence. The main argument against it is that the economic forecasts we have used to test labour market balance (see Section 3 below) still take their demographic inputs from the 2012 official projections. Therefore, if we were to shift to the 2014 projections, we would need either to restart the labour market analysis once new economic forecasts are issued, or to accept that there are inconsistencies in it – which would probably be minor.

2.17 At this point in the plan-making process, therefore, to retain the 2012-based OAN of 132 dpa would be simpler. It would also be consistent with the National Planning Practice Guidance (PPG). The Guidance at paragraph 016 says that a new projection does not automatically render existing needs assessments out of date. The same paragraph also states that the 2012-based CLG Household projections are the most up-to-date estimate of future growth (now that four weeks have passed since the 2014-based projections were issued, it is surprising that the PPG does not mention them). Finally, to use the higher of two possible housing numbers would accord with national policy that planning should positively support development and growth.

3 FUTURE JOBS

Introduction

3.1 In line with national policy and guidance, as interpreted by planning inspectors, housing needs assessments should test the 'demographic starting point' OAN against expected future jobs. If the labour force (labour supply) resulting from that demographic projection falls short of the expected labour demand, the population should be lifted until it does produce enough workers to meet demand.

3.2 In the original SHMA, we used an Experian forecast (September 2015) to test whether such an uplift was required for Redcar & Cleveland. We concluded that it was not, because the population shown in SNPP 2012, and hence housing development of 120 dpa, would be enough or more than enough to match expected job growth in the borough, and hence to ensure that the demand for labour is met in full and the borough fulfils its economic potential. Hence the 'market-signals-uplifted' OAN of 132 dpa would provide more than enough labour to meet the forecast demand. We also noted that this conclusion depended on Experian's 'business-as-usual' view of future demand and on its assumptions about future economic activity rates – the proportion of people which is part of the labour force. In the Experian forecast this increased over the plan period, mainly due to rising State Pension ages and life expectancy.

3.3 In this report we provide further analysis on labour market alignment. One reason that prompted this is that since the SHMA was prepared the Council have commissioned an employment land review that uses employment forecasts from Oxford Economics (OE). The employment land review, like the SHMA, will inform the emerging Local Plan. In line with national policy the plan should deal with different land uses on an integrated basis. This in turn requires that housing and employment land policies be based on the same view of the future economy. Therefore, in this update we consider the implications for housing need of the OE local economic forecast used in the employment land review.

3.4 A second reason for revisiting labour market alignment is that in the Longbank Farm appeal decision (March 2016)[1] the Inspector supported the activity rates forecast by the Office of Budget Responsibility (OBR), which are lower than Experian's. This is an issue on which Planning Inspectors disagree; thus the Bicknacre appeal decision in Chelmsford (July 2016)[2] preferred the activity rates predicted in the East of England Forecasting Model (EEFM), which like Experian's are significantly higher than the OBR's. Nevertheless, in the light of the Longbank Farm decision it will be prudent to consider the implications of alternative activity rates.

[1] APP/V0728/W/15/3018546
[2] APP/W1525/W/15 3129306

3.5 In the labour market analysis below, we use the 2012-based demographic projections rather than the more recent 2014-based release. This makes little difference in practice, because as discussed above the two projections are very close. It also makes for consistency, because the economic forecasts we discuss still take their demographic inputs from the 2012-based official projections. Experian will shift to the 2014-based projections in their September 2016 forecast.

The OE and Experian forecasts

Overview

3.6 Table 3.1 below shows the main results of that OE forecast (January 2016) and compares them with the Experian forecast (dated September 2015) that was used in the original SHMA. Both are the standard baseline forecasts made available to subscribers, representing the forecasters' views of the most likely economic future for the borough. The two sets of results are extremely close. Before we discuss those results and their implications, it will be helpful to set out the logic of the local forecasting models that produced them.

3.7 Both the Experian and OE models produce forecasts of local labour demand, or the number of jobs that employers will want to fill. In both models that labour demand is unconstrained by local labour supply; it is largely driven by UK job totals in each economic sector, together with the sector mix of the local economy and the historical performance of each sector in that local economy against the national trend. But when it comes to balancing that labour demand against local supply, the two models present their results differently, though the underlying logic is the same:

- The Experian model assumes that future population change follows the latest official projection – which for the forecast used here is SNPP 2012. If the projected population in the local authority is not enough to meet the forecast demand, the forecast constrains the number of workplace jobs, so it matches the labour force that is produced by the projected population (taking account of economic activity rates, double-jobbing, unemployment and commuting, which are forecasts as part of the model).
- By contrast, in the OE model the forecast demand for jobs is always filled, if necessary by job-led net in-migration. Thus, in the OE model the size and profile of the population is driven partly by the demand for labour, as people move to places where there are job opportunities. As demand is always met in full, the forecast number of workplace jobs by definition equals that demand.

Labour demand

3.8 In Table 3.1, the first row of data shows the forecast job demand – which as mentioned earlier is unconstrained by local supply – and the second row shows the forecast number of jobs. The remainder of the table deals relates to labour supply.

Table 3.1 OE and Experian baseline forecasts compared – key indicators

Thousands		2015		2032		Change		Change %	
Unless otherwise specified		Experian	OE	Experian	OE	Experian	OE	Experian	OE
Redcar & C	Workplace jobs demand	45.9	47.7	46.4	46.6	0.5	-1.1	1%	-2%
Redcar & C	Workplace jobs	45.9	47.7	46.4	46.6	0.5	-1.1	1%	-2%
Redcar & C	Total labour force (16+)	62.9	64.5	62.1	63.1	-0.8	-1.4	-1%	-2%
Redcar & C	Labour force - 16 to 64	61.4	63.3	58.9	60.6	-2.5	-2.7	-4%	-4%
Redcar & C	Labour force - 65 +	1.5	1.2	3.2	2.5	1.7	1.3	115%	111%
Redcar & C	Total population	135.0	134.8	135.0	134.8	-0.1	0.1	0%	0%
Redcar & C	Population 16+	111.0	110.5	111.5	111.1	0.6	0.5	1%	0%
Redcar & C	Population - 16 to 64	81.6	81.4	73.3	73.4	-8.3	-8.0	-10%	-10%
Redcar & C	Population - 65 +	29.3	29.1	38.2	37.7	8.9	8.6	30%	29%

Source: Experian, Oxford Economics, PBA

3.9 In the Experian forecast, demand grows over the plan period, but only by 500 jobs (1%) – not significantly different from zero. Job numbers in both 2015 and 2032 are equal to demand, which means the number of jobs is not constrained by local supply. Thus, the population projected by SNPP 2012 produces enough, or more than enough, economically active residents to match the forecast demand. As noted earlier that population change, like the change in job demand, is insignificant – a loss of just 100 persons[3] (less than half of 1%) over the 17-year plan period. (We note in passing that the latest Experian forecast, issued in June 2016, is slightly more pessimistic, showing a loss of 1.700 jobs over the plan period. Experian have advised that the next vintage, due in September, will show even lower job growth due to Brexit.)

3.10 In the OE forecast, as noted earlier the number of workplace jobs by definition equals job demand. Over the plan period this number falls, but insignificantly, by 1,100 jobs (2%). In effect, OE agree with Experian that job demand in Redcar & Cleveland will remain virtually unchanged between 2015 and 2032. The population change that matches that demand is in line with the SNPP projection – an increase of 100 people over the plan period, which again means no change. In other words, OE consider that in the case of Redcar & Cleveland the level of labour demand will not call forth job-led net in-migration, over and above the official projections.

Labour supply and market balance

3.11 On the supply side of the labour market equation, Experian and OE both expect the resident labour force (economically active people) to fall very marginally over the plan period, by 800 (1%) and 1,400 (2%) respectively. Thus, in both forecasts the labour force falls relative to job demand, but by insignificant amounts. The small gap between the two is filled by small reductions in unemployment and increases in double-jobbing, as shown in **Error! Not a valid bookmark self-reference.**

Table 3.2 OE and Experian baseline forecasts compared - labour market balance sheet

Row N°	Change 2015-32	Experian	OE
	Thousands		
(1)	Labour force	-0.8	-1.4
(2)	Double-jobbing	0.5	0.7
(3)	Unemployment	-1.7	-0.3
(4)	Commuting - net inflow	-1.0	-0.7
(5) = (1)+(2) -(3)+(4)	Workplace jobs	0.5	-1.1

Source: Experian, Oxford Economics, PBA

[3] Numbers in the text are rounded to the nearest hundred.

3.12 In summary, both forecasters agree that total resident labour supply, like workplace labour demand, will be almost unchanged in Redcar & Cleveland over the plan period. As Table 3.1 also shows, in both forecasts, this virtually unchanged workforce is the outcome of vanishingly small increases in the population over 16 and similarly tiny reductions in the activity rate of that population.

3.13 Behind these stable aggregates, however, there are significant changes for different age groups. Again, the two forecasters agree on these changes:

- For ages 16-64, in both forecasts the labour force falls, by around 2,500 persons (4%). This is because the resident population falls significantly, by some 8,000 persons (10%); while the activity rate increases, but not enough to offset the loss of population.
- For the 65+ age group, both forecasts show the labour force increasing, by 1,700 and 1,300 respectively. In absolute terms these are modest numbers, but in proportional terms the over-65 labour force more than doubles over the plan period. This is due to significant increases both in the 65+ population – which grows by some 30% - and its activity rate. By 2032 the activity rate for people 65 and over in both forecasts is around 7-8% - one tenth or less of that for the 16-64 group, but two thirds above what it was in 2015.

3.14 The reason for increasing activity rates – not only among the 65+ group but also for people in their late fifties and early sixties – is that people are retiring later, due largely to the rising State Pension age (which for women is dramatic, from 60 to 67 years), but also increasing life expectancy and probably the changing mix of work on offer, with more part-time jobs and fewer physically demanding ones. These are national trends, which impact on activity rates across the UK. Experian incorporate these trends in their assumptions about future activity rates, as explained in Appendix B of the original SHMA.

Summary

3.15 Oxford Economics and Experian take very similar views on the Redcar & Cleveland economy over the plan period. Both forecasters accept that the demand for jobs will be unchanged over the period, and resident population in line with SNPP 2012 will provide enough or more than enough labour to meet that demand. That population also is virtually constant over the plan period, though its age profile changes markedly as the proportion of older people increases. This ageing of the population is a national trend, but is it more marked in the borough, as discussed in the original SHMA.

3.16 Other things being equal, this ageing of the population would result in a shrinking resident workforce, because older people have lower economic activity rates than younger ones. But other things are not equal, because in Redcar & Cleveland – as in the nation as a whole – older people's economic activity rates are increasing, due largely to rising State pension ages, rising life expectancies and the changing nature of work. Accordingly, OE and Experian forecast future increases in activity rates,

which are enough to maintain a near-constant resident workforce over the plan period despite the ageing of the population.

3.17 Thus, the OE forecast agrees with the Experian forecast used in the SHMA that the SNPP 2012 population, and hence housing development of 120 dpa, will be enough or more than enough to match expected job growth in the borough. If follows that housing provision of 120 dpa, in line with the projections, would produce a labour force that fully meets demand, so that the borough fulfils its economic potential over the plan period. Hence the 'market-signals-uplifted' housing number of 132 dpa will also provide more labour than is required to match expected job growth.

3.18 These conclusions are based on business-as-usual labour demand and future activity rates in line with Experian's and OE's assumptions. In the next chapter, we consider what would happen if these assumptions proved over-optimistic.

OBR activity rates

3.19 As mentioned earlier, the activity rates forecast by the Office for Budget Responsibility (OBR) are generally lower than assumed by both OE and Experian. These rates were produced by OBR in June 2015, as part of the Fiscal Sustainability Report, and were supported by the Inspector in the Longbank Farm appeal in Redcar & Cleveland. But more recently they were rejected by the Bicknacre appeal decision in Chelmsford, where the Inspector advised:

52. Whilst I have no reason to doubt that the OBR figures are robust, and accept that they are confirmed by the UK Statistics Authority and relied upon by the Government. Nevertheless they take a different approach to activity rates and project forward the current behaviour of people in a particular age gender group into the future. This means that reduced participation rates in a particular age group today will lead to a permanent decrease by comparison with older generations. Accordingly the participation rates tend to be lower for the younger male cohorts and contribute to the lower overall OBR activity rates.

53. The appellant refers to the Longbank decision, where the inspector attached greater weight to the OBR rates put forward by the appellant. The extent of the evidence before the Longbank inspector is unclear, but it would seem that the evidence before this inquiry differs in that at this appeal the Council used three different forecasts to arrive at the OAN.'

3.20 The comment on 'projecting the current behaviour of people in a particular group into the future' refers implicitly to Experian's critique of the OBR rates, which was part of the evidence put to the inquiry and is reproduced at Appendix A below. That paper (in the section headed '*Assessment of the OBR's approach*'), which was part of the Council's evidence at the inquiry, shows that:

- In the OBR's 'cohort' projection method, each age-sex group takes forward its current patterns of behaviour into the future.
- In particular, young people who came of age in the recession currently have activity rates around 2.5 percentage points less than the preceding cohort. This

'activity rate handicap' becomes a permanent feature, which this particular group of people carries with it as it ages.

- In contrast, in the Experian forecast the starting point for predicting the behaviour of each age-sex group is the behaviour of people who are in the same group today.
- Accordingly, the Experian forecast assumes that, as the economy recovers, the group who came of age in the recession also recovers from its low activity syndrome.

3.21 In the light of this analysis, our opinion is that the OBR rates are probably too low, and those used by Experian and OE are likely to be nearer the truth. However, given that we cannot be certain of this, and bearing in mind the view of the Longbank Inspector, we have tested the impact on labour market balance of applying the OBR activity rates. For this we commissioned from Experian an alternative scenario, based on the OBR rates (similar to the alternative forecast scenario we submitted as evidence in the Bicknacre appeal).

3.22 The OBR forecast provides activity rates, by age and sex for the UK as a whole. At national level these activity rates impact on the UK totals of output and employment. That is because, other things being equal, the fewer people are working, the smaller are both the total of goods and services they can produce, and the total of goods and services they can afford to buy. At local level, national activity rates influence both labour demand and labour supply:

i They impact on labour demand in individual local authority areas because, as noted earlier, this local demand is largely driven by national growth across economic sectors.

ii Quite separately, national activity rates impact on local labour supply. The reason is that, in forecasting models as in real life, local activity rates track the national ones – because the factors that cause them to change, such as rising State Pension ages, are national factors.

3.23 Table 3.3 shows the alternative scenario assuming OBR activity rates and compares it with Experian's September 2015 baseline scenario, on which the previous two tables were also based.

3.24 In the end year of the plan, 2032:

- From the final column of the table we see that using OBR activity rates reduces the resident workforce by 3,500 and jobs demand by 1,500.
- The labour market remains in balance, so there are still enough (or more than enough) workers to meet demand, as is apparent from rows 11-13 of Table 3.3 - which show workplace jobs equal to job demand, and the deficit of supply against demand ('excess jobs') equal to zero.
- The main balancing mechanism is a reduction in net out-commuting, from 9,800 in the baseline forecast to 7,700 in the alternative scenario. Commuting changes of this order are common. Between 2011 and 2015, for example, Experian

estimates (based on the Annual Population Survey) show net out-commuting from the borough fluctuating between a minimum of 6,400 and a maximum of 11,200

Table 3.3 Experian forecasts for Redcar & Cleveland

Row	*Thousands unless otherwise specified*	**2015 Baseline**	**2032 Baseline**	**2032 Alternative scenario**	**2032 Alt scenario minus baseline**
1	Labour Force	62.9	62.1	58.6	-3.5
2	Labour Force - 16 to 64	61.4	58.9	55.6	-3.3
3	Labour Force - 65 +	1.5	3.2	3.0	-0.2
4	Population 16 +	111.0	111.5	111.5	0.0
5	Population 16 to 64	81.6	73.3	73.3	0.0
6	Population 65 +	29.3	38.2	38.2	0.0
7	Total Population	135.0	135.0	135.0	0.0
8	Economic Activity Rate (%) 16+	56.6	55.7	52.5	-3.1
9	Economic Activity Rate (%) 16-64	75.2	80.3	75.8	-4.5
10	Economic Activity Rate (%) 65 +	5.1	8.3	7.9	-0.5
11	Workplace Jobs	45.9	46.4	44.9	-1.5
12	Jobs Demand	45.9	46.4	44.9	-1.5
13	Excess Jobs	0.0	0.0	0.0	0.0
14	FTE jobs	37.5	37.0	35.0	-2.0
15	Workplace based employment	48.8	48.8	47.2	-1.6
16	Residence based employment	57.7	58.6	54.9	-3.7
17	Net commuting balance (inflow)	-8.9	-9.8	-7.7	2.1
18	Unemployment	5.2	3.5	3.6	0.2
19	Unemployment Rate	8.2	5.6	6.2	0.7
20.0	Workplace Jobs	1,184.5	1,260.6	1,188.7	-71.9

Source: Experian

3.25 A strength of this economic modelling is that it does not treat the borough as a self-contained entity, but aims to trace the mechanisms that drive the economy across the wider regional geography. This is the only way to understand the impacts of change. A weakness, which is common to all economic forecasting, is that the results are only broad approximations. This applies especially to small numbers, such as migration and commuting, which fluctuate widely from year and in any case are difficult to measure in the past, let alone to predict for the future. Therefore the forecasts we have used – whether baseline or alternative scenario – should be read as indicators of the direction of travel, rather than detailed numbers.

3.26 We have discussed with Oxford Economics whether they could produce an alternative economic scenario along the lines of Table 3.3. We concluded that this

would be difficult, mainly because the OE model is not designed for detailed modelling of activity rates by age group.

Conclusion

3.27 We have analysed the implications for housing of the OE economic forecast that the Council is using to underpin its employment land policies. For the plan period 2015-2032, this forecast is extremely close to the Experian forecast used in the original SHMA. Both forecasters predict that job demand, the resident population and the resident labour force will be virtually unchanged over the period. These predictions are based on business-as-usual labour demand, and increasing activity rates for older age groups in line with Experian's and OE's assumptions. If they are correct, there is no justification for a 'future jobs' adjustment to the demographic starting point of 120 dpa.

3.28 We have also tested an alternative future in which older people's activity rates increase more slowly at both national and local levels, as predicted by the Office for Budget Responsibility. For this we have used an alternative forecast scenario from Experian, which models the impact of these lower activity rates. The result is that, even with lower activity rates, there would be no justification for a 'future jobs' uplift to the demographic starting point.

4 SUMMARY

4.1 The Redcar & Cleveland SHMA concluded that the borough's objectively assessed housing need for the plan period 2015-32 was 132 net new dwellings per annum (dpa). In this paper we have reviewed this finding in the light of new evidence. Section 3 assess labour market alignment, this time taking account of forecasts from Oxford Economics as well as the Experian forecasts used in the SHMA, and testing the impact of alternative assumptions about future activity rates.

4.2 The move to a 2014 base has little impact on the official demographic projections for Redcar & Cleveland for the plan period 2015-32. The 2014-based projection is very close to the 2012-based one both in terms of population change and household formation, and it passes the tests that the SHMA applied to the 2012 version, suggesting that the two projections are equally robust.

4.3 The Council may wish to adopt the 2014-based projections as the demographic starting point of its housing need calculation. If so, that starting point would fall from 120 to 104 dpa, and after the 10% market signals adjustments the OAN would be 114 dpa. Whether the Council should adopt this slightly different number is a matter of judgment. At this point in the plan-making process, to retain the 2012-based OAN of 132 dpa would be simpler. It would also be consistent with the National Planning Practice Guidance (PPG). The Guidance at paragraph 016 says that a new projection does not automatically render existing needs assessments out of date. The same paragraph also currently states that the 2012-based CLG Household projections are the most up-to-date estimate of future growth.

4.4 We have analysed the implications for housing of the OE economic forecast that the Council is using to underpin its employment land policies. For the plan period 2015-2032, this forecast is extremely close to the Experian forecast used in the original SHMA. Both forecasters predict that job demand, the resident population and the resident labour force will be virtually unchanged over the period. These predictions are based on business-as-usual labour demand, and increasing activity rates for older age groups in line with Experian's and OE's assumptions. If they are correct, there is no justification for a 'future jobs' adjustment to the demographic starting point of 120 dpa.

4.5 We have also tested an alternative future in which older people's activity rates increase more slowly at both national and local levels, as predicted by the Office for Budget Responsibility. For this we have used an alternative forecast scenario from Experian, which models the impact of these lower activity rates. The result is that, even with these lower activity rates, there would be no justification for a 'future jobs' uplift to the demographic starting point.

APPENDIX
COMPARISON OF EXPERIAN AND OBR ACTIVITY RATES

Comparison between Experian and OBR Participation Rate Projections

by Bobby Shojai & Sunil Joshi

February 2015

We compare the methodologies used by the Office for Budget Responsibility and Experian in deriving participation rate projections, and assess the results.

Introduction

In response to an external request for information from the June 2015 Fiscal Sustainability Report (FSR), the Office for Budget Responsibility (OBR) published participation rate projections to 2065 by gender and five-year age band. In 2015, Experian published a paper on Employment Activity and the Ageing Population, and will provide an update this year. In this note:

- We will compare Experian's most recent projections with those of the OBR;
- We will justify Experian's projections; and
- We will offer an assessment of OBR's projections.

Comparison

Firstly, Experian's projections have a different purpose to those in the FSR. The purpose of the FSR paper is to "…asses the long-term sustainability of the public finances". Experian's projections are intended to produce a realistic forecast for the labour market in order to drive our macro, regional and local forecasts.

Secondly, Experian's horizon reaches out to 2035 whereas the FSR projects 30 years further forward.

In Appendix A, we set out Experian and the FSR's projections of activity rates for people aged 16-64 and 65+, as well as the overall participation rate for the population aged 16+.

Experian's projection for participation rates for those aged 16-64 reaches 80% by 2035. The FSR projections decline over the medium term, settling at 76.5% by 2035. Except for a short-term decline in participation rates for those aged 65+, the FSR and Experian projections follow similar growth paths. Experian's rises to 16.7% and the FSR's reaches 13.7% by 2035.

Both Experian and the FSR's 16+ participation rates decline throughout the forecast due to the aging of the population. The FSR projections fall more sharply than Experian's, due mostly to the different 16-64 participation rates. Experian's projection declines to 61.4% in 2035, while the FSR's falls to 58.3%.

Experian's Projections

The full rationale for Experian's projections is set out in the 2015 note referred to above (and which is reproduced in Appendix B.) The updated version of this note, which is still in preparation, takes into account the 2014 national population projections and more recent data on participation rates by age and gender. However, the results are substantially similar.

In summary, Experian projects forward activity rates for each age and gender group taking into account:

- Announced changes to public policy (in particular the change in State Pension Age (SPA));
- Expected changes in the participation of females in older age groups as evidenced by today's participation rates of younger cohorts (who will age into those older groups);
- Expected changes in behaviour connected with improved longevity and health; changes to patterns of work (allowing older people to continue working under more flexible arrangements); and changes in the industrial composition of the economy (especially the shift to services.)

These activity rates are applied to the population projections to produce activity rates for the 16-64, 65+ and 16+ age groups. The full breakdown by age and gender is set out in the note.

Assessment of the OBR's approach

The model used in the FSR is based on a cohort approach. The key distinction between this and Experian's approach is that Experian's starting point for the behaviour of an age-gender group is the behaviour of the same group today. FSR on the other hand takes as its starting point the current behaviour of the people who will age into that age-gender group in the future.

The consequence for this approach is that if a younger cohort today has – for some reason – a reduced participation rate, this reduction in activity rates will be perpetuated throughout its life-cycle. This means that reduced participation rates in a younger age group today will lead to a permanent decrease in comparison to older generations.

This can be seen in the supplementary tables to the FSR 2015 (published 05/11/2015). In the medium-term (2015-19), the participation rate for males aged 25-29 falls by 2.62 percentage points. From 2020-24, participation rates for the same cohort are 2.25 percentage points lower than the preceding cohort. This pattern continues throughout the forecast. Although participation rates differ consistently between age bands throughout the forecast, the FSR model leads to a permanent decrease in the activity rate of the cohort that was aged 25-29 in the medium term.

There is a small increase in participation rates for those in the 25-29 age group following this medium-term decline, but it is small relative to the fall in the previous cohort. As a result, participation rates are significantly lower for all younger male cohorts. This effect is also present in female participation rates, though to a lesser extent.

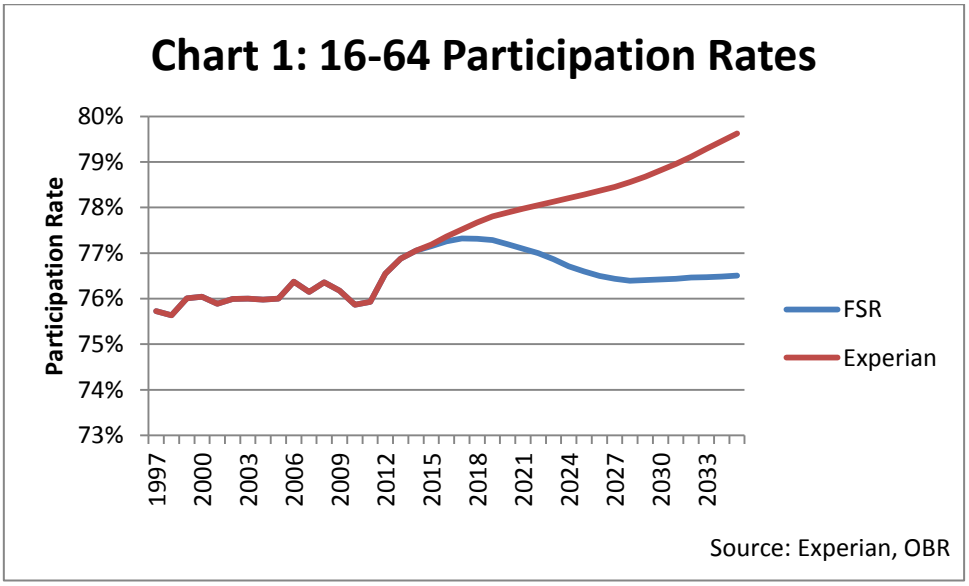
The permanent decline in participation rates in each age band arising from the cohort approach leads to a falling participation rate for all people aged 16-64 over the next ten years (Chart 1 in Appendix A). In the FSR, the 16-64 participation rate declines from 77.2% in 2015 to 76.6% by 2025. Experian projects that it will rise to 78.3%. By 2035, Experian's projection is 3.1 percentage points higher than that of the FSR. This drives the 16+ participation rate from the FSR down, well below historic levels (Chart 3). The overall activity rate from the FSR falls by 4 percentage points over the 20 year forecast period, while Experian's declines by 1 percentage point.

Conclusion

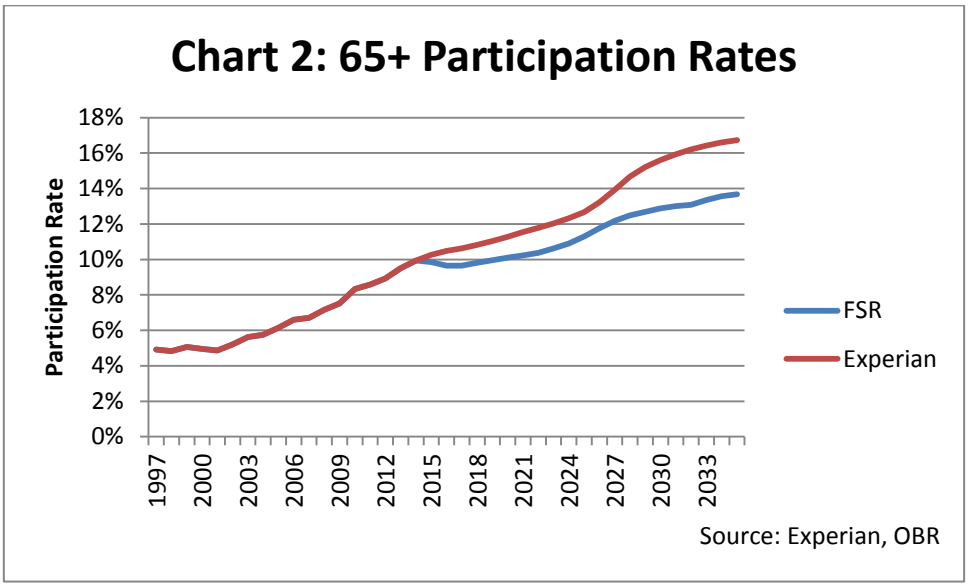
For the reasons explained above, Experian believes that its own participation rate projections are more credible than those in the FSR. We will, accordingly, continue to use these projections in our forecasting models.

Appendix A

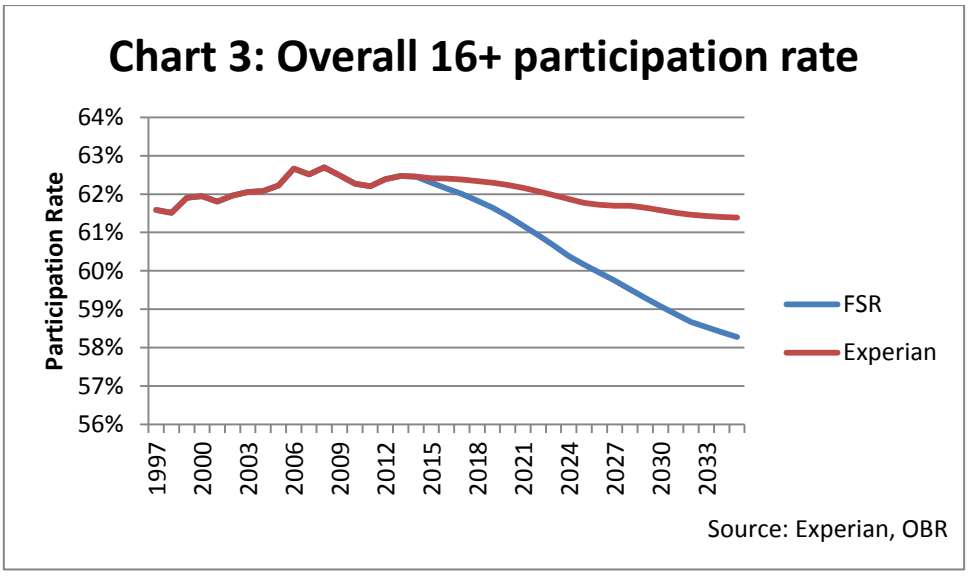
The following charts apply the growth rates of participation rates by age and gender to Experian's participation rate history. Both Experian and the FSR's grouped participation rates are calculated by using the ONS 2012-based National Population Projections.



When calculating the participation rates for those aged 16-19 for both genders, Experian has attempted to fill in the FSR participation rates for period 2009-2019, which are not provided in the supplementary tables. The proportion of the population aged 16-64 averages 7.5% over the forecast period.



The OBR does not provide projections for participation rates for those aged 90+. Experian assumes that there is no participation by those aged 90+.



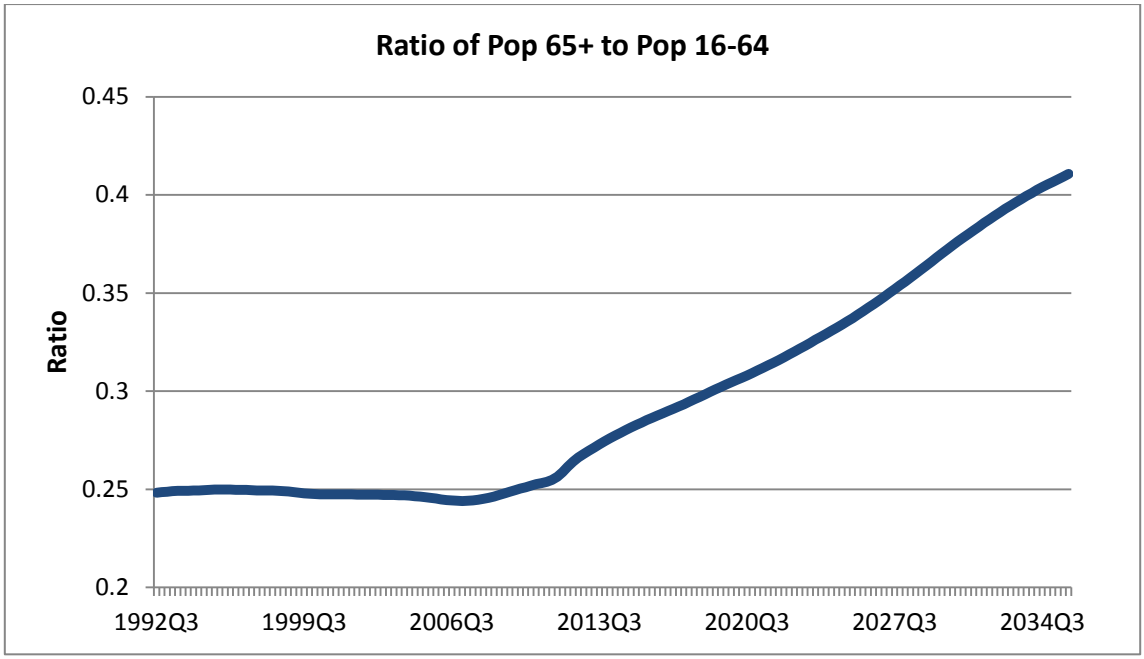
Appendix B

In 2035, there will be more than 17 million people in the UK aged over 65; this contrasts with around 12m in 2015. Moreover, they will make up nearly a quarter of the entire population compared with around 18% in 2015. This change in the age-composition of the population will have a significant economic impact. Older workers will make an increasing proportion of the potential labour force. In this note, we consider the impact of different labour force participation rates for older workers and explain the participation assumptions we will use in our UK suite of models beginning with June 2015.

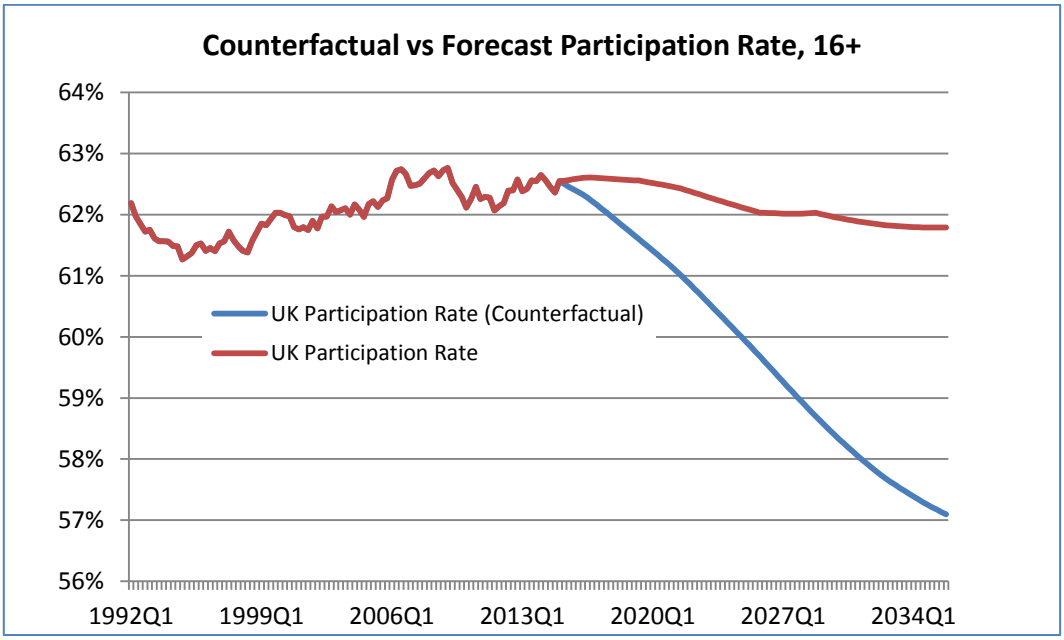
It will be convenient at this point to set out some key definitions:

- Participation Rates / Activity Rates: the proportion of the population either in employment or searching for employment
- Working Age Population: the population above the age of 15 but below the current state retirement age for their gender.
- Subnational Population Projections: population projections set out by the Office of National Statistics using 2012 mid-year population estimates.
- Labour Force Survey: survey of the employment patterns of the UK population. It provides official measures of employment and unemployment.

Over the last few years, the ageing of the population has begun to markedly change the demographic profile of the UK. According to the 2012 Subnational Population Projections, the proportion of the population aged 16 and over that was older than 65 remained at around 20% between 1997 and 2010. However, baby boomers entering retirement has caused this ratio to increase rapidly from 2011. Longer life expectancy will sustain the rising proportion, projected to reach 29% by 2035.

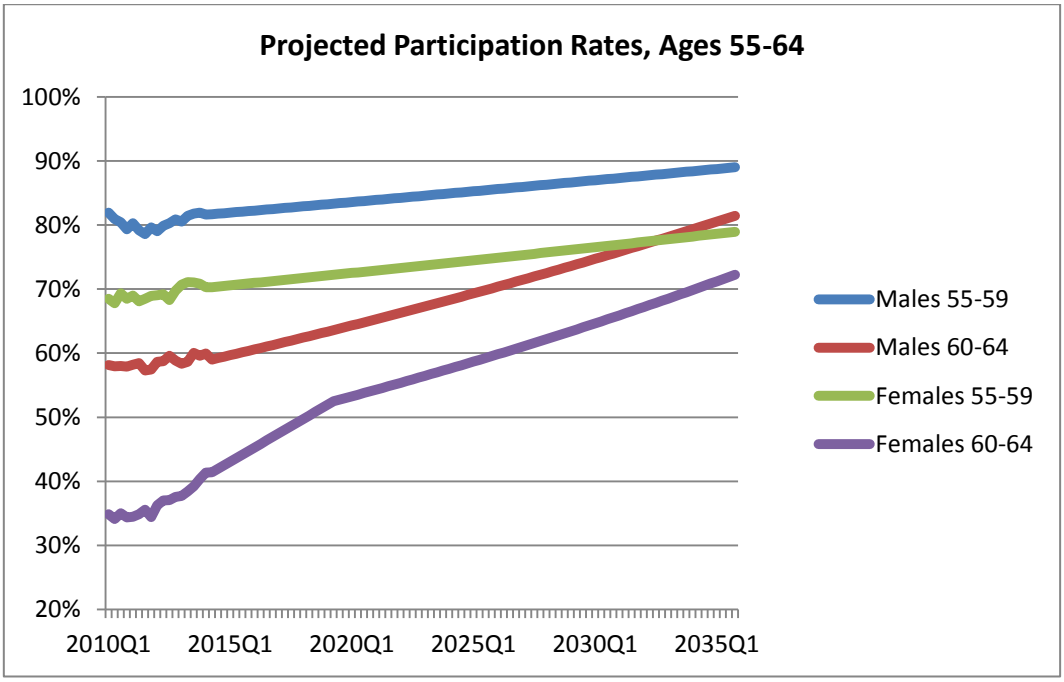


The impact of the ageing population can be seen in the participation rate chart below. The counterfactual (the blue line) is based on the assumption that older people will have the same participation rate in the future as they have in 2015. The overall participation rate for the population aged 16+ falls dramatically as older people – who have lower participation rates – make up an increasing part of the population. Such a scenario would lead to very slow labour force growth, growing at an annual average rate of only 0.19%. This would seriously limit the economic growth potential of the UK.

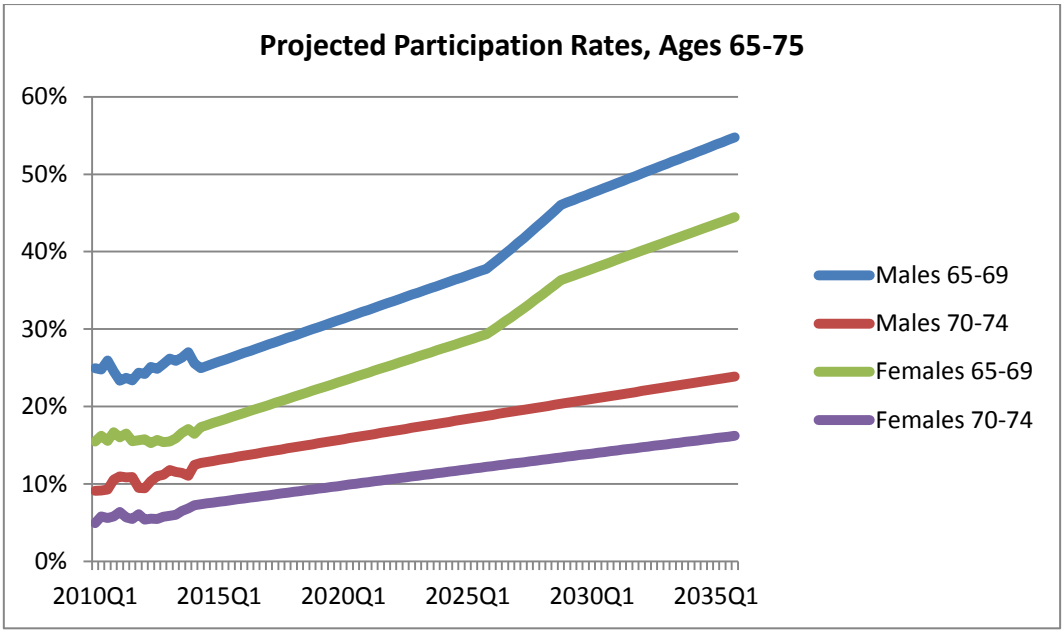


Based on our analysis of LFS economic activity rates by 5-year age bands below, we instead forecast that the overall UK participation rate will fall to just below 62%. The labour force is 8% larger than in the counterfactual scenario by the end of the forecast, reaching almost 37 million people.

We expect to see increasing participation rates across all older bands for both men and women. As the UK economy becomes increasingly service-oriented, older people are inclined to continue working. Improving health standards also mean that people are able to participate in the labour force for longer and need to build up enough savings ahead of longer retirements. The option to receive pensions as a lump sum may even leave people needing to return to the labour force at a later stage should they fail to adequately manage their finances.

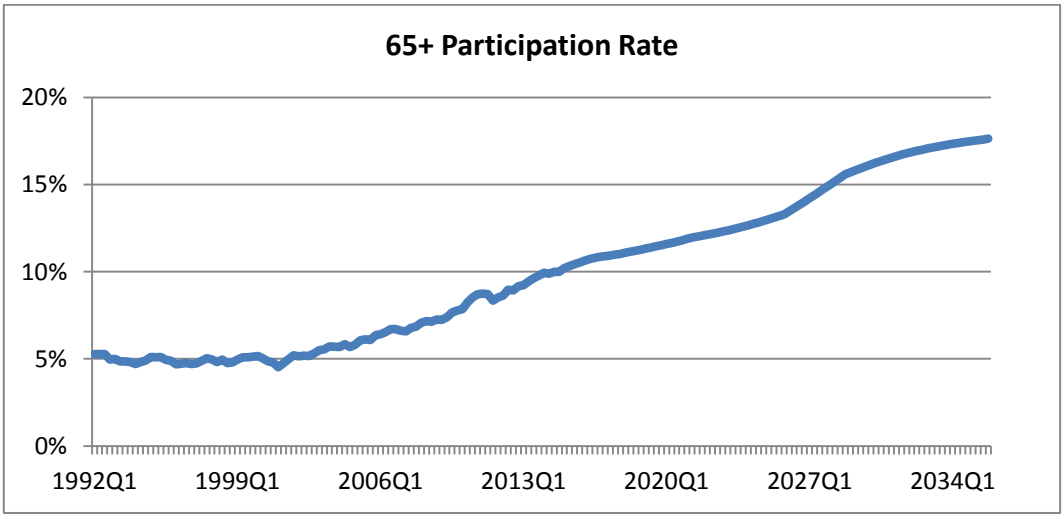


Policy changes have also begun to influence participation rates. The default retirement age has already been phased out and the State Pension Age (SPA) is gradually being increased. The SPA for women began to increase from 60 to 65 in 2010. An increase in the female participation rate for those aged 60-65 can be seen in the historical LFS data from around 2011. We have forecast that the rate will grow such that the gender gap in this age band approaches the corresponding gap for the 55-59 age band. The female participation rate also grows because cohorts displace one another over time and women born in later generations have had a higher propensity to work. As the SPA for both genders reaches 67 by 2028 and health standards improve, we see fewer people leaving the labour force between the ages of 60-64. The impact of the SPA policy changes can also be seen on the 65-69 age band.

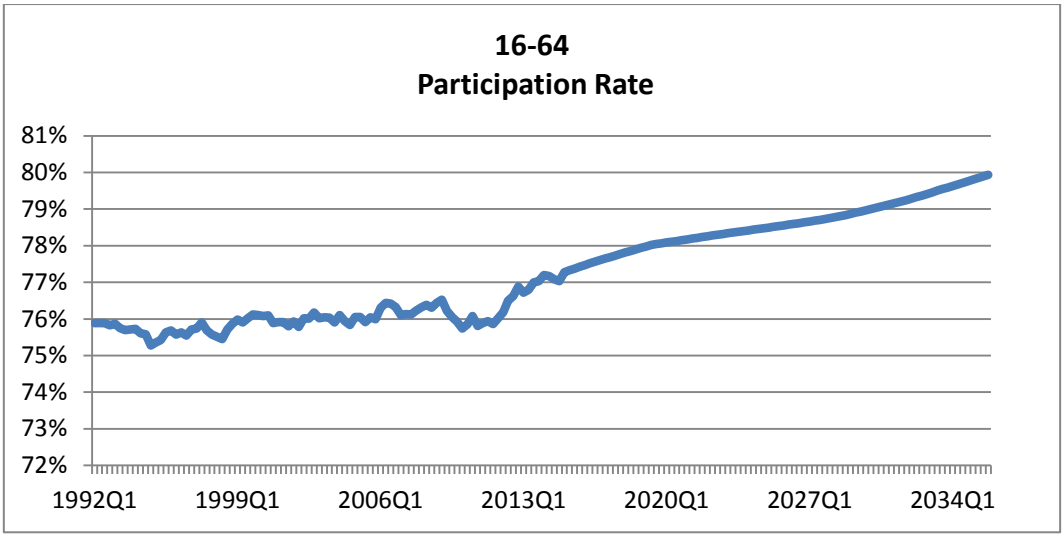


Our participation rates grow such that, by the end of the forecast, the rate for each age band by gender approaches that of the age band below at the beginning of the forecast.

There is ageing within the 65-plus population group. For example, there will be 6 times as many people over 100 by 2035 and the population older than 90 will more than double. We forecast that the overall 65-plus participation rate will increase to 18% by 2035, with growth rates fluctuating mainly due to policy changes and population growth across age bands.



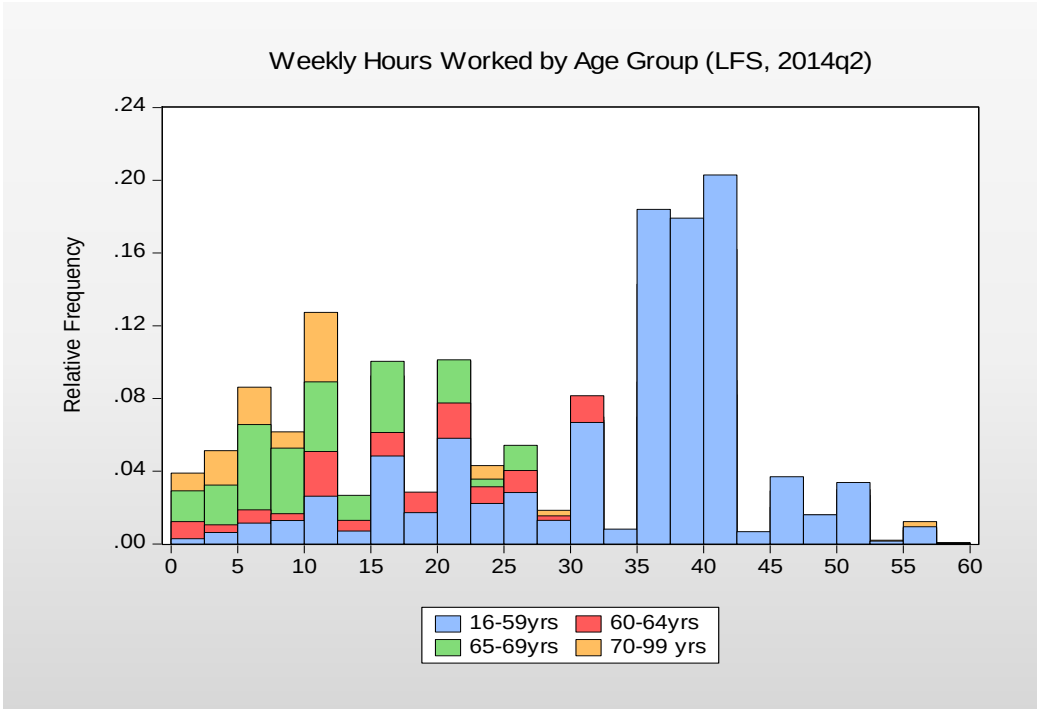
The increase in the activity rate of those aged 16 to 64 is due largely to the growing participation rate of those aged 55-59 and 60-64. It also accounts for policies designed to encourage more people to take part in the labour force.



We can apply this analysis to the regional and local level as well. The impact on our regional forecasts is that Greater London is the only area with a rising participation rate between 2015 and 2035. Greater London has the youngest population of the UK regions. By 2035 only 23% of the population in London will be 65 or over, while all other regions will see this proportion rise to above 40%.

Overall Participation Rate (%) by Region	2015Q1	2020Q1	2025Q1	2030Q1	2035Q1
UK	62.5	62.5	62.1	61.9	61.8
East Midlands	62.7	62.5	61.9	61.8	61.6
East of England	63.7	63.6	63.2	63.0	62.9
Greater London	67.2	67.8	67.9	68.1	68.2
North East	59.9	59.4	58.5	57.8	57.3
Northern Ireland	59.4	59.1	58.4	57.8	57.3
North West	61.1	61.0	60.4	60.1	59.9
Scotland	62.6	62.5	61.9	61.5	61.2
South East	64.2	64.1	63.6	63.6	63.5
South West	61.2	60.9	60.4	60.2	60.0
Wales	58.2	58.2	57.8	57.6	57.6
West Midlands	60.4	60.3	59.9	59.7	59.5
Yorkshire and The Humber	61.6	61.4	60.8	60.3	59.9

Although many more people aged 65 and over will be working over the next 20 years, the majority will be working reduced hours. The relative distribution of hours worked by age, taken from the Labour Force Survey for 2014Q2, shows that most people younger than 65 work at least 35 hours per week. When we separate the age bands of those aged 65 and over, we see that people work fewer hours the older they get. We would expect the distribution for the 65-plus population to shift towards slightly longer hours over time.


Weekly Hours Worked by Age Group (LFS, 2014q2)
Relative Frequency
.24
.20
.16
.12
.08
.04
.00
0
5
10
15
20
25
30
35
40
45
50
55
60
16-59yrs
60-64yrs
65-69yrs
70-99 yrs