Council Response

Possible housing drivers: economic and social factors

1. economic factors

Policy context

1. The NPPF requires that Plans should meet the full objectively assessed need for housing. NPPF para. 159 indicates that a Strategic Housing Market Assessment (SHMA) should be prepared to assess these full housing needs, and that the SHMA should identify the scale of need, which should meet household and population projections, address the need for all types of housing, and cater for housing demand. Whilst economic factors will be evident within demographic forecasts, and the NPPF indicates the need to take account of economic signals, there is no explicit recognition in the NPPF itself of the need to take economic factors into account in respect of establishing housing requirements.

2. However in the SHMA Practice Guidance (Version 2, August 2008) Chapters 3 and 4, the advice about understanding the current and future housing markets includes undertaking research to consider how economic factors might influence future demand, and thus the consideration of future economic performance is one of the necessary stages identified in determining an overall view. It does note however that there is no expectation that additional commissioned projects will be necessary to meet these requirements, although some more sophisticated approaches that use forecasting techniques to assess the potential impact of economic factors on the housing market are described in the guidance.

The Council's approach

Economic forecasts

3. The approach taken by the Borough Council has not been to engage in detailed forecasting of economic variables solely for the purpose of making the Plan. The first SHMA (E13, 2008), produced within the context of the RSS for the northern housing market area, reflected and incorporated the economic and housing forecasts developed at the time: see especially Section 3.7, concerning economic performance. The Council's updated SHMA (D5, 2010) has reflected a continuation of the expectations established in its predecessor, although it must be acknowledged that the first SHMA was produced before the major economic difficulties of the recession, and it seems clear that despite some recent optimism, the economy has not yet returned to pre-recessionary levels. Nonetheless, despite the current evidence of low performance in the house building industry, and before the success or otherwise of new Government

initiatives to support new buyers can be judged, the Plan provides for an optimistic immediate return to sustained pre-recessionary levels of house building.

4. At the current time, when economic conditions are arguably beginning to improve, but still remain very uncertain, limited reliance can be placed on forecasting, which often at the best (and most stable) of times appears to provide certainty which is likely to be spurious.   Even when forecasts of economic performance have been achieved, there still remains much logical difficulty in translating these into the likely requirement for new dwellings.   Indeed it is not at all apparent in the submitted evidence provided by one of the main promoters of economic influences (Gladman) how their forecasts make the final leap to suggest such high (and precise) levels of houses required.

5. Forecasts of the extent to which a local economy is expected to change over time can never be exact, but an appreciation of the way in which patterns of employment may change offers a key input to an employment land study, particularly when assessing the level of labour demand. A significant caveat of employment forecasts is that they are based on trends of historical economic performance and predict how these trends are likely to carry on into the future.

6. For the purposes of the Employment Land Study, Staffordshire County Council, sourced "off the peg" employment forecast projections based on the "Local Economic Forecasting Model" as produced by the recognised economic forecasting company "Cambridge Econometrics". These forecasts, dated 2008, employed a trend based analysis, informed by locally important factors, taking into account historical trend data, and predicting the trend for future economic and employment growth. The employment forecasts were based on an input data year of 2006. Contrary to the assertions of some of the respondents to the Plan, these projections largely pre-date the economic effects of the recession, which could not therefore be fully taken into account.

7. Indeed, as further background context on these projections, an update to this model subsequently obtained by the County Council, based on April 2010, did take into account the economic recession and presented a still more pessimistic picture of the future of the Staffordshire economy than previous versions. In terms of the total economic output of Staffordshire, annualised levels of growth were not expected to return to pre-recession levels until 2020. Similarly, when considering future forecasts of employment, it was considered unlikely that total employment in Staffordshire would return to pre-recession levels before 2020. Growth in employment was predicted to tentatively return in 2011 and 2012, before stabilising towards annual growth of around 0.5 to 0.6% per annum towards 2020. This compares with growth of above 1% per annum in 2005 and 2006.

8. The Plan for Stafford Borough is thus founded on relatively cautious economic aspirations, which is sensible in the current climate.   The Plan is consistent with the economic objectives contained in the Sustainable Community Strategies of County Council and Borough Council, and with their allied economic strategies. These in turn are supported and justified by County Council economic analysis and forecasting (the most recent being the Staffordshire and Stoke on Trent Economic Review May 2013

(E15, E16)).   This Review provides a substantial body of material to help understand changes in the local economy, which include major declines in jobs in manufacturing industry, with some gains in the health sector – particularly important in Stafford. The following key statistics are relevant:

- based on the Office for National Statistics (ONS) 2011 Population Projections, the population in Stafford is expected to increase from approximately 130,900 people in 2011, to 138,400 people in 2021, a 5.7% increase. The working age population in Stafford is expected to decline by 1.2% during the same period;

- there are currently around 4,620 enterprises present in Stafford Borough, accounting for around 16.4% of the total enterprises in Staffordshire & Stoke-on-Trent. This represents a slight decline from 4,840 enterprises that were present in the area in 2008 (pre-recession);

- in total, there were around 56,000 employee jobs in Stafford Borough in 2011. There has been an increase of around 900 employee jobs in the area since 2003, the Staffordshire District having experienced the greatest growth in job numbers over the period;

- however, in comparison to the Staffordshire & Stoke-on-Trent average, Stafford Borough has far greater levels of employment in the 'public administration & defence' and 'health' sectors, accounting for 10.9%, and 29.9% of all employee jobs in the Borough in 2011;

- similar to the Staffordshire & Stoke-on-Trent overall picture, by far the greatest growth in employee job numbers since 2003 has been within the 'health' sector (+3,700 jobs), largely linked to hospital and social work activities;

- there has been a fairly large decrease in employment within the 'other manufacturing' sector (-1,600 jobs) in Stafford Borough, almost entirely due to a contraction of the 'manufacture of electric domestic appliances' industry;

- there is a very large proportion of public sector employment (17,800 jobs in 2011) within Stafford Borough, 17,800 jobs in 2011 accounting for 30.8% of all employment compared to 20.5% nationally. This is unsurprising given that the area is the location of the headquarters of Staffordshire County Council, Staffordshire Police and Staffordshire Fire and Rescue Service. The NHS also provides a significant number of jobs within the area, particularly at Stafford Hospital. This could well leave the area more vulnerable to the potential contraction of the public sector compared with other areas.

- **Number and Change in Employee Jobs, Stafford**

Number of Employee Jobs, Stafford 2011	Change in number of Employee Jobs,
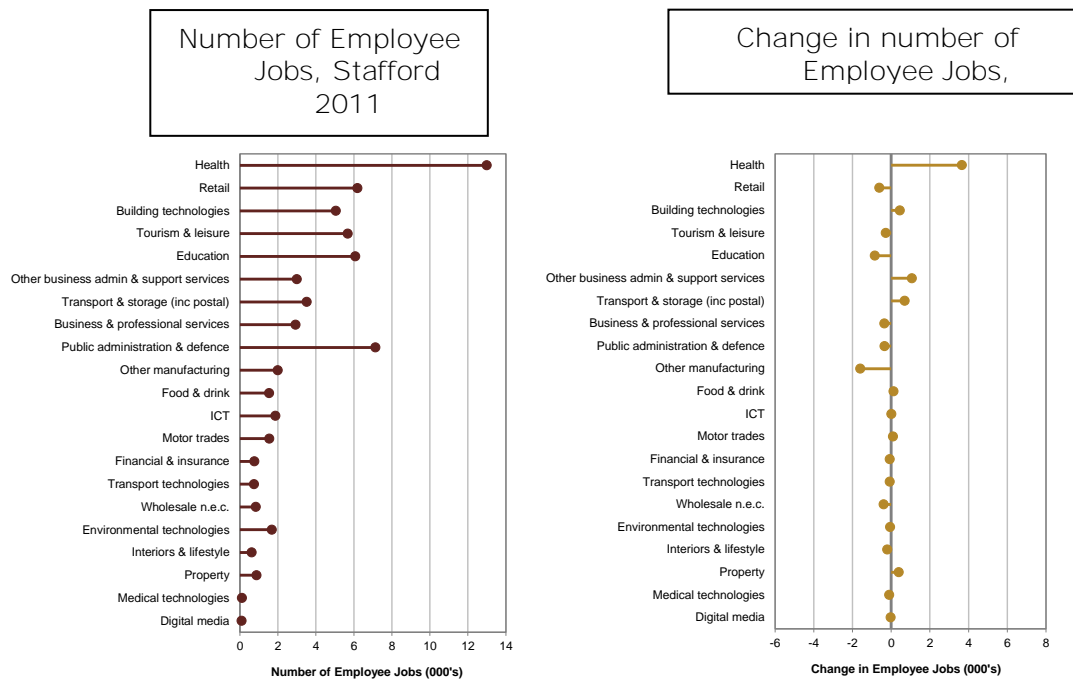
Source: Annual Business Inquiry and Business Register & Employment Survey

- in September 2013 there were around 1,440 people claiming JSA in Stafford Borough, 1.7% of the working age population. This was slightly lower than the county rate of 2.1%, but significantly lower than regional (4.0%) and national (3.2%) rates. However, the claimant rate has steadily fallen since April 2009 but still remains higher than the levels seen prior to the recession.

9. Forecasting undertaken by the County Council provided the foundation for the Employment Land Review (E22, E23, August 2010). The analysis undertaken by the County Council for the ELR drew on the data sets indicated above. It noted that whilst there is some stability in service sector employment, there is a potential vulnerability given the likely major changes in this area resultant on the Coalition Government's budget deficit reduction programme. Furthermore, although there are proportionally less jobs in manufacturing than in the rest of the County and region, the sector is still more important than in Great Britain as a whole, and some 3,900 manufacturing jobs were lost in the Borough between 2001 and 2006.

10. Although the ELR Review (E22, August 2010) estimated job growth in the Borough for the period 2003 – 2011 would be around 10.5%, more recent data obtained by the County Council suggest that only a much more modest growth of 1.6% was in fact achieved. Forecasts available during the preparation of the Plan for the Plan period projected a continuing lack of confidence in the economy. The County Council's preferred economic forecasts were produced by Cambridge Econometrics. These projections forecast a substantial decrease in the overall levels of employment between

2006 and 2011, some 2,500 jobs over the 5 year period. This decrease follows the trends identified in the reduction in employment of the manufacturing sector in particular since 2001. Over the 2006 to 2026 period employment in Stafford Borough was predicted to fall by 9,800 (a decline of 14.4%).

11. To date, although there has not been quite the scale of decline that was projected from the forecasts available to the County Council, which were based on data when there was more uncertainty over the depth and scale of the recession, it is still nonetheless very likely that public sector employment will decline further into the future.

12. Whatever the comparative merits of the projections, this does at least serve to cast doubt on the accuracy of such forecasting as a determining basis for housing requirements.   At a local level (ie. the Borough Council), forecasts are inevitably more sensitive to historical changes in employment than national ones. This is because they use historical trends to project forward.   However, given the substantial underpinning evidence base involved in the County Council's analysis, and the ongoing current economic circumstances, an optimistic forecast of such dimensions, such as proposed by two of the promoters (10% growth) seems very unrealistic. Clearly the Plan intends to promote growth and attract jobs, but against the trends projected, it does cast doubt on employment growth as an additional driver to provide more homes than projected in the economic forecasts.   As the evidence presented on the Spatial Principle SP2 indicated, the scale of employment land proposed has not been based on job forecasts, but on continuation of land take up, in order not to restrain the prospects for expansion of existing and development of new firms.

13. The Plan is also consistent with the developing strategy for the Local Enterprise Partnership: Stoke-on-Trent and Staffordshire Economic Growth Strategy 2012 – 2026 (E17).   That Strategy promotes balanced growth including the plans for major change in Stafford included in the Plan (A1), and supports delivery of a number of strategic employment sites (included in the Plan) which contain the potential, assuming finally realised, for adding substantial numbers of jobs to address the sectoral changes anticipated in the economy.

The approach taken in the Plan for Stafford Borough

14. Economic growth for its own sake is not an aspiration of the Borough or its Local Plan, nor is that likely to be achievable.   It is not expected that the economic fortunes of current economic sectors, nor those likely to be capable of providing future growth, will provide an unusually strong attractor of in-migration in their own right.

15. However, the Plan is also particularly underpinned by the arguments advanced to support the new Growth Point bid (E100-102), associated with the likely feasible and desirable scales of growth involved. The basis of the Growth Point bid, which remains a strong foundation for the growth proposed in Stafford town contained in the Plan (A1), is that balanced growth of the town (and of the Borough as a whole) will be achievable by housing growth which sustains and increases past levels of in-migration to the Borough, accompanied by modest but feasible growth in new jobs, and crucially, by the

matching provision of necessary infrastructure.   The quantity of employment land provision made in Spatial Principle SP2 has been determined by a stance which is designed to encourage and not restrain growth, rather than being based strictly on detailed economic sectoral forecasts. The distribution of employment land within the Borough under Spatial Principle SP5 seeks to match the location of new employment development to those areas where housing development is concentrated.   Similarly, the scale and distribution of employment land in Stafford town relates to the main areas proposed for housing. The ELR (E22) analysis concludes with the comment that:

> "Increased housing growth will represent an important opportunity to increase employment development and strengthen the local economy in the future. Therefore it will be important to ensure that the scale and phasing of this potential development promotes the sustainable development of the two main towns and the wider Stafford Borough area." (E22, para. 6.35).

16. In terms of the approach recommended by the SHMA Practice Guidance (Chapter 4, and specifically page 38), and sorts of issues suggested which should be considered, the preceding considerations give a view of the long term degree of stability of the economy in Stafford Borough. On the one hand, over-dependence on the public sector, and the relative scale of the manufacturing sector, suggests weaknesses which need to be addressed (and indeed are a focus of the economic strategies). Whilst there is an expectation that the relative merits of Stafford compared with some of its neighbours may well make it commercially attractive (and the growth proposals in the Plan should make it even more so), it cannot easily be concluded that significantly greater in-migration, over that projected by demographic forecasts, will result.   The Guidance contrasts areas where the economy and employment are relatively stable – and where trend-based projections are likely to be fit for the purpose, with areas of growth, and those receiving significant incentives for regeneration or rapid population change, where more forecasting may be necessary. In the case of Stafford, the County Council's forecasts suggest that growth is not likely to be significant to overcome weaknesses, and amount to justification in itself for further housing provision to cater for incoming workers.

2. social factors – affordable housing

1. The NPPF indicates that Plans should seek to meet the full objectively assessed needs for market and affordable housing. The Council's Background Statement Topic Paper B indicates the approach taken in the Plan to determining the overall need for housing, and the reasoning behind the identification of a requirement of 500 dpa. The previous section in this Statement explains the relevance of economic drivers to the identification of this level. This section will consider the extent to which social factors also should drive the scale of provision, in addition to the demographic and other factors considered. The social considerations relating the mix and type of dwellings required, as estimated by the SHMA, can be accommodated by the requirements of Policy C1, and do not suggest any adjustment is needed to the scale of provision. This Section assesses the extent to which the social factor of the scale of affordable housing need does have any implications for the overall housing requirement.

2. The approach taken here will be first to identify the likely overall scale of affordable housing need likely to exist throughout the Plan period, which the Plan should be seeking to meet. Secondly, the likely provision of affordable housing will be considered, through operation of the Plan's Policies. This will enable a comparison of likely provision against expected need, based on the current Plan's intended overall scale of housing provision – and thus reach a conclusion of the adequacy of this scale, and therefore whether there is any additional driver to increase provision from the level currently proposed, ie over and above the demographic and other factors already identified.

Need for affordable housing expected to arise during the Plan period.

3. Assessment of affordable housing needs is not a straight-forward process. As well as the difficulties of long term forecasting, there are many difficulties of establishing appropriate data, and definitional problems. A primary concern is that the approach commonly taken (as in the case of Stafford Borough's SHMA) to establish the appropriate scale of affordable target for use in Policy terms in different parts of the Borough is not the best approach to assess overall affordable housing needs over the whole Plan period – which is the appropriate calculation in order to consider the implications for the scale of overall housing provision. This difference needs to be explained immediately.

4. At a simple level, the argument currently put forward by some representations to the Examination runs as follows. The SHMA has identified a shortfall of 210 homes per annum (on which the targets in Policy C2 are derived), and the view which has been advanced is that this represents some 40% of the 500 homes proposed annually and, since this exceeds the target number of homes that could be delivered if the affordable housing targets were applied to all the developments coming forward for planning permission and there were no viability constraints, there is a justification to increase the overall scale of housing provision. This situation is further exacerbated because in practice, some sites have already received planning consent with either less or no affordable housing, some of the sites that will come forward will not meet the threshold for the activation of the policy, and others will not deliver the full percentage target.

5. However, this is a simplistic reading of the SHMA and assumes that the annual requirement is uniform. It is not.

6. The need for affordable housing is composed of two elements: a *newly arising need* which reflects the number of newly forming households, and those existing households who "fall into" need in each year. The standard CLG methodology assumes, in effect, that this is the rate at which new need will continue to arise over the lifetime of the plan and therefore needs to be met every year until such time as the rate has been shown to change. The SHMA has estimated this rate at 253 pa.

7. The second element of need is the current need, often referred to as the *backlog*. This is an estimate of the number of households in Stafford Borough who have some sort of a housing need which is not currently being met. This backlog has built up over many years and the Government recognises that it will not be possible to resolve it overnight. By default, the methodology recommended by CLG for the calculation of housing need suggests that local authorities should seek to address this backlog over 5 years, although it acknowledges that longer periods may be appropriate. However, if that backlog can be addressed over 5 years then this element of the need would cease to be relevant and the only form of need would be newly arising need.

8. It is because of this backlog that SHMAs in many local authority areas often find that the annual need for additional affordable homes exceeds the annual need for all homes – because the need for affordable homes is calculated on the basis of meeting this backlog in the relatively short term. However, the requirement of the NPPF is that local planning authorities should seek to meet all their identified needs *over the lifetime of the plan.*

9. Set against this need are two forms of supply, and it is worth spending a moment to understand these as well. First of all, it is important to note that, by "supply" what we actually mean is not homes but tenancies. This means that the main supply of affordable housing in Stafford Borough (as elsewhere) is the turnover of the existing affordable housing stock of around 7,900 dwellings (2011 census figure). This generates an annual supply of 303 social rented lettings to households not currently living in affordable housing, as well as 10 intermediate homes per annum.

10. When we speak of a requirement for more affordable homes, what we mean is that this is the only way of getting the additional lettings – since new units are all let for the first time in the year that they are delivered.

11. When we look at the number of new homes required in order to meet need it is therefore relevant to consider the components of both need and supply.

12. The first thing to note is that the rate at which new households with a need for an affordable home arise is lower than the rate of supply from the turnover of existing stock. It should be stated here that this is not the case in all authorities. In many parts of the country, the level of newly arising need exceeds both existing turnover and likely

new supply together. In such circumstances, the backlog would not be addressed over five years, over the lifetime of the plan or over any other period.

13. Each year, the extant supply exceeds the identified newly arising need by some 60 units. This "oversupply" is available to meet the backlog over time.

14. Normally, the level of need arising from the backlog is expressed as a single group of households and the SHMA would then calculate the level of new supply necessary to ensure that the entire backlog is met over an assumed period – normally 5 years. In the current Stafford SHMA, reflecting available data, of necessity a slightly different approach has been taken. The study makes an assessment of the net annualised backlog – which is assessed at 270 homes in each and every year. This means that the total backlog requirement is comparatively small but it is not discounted to reflect progress over time. This is because the SHMA used Housing Register information which is refreshed annually. Modelling assumed this to be an annualised figure of existing households in need which would be cleared on an annual basis.

15. When the 60 units of spare supply from turnover are discounted, this leads to an annual requirement for 210 affordable homes per annum.

16. In order to assess the net backlog, the Council's consultants Arc4 started with a gross annual backlog figure which was drawn from Homesfirst, the Stafford Choice Based Lettings Scheme (which effectively replaces the waiting list). The authors found that there was a gross backlog of 1,013 households. This figure was then discounted in order to reflect the number of those households who are already living in an affordable home (who need to be netted off the total because their move to a suitable home will create an affordable housing vacancy).

17. However, it is worth noting that this measure identifies only those who are registered with the Council's Choice Based Lettings system. The SHMA notes that the scale of the gross backlog recorded on this measure is much smaller than that which it has found in other areas – through the alternative technique of surveying all households.

18. As the SHMA identifies, in other areas, the gross backlog has comprised between 6-10% of the total number of households in the Borough – in this case between 3,300 and 5,600 households and that, on this basis, the net annual backlog to be addressed over 5 years would be between 680 and 1,120. However, neither of these higher figures have been fed into the main methodology, which following CLG guidance is focused on establishing targets for immediate use in the Plan.

19. However, for the purposes of this Statement, we need to carry out an assessment of the number of new homes required over the whole Plan period, in order to establish whether the Council's policies are likely to deliver sufficient new affordable homes to meet all the identified need over the life of the plan.

20. First, we need to discount the gross backlog in order to account for the number of households who have a current need but who are already living in an affordable home

and who therefore need only a transfer. Second, we need to account for the fact that some households will have a housing need but will be able to afford a suitable housing solution at the values prevalent in the current market. The SHMA has provided figures that allow this calculation to be carried out as follows, based on the higher estimate of true backlog (5,600, indicated in para.18 above):

Description or operator	Value
Gross Backlog	5,600
Less households in need but living in affordable housing	563
Equals	5,037
Proportion of households unable to afford a market home	60.1%
Equals net backlog	3,027

21. It is then possible to see how many additional affordable homes are required to meet both the newly arising need *and* the backlog over various timeframes:

	5 years	10 years	20 years
Annual allowance for backlog	605	303	151
Plus annual newly arising need	253	253	253
Less supply from existing stock	313	313	313
Equals			
New affordable homes required to meet assessed need over	545	243	91
Total affordable housing required over 20 year Plan period	10,900	4,860	1,820

22. This allows us to consider the original question of whether the assessed need for affordable housing provides justification for an increase to the overall housing requirement.   The potential supply of affordable housing based on the operation of Plan policies now needs to be considered.

Likely supply of affordable housing expected to be delivered during the Plan period.

23. The attached table indicates the likely affordable housing trajectory, based on full achievement of the current Plan proposals. This applies the Policy C2 requirements of 30% or 40%, depending on the location within the Borough, to the overall Housing Trajectory, and also takes account of performance since the start of the Plan period, and the expected yield from sites with planning permission. The total yield expected during the Plan period shown on this table amounts to 2,802 dwellings, ie. 27% of the total housing proposed to be built.

24. To put this in perspective in relation to past performance, over the past 10 years only 587 affordable dwellings have been produced, out of 4,572 completions, ie. only 12.8%

of completions have been affordable. If this proportion were to be applied to the next twenty years, at the Plan's proposed 500 dpa overall housing provision, the yield would be only 1,280 affordable dwellings.

25. These final yield of affordable housing from the operation of the Plan's policies <u>alone</u> could be expected to be lower than the 2,802 estimated, for two main reasons. Firstly, a housing scheme might be below the thresholds identified for practical reasons in Policy C2, and thus affordable housing would not be sought. This applies to schemes of 11 dwellings or less in the top three levels of the hierarchy, or 1 or 2 dwellings in the rest of the Borough area. However, significant proportion of the Plan's provision is now expected to come from large sites (in particular the SDLs, which comprise 64% of total provision at 500dpa). Secondly, as Policy C2 allows, viability considerations determined on a site by site basis might mean that provision lower than the target was accepted. However, again, the viability testing of the Plan demonstrates that the targets should be capable of being delivered on the SDLs – a position confirmed by the promoters of these schemes (and by the planning permission secured on the Stafford Eastern SDL).

26. However, as indicated at the Examination, there are other important sources of affordable housing, beyond those likely to be delivered by Policy C2. These include the direct actions of Registered Providers, funded outside the planning system, and similarly by any possible future direct construction by Local Authorities or other parties.   The Plan itself provides for a further source, through the provision in Policy C5 for Rural Exception Sites, where construction of 100% affordable housing will be permitted, in certain circumstances, to meet identified local needs.

Conclusions

27. The likely yield of affordable housing – estimated at 2,802, reduced perhaps to reflect threshold and viability considerations, but increased from the other sources identified in para. 26 – now needs to be compared with the total requirement identified in the Table set out in para. 21.

28. What this comparison shows is that, in order to meet the total identified need over 5 years would indeed require the delivery of more affordable homes than are currently planned overall. However, this is to meet a requirement that built up over a generation over a five year period. Doing so is not a requirement of the NPPF – but is merely an indicative timescale set out in the SHMA guidance. Over 10 years the annualised requirement is just a little higher than was assessed as the baseline in the SHMA (ie. 20 years of 210 dpa). However, over the lifetime of the Plan, an output of 91 homes pa. (18% of the total) is required to meet the need, or 1,820 dwellings in total.

29. This would necessitate an increase in output over and above historic practice (587 affordable homes over the last 10 years) but it is well within the reach of the Plan, based on the trajectory attached, which suggests 2,802 dwellings before adjustment.

30. It is important to note that this conclusion is not a justification for a reduction in the Council's appropriately ambitious targets set in Policy C2. Even if it is not a requirement

to meet identified affordable housing needs over 5 years, it is certainly good practice to meet them as quickly as possible.

31. The latest NPPG Beta Guidance (which as the Council, and the Inspector, have indicated has no legal bearing on the preparation of this Plan) articulates the potential implications of affordable housing need on the establishment of housing requirements. It suggests that "an increase in the total housing figures included in the local plan should be considered where it could help deliver the required number of affordable homes". The reality in Stafford is that over the Plan period the achievement of the estimate of total housing need should be clearly achievable. The implications of the affordable housing requirement analysis here thus provide a clear contextual argument for not increasing the overall housing requirement in themselves, and for discounting this additional driver.

Total Affordable Completions

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total 2011- 2031
Total Commitments			65	43	37	59	76														280
Total SHLAA			28	28	28	28	49	20	20	24	24	45	45	45	45	45	33	13	13	6	539
Western Direction SDL 30% Affordable Provision				20	42	44	45	45	45	45	45	45	45	45	45	45	45	38	22		661
Northern Direction SDL 30% Affordable Provision					9	12	20	36	48	66	66	66	60	66	66	66	66	66	66	32	811
Eastern Direction SDL 30% Affordable Provision				30	30	42	42	36													180
Stone SDL 40% Affordable Provision										16	16	16	16	16	16	16	24	24	20	20	200
Total Completed 2012 - 13	83	48																			131
Running Total	83	48	93	121	146	185	232	137	113	151	151	172	166	172	172	172	168	141	121	58	2802