INFORMATION NOTE 3

Housing numbers & distribution

South West Regional Assembly
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South West England

SOUTH WEST REGIONAL ASSEMBLY
INFORMATION NOTE 3

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1. Introduction

1.1 This note summarises how the overall level of housing provision for the South West was arrived at in the draft Regional Spatial Strategy (RSS) and how the proposed distribution between local authority areas was achieved. The details of the distribution itself are covered in Section 4 of the draft RSS, particularly Tables 4.1 and 4.2 and the accompanying text. The basic principles applied in arriving at the distribution are also set out in Sections 2 and 3 of the draft RSS. Much of the material that follows has been set out in greater detail elsewhere, and the reader is directed in particular to RSS Summer Debates 2005, Discussion Paper 6, "*Strategic Assumptions about the Future and Projections of Population and Economic Change*[1]" and to Regional Assembly Paper F Appendix 1, 10 March 2006, "*The social and economic evidence review. Draft RSS: The technical case behind the housing numbers*"[2].

2. State of the Region – the impact of current and past trends

2.1 The South West region as a whole has experienced high levels of population growth through the effects of migration for many years. Typically this has been running at around 30,000 net gain of migrants from elsewhere in the UK annually, together with a further estimated gain of around 2,000 – 4,000 net gain of overseas migrants per annum. This is projected as likely to continue at least at this level in the future (ONS 2003 and 2004 based sub national projections). At the same time, household size is projected to continue to decline as the population ages, older people remain independent until later in life and divorce and separation rates among households of all ages remain at a high level. These trends are placing further pressures on the region's housing stock.

2.2 In the past, high rates of population growth have been accompanied by increasing dispersal away from many of the larger urban areas, leading to relatively high rates of growth in many suburban and rural areas and slower housing growth at some urban centres, whilst employment and services have in contrast become more heavily concentrated at the latter. This increasing separation of homes, jobs and services has implications for the future sustainability of settlements in the region and this has been one of the key factors underlying the spatial strategy

[1] http://www.southwest-ra.gov.uk/media/SWRA/RSS%20Documents/Summer%20Debates/Strategic_Assumptions.pdf
[2] http://www.southwest-ra.gov.uk/media/SWRA/Assembly%20Papers/10th%20March%202006/PaperF_Appendix1_.pdf

of the draft RSS. Further background issues relating to the significance of this for the RSS is summarised in Appendix 1.

3. General overview: Derivation of the Draft RSS Housing Numbers

3.1 Assessment of social and economic trends in the region and the implications of previous phases of development give the background to the housing figures in the draft RSS and provide an important part of the justification behind the strategy articulated in Section 3 of the Draft RSS and set out in Information Note 2. It provides the foundation for Development Policies A, B and C and in particular their objectives relating to obtaining a better balance between the economic and employment potential of individual places and the development of housing. This emphasises why the distribution and levels of housing development specified in Section 4 of the draft RSS, supported by implementation process based on effective application of plan, monitor, manage, are so essential to achieving the draft RSS objectives. Given the long term market pressures towards more dispersed development that both RPG10 and now the draft RSS are striving to manage, (see Appendix 1), the challenge lies in achieving more focussed delivery at the 21 Strategically Significant Cities and Towns (SSCTs) identified in Development Policy A, and also at a more local level to the market and coastal towns of the region.

Getting to the overall housing total

3.2 The draft RSS is based on a detailed technical assessment for building around 25,000 dwellings per annum (dpa). This is not a target to be achieved every year, nor is it an end state blueprint for the future to be achieved come what may. Instead it sets a general "direction of travel" for the longer term. The total is based on evidence that there is a need to increase the rate of delivery from the current level of around 20,000 dwellings per annum set out in RPG10 and which monitoring has shown has been broadly achieved in total since 1996. Evidence now strongly suggests that this is inadequate to meet needs (see Appendix 1).

3.3 Household projections produced by the Chelmer model[3] applied to the migration assumptions used in the ONS 2003-based sub-national population projections[4] indicated that the longer term trend rate of household formation, augmented by continued migration would require about 23,000 houses to be built annually across the South West. In addition, an analysis[5] of economic growth requirements,

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[3] The Chelmer model is operated by the Population and Housing Research Group (PHRG), Anglia Ruskin University. See http://www.anglia.ac.uk/ruskin/en/home/faculties/fst/research/phrg/chelmermodel.html

[4] ONS Sub-national Population Projections for England, 2003 based, (ONS 2005)

[5] See SW Regional Assembly 10 March 2006, Paper F Appendix 1 "Draft RSS. The Social and Economic Evidence Review: The Technical Case behind the Housing Numbers"

reflected in the revised Economic Strategy published in 2006[6] and acknowledgement of the case put forward by the Barker Review of Housing Supply has been taken into account to arrive at the 'technical' requirement for 25,000 dpa.

3.4 The 25,000 dpa also reflects a general assessment of what might be possible in terms of increasing build rates in the region over the two 10-year periods of the draft RSS. Government has stated in its response to the Barker Review that it aims to increase the overall level of house building by one third above current levels nationwide by 2016. A simple pro-rata increase in RPG10 totals for the South West would result in a requirement for almost 27,000 houses annually in the South West by 2016. Starting at an assumed RPG10 level of 20,200 in 2006 and rising to 27,000 by 2016, this would result in an average build rate of 23,600 in the first decade of the RSS. If 27,000 p.a. were then maintained from 2016 to 2026, this would average 25,300 p.a. over the 20 year period, giving a total requirement of 506,000. Of this total, 73,000 were projected as the excess of new household formation over the number of households dissolved[7] from the population already currently resident in the region in the first ten years alone.

3.5 Whilst the draft RSS acknowledges the technical case for building 25,000 dpa, in the event, following advice from the strategic local authorities, capacity could only be identified within the spatial strategy and Development policies A, B and C for 23,060 p.a. over the 20 year period, which equates to 23,770 p.a. during the first 10 years. (This is coincidentally equivalent to the 23,000 figure mentioned in para 3.3 above but dervided by different means). The process by which the sustainability based aims and objectives of the strategy were translated into a "top down" suggested distribution at District level which was then subjected to critical examination and debate by local authorities and other stakeholders is set out below.

3.6 Since the draft RSS was approved for submission to the Secretary of State in March 2006, the DCLG has released a revised set of sub-national household projections.[8] Whilst these retain the 2003 ONS population projections as their basis, and therefore in strict population terms are directly equivalent to those used to develop the draft RSS, they also use a significantly revised set of projections of households likely to be produced by that population. This has resulted in an increase in the number of houses projected across the region up to 2026 by approximately 5,000 extra dpa. This means the projected trend total housing requirement is revised to 28,000 dpa. The steps

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[6] SWRDA 2006 "Economic Strategy for the South West", Table 3. This suggested a requirement of 24,500 dwellings annually at a projected 2.8% pa GVA growth and 26,000 pa at 3.2% pa GVA.

[7] i.e. through death or divorce.

[8] "New Projections of households for England and the Regions to 2026" , DCLG Statistical Release 2006/0042 14 March 2006 *http://www.communities.gov.uk/index.asp?id=1156093*

taken to address the potential implications of the revised DCLG figures are described later in this paper.

Principles and process for distributing the growth requirement

3.7 The approach to identifying the required overall level of housing growth for the South West described above was based very much on comparing different strands of evidence and determining where they were pointing. This approach of "bracketing the target" was further extended to the distribution stage of the exercise as a further check on the validity of the overall house building total for the region. This was based on the policy objectives:

- achieving balanced growth in all communities to deliver a better match between housing and population growth on the one hand, and economic opportunity and growth on the other;
- addressing the requirement to meet existing and future housing need;
- directing the greatest quantity of growth to Strategically Significant Cities and Towns (SSCTs).

3.8 Other principles affecting the distribution methodology are:

- Locally arising housing needs should be met in all parts of the region, at least to District/ housing market area level.

- Housing growth should not constrain local economic potential, but in smaller settlements should not greatly exceed the level required by that potential, encouraging an increased "dormitory" function with greater outward commuting to employment, service access or social activities in other larger settlements with a wider range of facilities or functions. In other words, housing growth and employment provision should not get too far out of step with one another, in either direction.

- Strategic housing development over and above the need to meet purely local needs should be met at the SSCTs where economic potential is highest. This assumes that existing housing stock across the region and sometimes in less sustainable places will absorb in-migration effects because of the general market strength of many people moving into the region from London and the South East.

3.9 Following the "bracketing the target" approach, the appropriateness of the total growth figure for the region was further tested by assessing the elements outlined above. This involved looking at the capacity for strategic growth identified through the nine emerging Joint Study Area (JSA) exercises carried out between October 2004 and September

2005, led by the Section 4(4) local authorities[9] (See Information Notes 2 and 4). Cambridge Econometrics Ltd was commissioned in late 2004 to provide broad trend projections of employment growth for each of the South West's 49 Travel to Work Areas[10] by industrial sector to assist with this process.

3.10 The relationship between forecast economic and housing growth in the remaining areas of the South West were modelled using two alternative economic scenarios developed for the review of the Regional Economic Strategy during 2005 and agreed jointly by the SWRDA and RPB. These were the central "Business as usual" scenario of 2.8% annual GVA growth p.a. between 2006 and 2026 and the "Higher growth" scenario of 3.2% p.a. These growth rates were applied to the earlier Cambridge Econometrics projections which were based on a marginally lower growth assumption.[11]

3.11 At the same time, the majority of the JSA study teams also commissioned further forecasts to explore further the dynamic potential of the main urban economies. The JSA teams were requested to look at the implications of a range of housing growth scenarios for their areas including the levels proposed in RPG10 plus 25% and plus 50%. In some cases JSA studies were unable to look beyond the +25% scenario.

3.12 It was felt that, for the purpose of starting the process of allocating appropriate levels of housing growth in different parts of the region, broad differences in sub regional characteristics were best summarised by the way in which economic and socio demographic processes interact in these areas. This accorded with Strategy 3 which was part of the RSS options consultation in Autumn 2004.

3.13 Analysis of projected change[12] confirmed that, in the north of the region, the relationship between population/ housing growth and employment growth is much more direct than in more westerly areas, where retired people and others not closely tied to direct employment in the local economy is a stronger and established element of migration. In the south east of the region, a position mid way between those of the north and the Peninsula prevails. These ratios are set out in Figure 1. The statistical sub areas of the region used for this initial work are shown in Figure 2.

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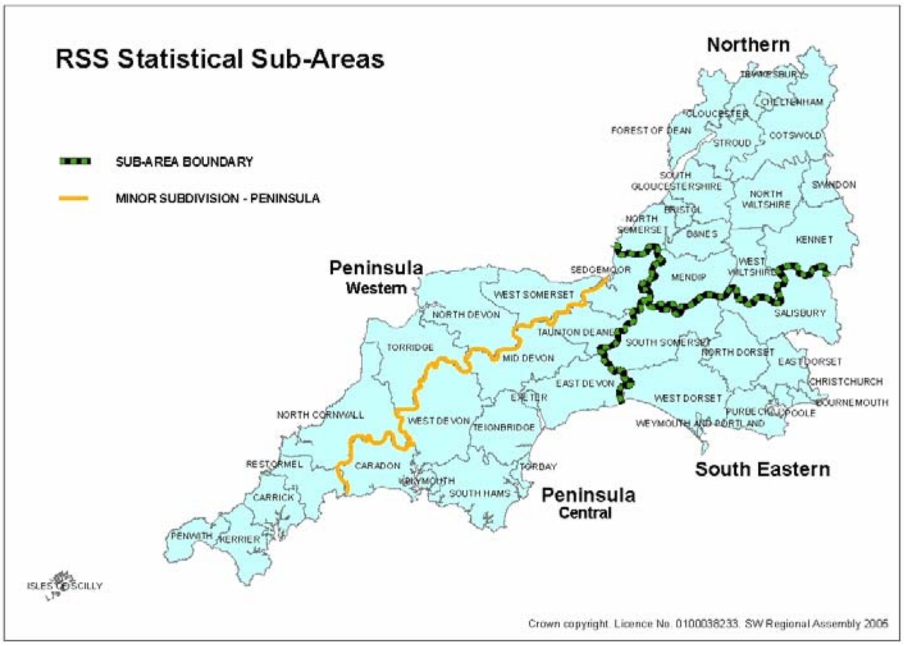
[9] County councils, unitary councils and National Park Authorities
[10] Published by ONS in 1998
[11] 2.7% p.a. GVA 2006-26.
[12] For this, the Chelmer model was run using ONS 2003 based sub national projections assumptions to produce household growth figures in each sub area and checked against the labour demand projections from the Cambridge Econometrics economic projections. Having confirmed a close fit, the sub area ratio was then calculated using the projected economically active population less a "minimum unemployment" component of 3%.

Figure 1 Ratio of additional dwellings to Projected Economically Active population 2006 – 2026

Dwellings to Econ Active Population ratio	
Ratio	**Stats Sub Area**
1.257623	North
1.416404	South East
1.851525	Peninsula
1.494506	SW Total

Figure 2



3.14 This analysis showed that, to maintain a stable balance to 2026 between projected job creation levels, labour supply, and household growth, based on evidence from the Cambridge Econometrics and Chelmer trend projections, each job is expected to create across the region <u>on average</u> an end demand for about 1.5 dwellings, allowing for demand from other non new employment driven demand including retirement moves and local new household formation. In parts of the region where a high proportion of housing moves are not associated with employment change (e.g. through demand for retirement migration) a higher ratio normally applies (as in the case of the Peninsula statistical sub area, see Figure 2). Obviously the picture at the more local level is much more varied than this, with more subtle gradations between the sub areas.

3.15 At this stage a further check was carried out under the "straddling the target" approach to confirm that the region's projected housing growth total (para. 3.4) was still supported by the results of this analysis. The total number of jobs that are projected in the region under the 2.8% scenario totals 365,000 between 2006 and 2026. Using the ratios in Table 1, this would translate into a requirement for 545,000 houses over the period (27,250 p.a.), if the current trends in economic activity continue.

3.16 Some argument has been made for the reduction of the ratio in order to allow for a possible increase economic activity amongst older workers caused by progressive rises in retirement age (equalisation of retirement age for women at 65 has already been factored in). Nevertheless, this would still suggest that a total of 500,000 dwellings over the period (25,000 p.a.) is broadly consistent with anticipated economic growth of 2.8% p.a. It would also imply that the dwellings to additional jobs ratio would need to fall to 1.37 overall.

3.17 Applying the ratios to the areas identified as lying outside the SSCTs revealed a total potential for approximately 8,000 additional dwellings per annum. The process, based on a number of rounds of analysis and negotiation (Figure 3), started with an illustrative distribution based on the Regional Economic Strategy's High Growth scenario. This was done in order to demonstrate awareness of the possible danger, (of concern to local authorities in some areas), of housing growth lagging too far behind economic potential and the need to address affordability in smaller communities with restricted housing stock.[13] At this time, the outcome of the JSA studies were separately assessed by the RPB as pointing towards an SSCT total potential of 17,000 dwellings[14], again confirming that the 25,000 p.a. dwelling growth figure was consistent with requirements.

3.18 Consultation with stakeholders revealed a concern amongst some of those in areas close to the sub area borders that their potential housing requirement was being judged unfavourably compared with some of their neighbouring authorities. This was seen as likely to depress the house building requirement in those areas. This was particularly the case with South Somerset (placed in the South East sub area) and Mendip (placed in the North). It was emphasised however that the calculations represented the start of a process of several rounds of negotiation and assessment, with the Section 4(4) Authorities' formal Advice being the starting point at District level (see below). This was felt more than adequate insurance against an "unjust" conclusion being reached for any one District.

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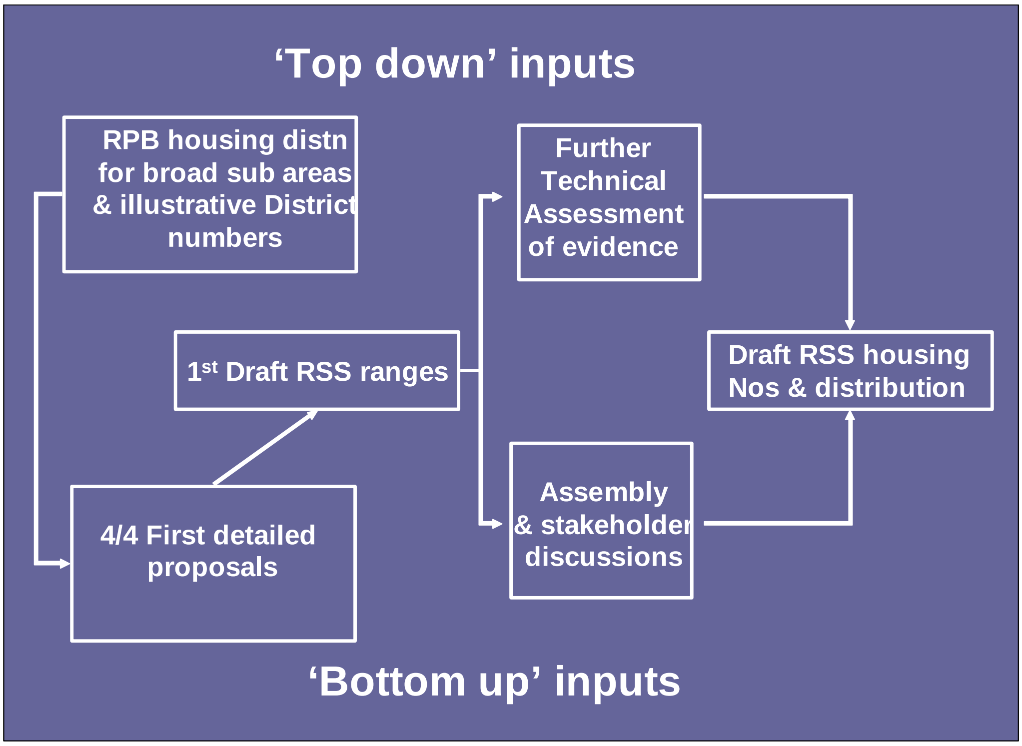
[13] It should be noted that use of the 3.2% GVA growth projection at the regional level did not mean that all parts of the region grew at this rate. The lower historic growth differential rates shown by the more rural areas of the South West meant that most of these are projected as likely to have economic growth at well under the regional rate. The scenario also took account of advice from SWRDA and Plymouth Business School that increases in growth beyond 3.0% in the region were mainly likely to be achieved through productivity improvement with only marginal resultant impacts on employment.

[14] In the event, the Section 4(4) Advice received was able to identify locations for only around 15,000 p.a. dwellings at the SSCTs and therefore reduced the regional total figure to just over 23,000 p.a.

Figure 3 General process to arrive at RSS District housing numbers



3.19 The process that followed involved requesting in June 2005 formal Advice from the Section 4(4) Authorities, working as time allowed with their local stakeholders (and in particular the District Councils), as to appropriate housing growth requirements at District level consistent with the draft RSS Development Policies A, B and C. An illustrative distribution of housing numbers using the principles described above as applied to individual Districts was supplied for guidance purposes to the Section 4(4) Authorities, and the results were aggregated to approximate to the Housing Market Areas used in the Regional Housing Strategy. These illustrative figures were also used by the RPB as an initial comparator to be used when examining the initial Section 4(4) Advice. This process is described in detail in Discussion Paper 6.[15] Section 4(4) Authorities were also asked to set their proposals in the context of the 13 broad Housing Market Areas.

3.20 On receipt of the Advice in September 2006, a series of three negotiation rounds with the Districts and Section 4(4) Authorities followed during the period September 2006 to January 2006 in order to assess the evidence provided. The final position reached was then incorporated into the proposals in draft RSS Tables 4.1 and 4.2 and debated by the RPB's Regional Planning and Transport Group in December 2005, and January and February 2006, and then by full

[15] " Strategic Assumptions about the Future and Projections of Population and Economic Change", RSS for the South West, Discussion Paper 6, 2005

Regional Assembly in January and March 2006. This ensured that the maximum level possible of agreement could be achieved between the parties before the draft RSS was finalised. The process of arriving at the draft RSS District housing distribution is shown in Figure 3.

4. Summary: key stages in reaching a District housing distribution

4.1 The key stages in the process outline above are:

- The RPB commissions economic, population and household growth scenarios, and establishes the key assumptions to be used.

- The housing distribution model is run (see Discussion Paper 6 for technical details[16]), initially incorporating the JSA scenario ranges given to the JSA teams for testing. Outputs are:
  a. overall totals for each of the three regional sub areas split between named (i.e. strategically significant settlements) and sub area remainder;
  b. an indicative distribution for non strategically significant settlements, based on a pro-rata distribution by population size.

  At a later stage the model will use the outputs of the JSA studies (First Detailed Proposals).

- Tests of the initial distribution for performance against each of the economic zones used in the Regional Economic Strategy,[17] the requirement to meet projected local household growth in housing market areas (using the zero net migration projections), and against RSS core strategy requirements and expectations.

- Brief prepared, agreed and issued to Section 4(4) Authorities, June 2005.

- The Section 4(4) Authorities, Districts and stakeholders, are asked to respond to the Brief (by September 2005) and the dwelling growth figures to provide a distribution for their area reflecting the principles of the central strategy of the draft RSS, their local vision for the area, knowledge of detailed local conditions, and to take cross boundary issues relating to Housing Market Areas into account.

- The responses, in the form of First Detailed Proposals from the 4(4) Authorities, and any additional comment from Districts and other stakeholders are assessed against strategy requirements and discussed with local authorities and other stakeholders in three rounds of negotiations (September 2005 – January 2006).

[16] " Strategic Assumptions about the Future and Projections of Population and Economic Change", RSS for the South West, Discussion Paper 6, 2005
[17] SWRDA "Regional Economic Strategy for South West England 2006-2015", page 9 Fig 1.

- Draft RSS proposed housing distribution for Districts and housing market areas debated and approved by Regional Assembly Jan-March 2006.

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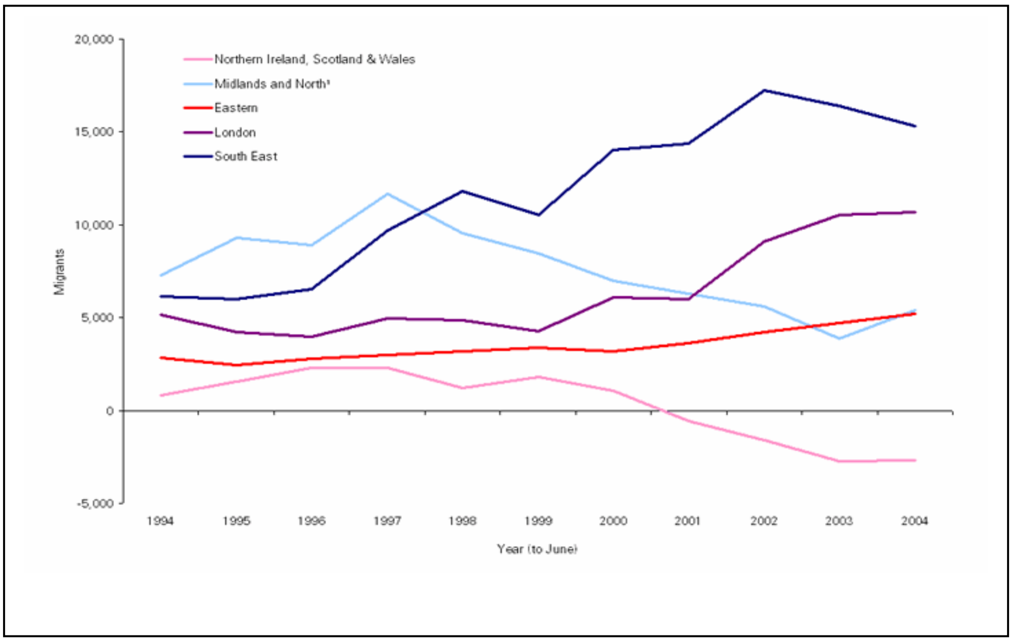
APPENDIX 1

The impact of current and past trends affecting housing numbers and distribution requirements in the South West

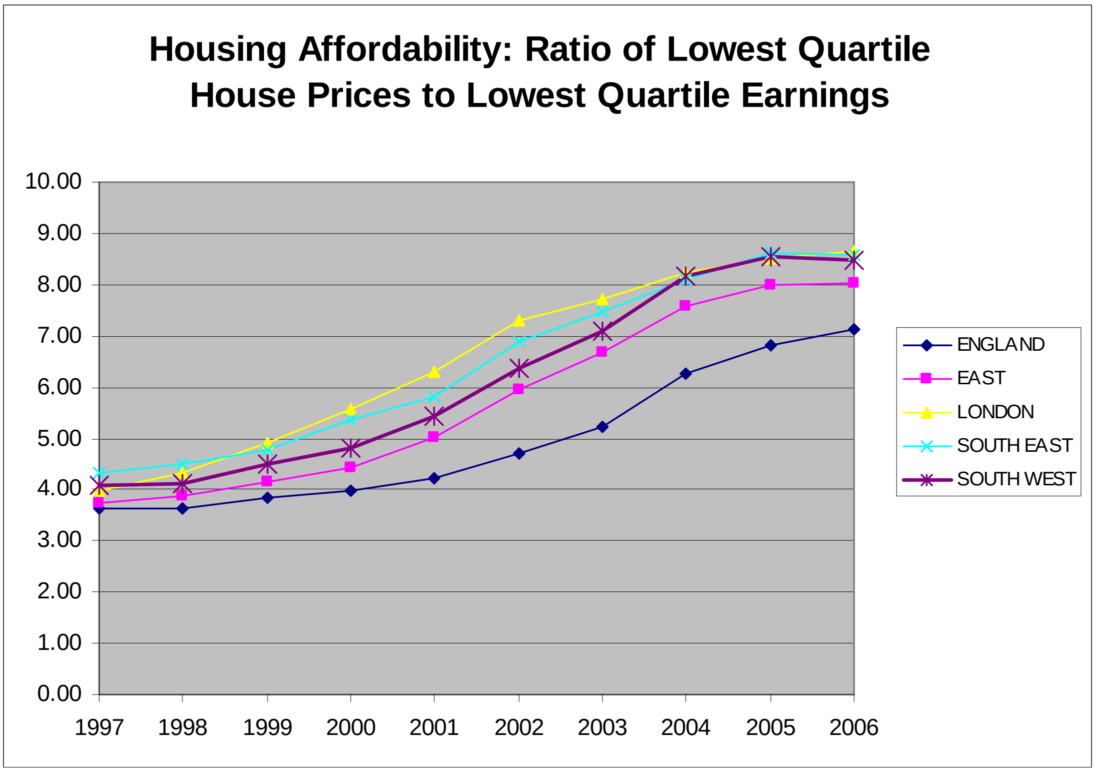
1.1 In-migration to the South West has been maintained over a considerable period, even in later years when there are strong indications that the scale of housing development has consistently been lagging behind the rate of household formation in the region. In addition, it is clear that shifts in the proportions of migrants to the South West from other regions might conceal a higher level of suppressed demand. Since the early 1990s, the proportion of migrants from the South East and London has increased both in relative and in absolute terms, whilst levels from other parts of the UK have reduced. It is likely that this has been supported by higher house price inflation in London / South East which has enabled migrants from those areas more easily to exercise a preference to move to the South West, with its relatively lower house prices, than potential migrants from elsewhere in the UK where South West prices are high in comparison. This is shown in the Figure 4. The implication from this is that, if through planning policy or through other circumstances, the migrant flow from the South East where to decline, perhaps taking some of the upward pressure off house price inflation in the South West, there are still likely to be other migrants from other regions looking to move to the South West. Many of these presumably would be people who were previously deterred from moving owing to higher house prices in the South West.

Figure 4. Net migration gains to South West from other UK Regions 1993-2004



Source: ONS, & SWRO State of Region Report

Figure 5



Source: ONS

1.2 The high rates of migration driven population growth have been accompanied by rapid house price inflation and this, together with relatively lower earnings in the region, in recent years has led to parts of the South West displaying some of the worst housing affordability levels in the UK. In recent years, around 11,000 families in the region each year are accepted as statutorily homeless each year and local authority housing waiting lists are around 150,000 families and are rising. Over the last few years the situation has become more severe so that the prices of houses in the lowest quartile increased from a South West average of 4.8 times gross annual gross pay of earners in the lowest quartile in 2000 to 8.5 times in 2006 (Figure 2). In the worst areas in 2006, the ratio approached or exceeded 11 times earnings.[18]

1.3 The high rates of past housing and population growth in the region have been achieved through high levels of relatively dispersed development towards the smaller towns and more rural parts of the region. This is the situation that Regional Planning Guidance (RPG10)

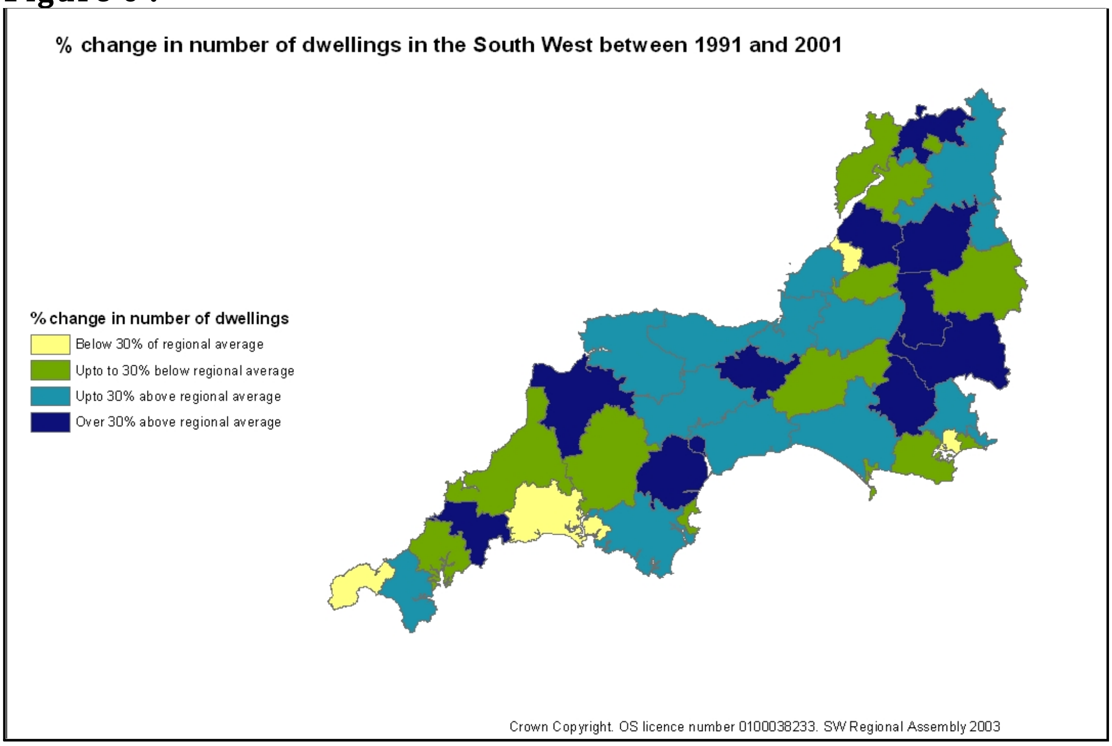
[18] East Dorset, the local authority area with the 10th worst affordability ratio in England in 2006, at 11.8 times income, Penwith (11th worst) had a ratio of 11.7), Christchurch (15th worst in England) 11.4 and South Hams (20th worst) A total of 13 South West Districts had ratios of over 10 and Dorset (at 10.4) had the worst overall average affordability ratio of any English County. Between 2000 and 2006, 9 of the English Districts showing the greatest relative deterioration in affordability were in the South West and, apart from Bournemouth, all of these were in Devon and Cornwall.

sought to redress, first in 1995 and then, more strongly, in the 2001 document. RPG10 2001 identified 11 Principal Urban Areas (PUAs) where development should "primarily" take place (RPG10 Policy SS2).

1.4 Between 1991 and 2001, for example, around two thirds of all development had occurred away from the PUAs despite the fact that collectively they accounted for 44% of the region's population in 2001 and approximately two thirds of the jobs. This "rural" bias is clearly shown in Figure 6. The distribution has however shifted since RPG10 came into effect, whilst Districts in some of the more remote rural areas of the region have continued to experience significant growth over the decade from 1996, some have seen a relative reduction of development in the period since 2001. At the same time, some of the larger urban centres, such as Bristol and Swindon, have seen increased development, and others (e.g. South Gloucestershire) have experienced a reduction.

1.5 Many of these changes have been the result of the effects of national policy direction, notably PPG3 published in 2000, as well as RPG10 itself. However, it is clear that underlying market pressures continue to exist and, were the planning regime to be relaxed, there would undoubtedly be a significant increase in the development levels in the more rural parts of the region.

Figure 6 .



Source SWRA, 2003

1.6 All of this has had consequences for the sustainability of settlements in the region, in addition to growing difficulties regarding access to housing. The impact of the region's dispersed population on travel behaviour has been particularly significant:

- People in the South West travel further than the national average; in 2004/5 South West residents travelled 14% further than the England annual average: 13,068 km (South West), 11,452 (England).

- Car ownership at 84% of households in 2004/5 is higher in the South West than England and Wales (75%).

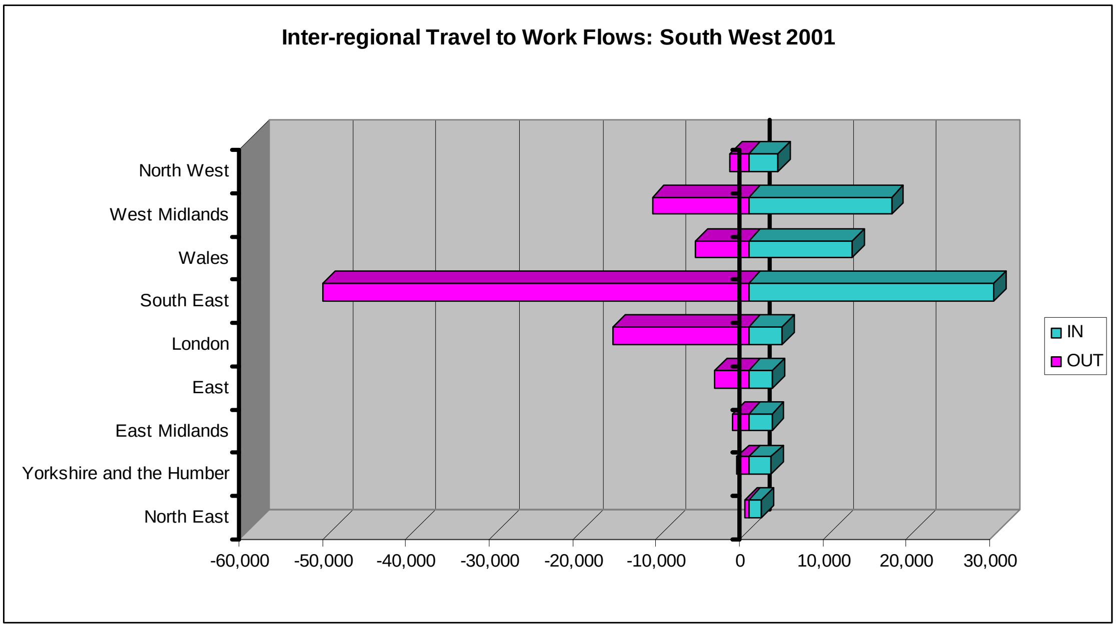
- Although average incomes are lower in the South West (median wage was 92% of the value for England in 2005), total transport costs for households in the region were slightly higher at 15% of all expenditure compared to 14% for households in England as a whole.

- Car travel, particularly as a driver rather than as a passenger, is very significantly higher than nationally; during 2005/6 South West residents travelled 7316 km on average as a car driver, 24% more than the England average of 5880 km.

- Travel in the South West by public transport and on foot on the other hand is substantially less than nationally; in 2004/5 South West residents travelled 17% fewer kilometres than the England average: 1919 km (South West), 2304 km (England).

- The South West experiences a net excess of workers commuting out of the region (6% of all in employment in 2001), mainly to London and the South East (Figure 7).

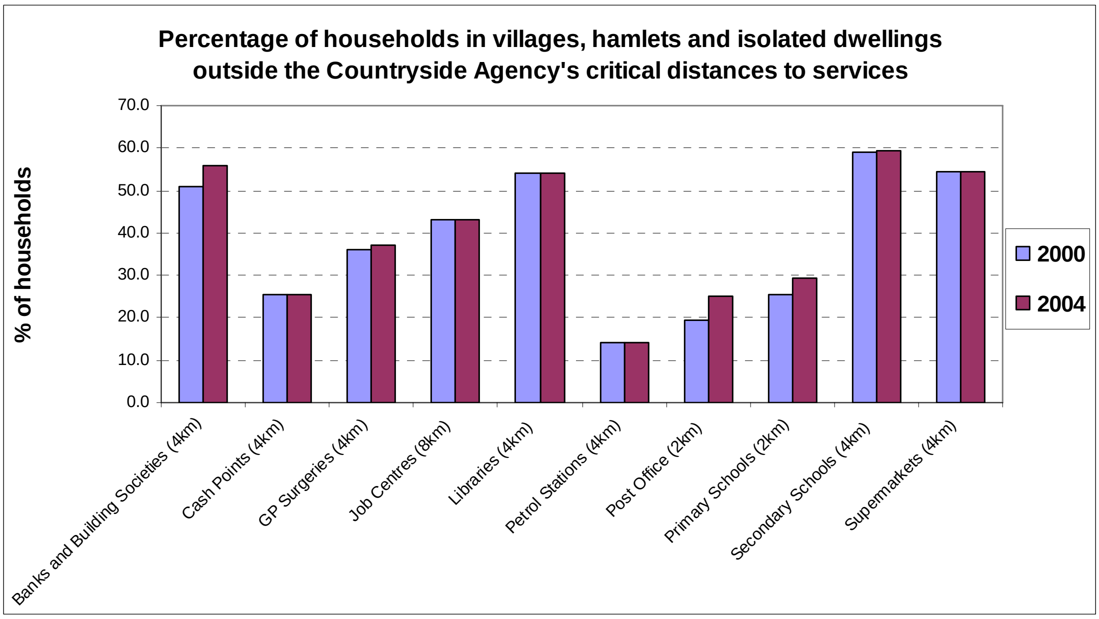
Figure 7



Source: ONS 2001 Census , JSPTU

1.7 Dispersal has consequences for access by residents of rural areas to essential services. These have continued to deteriorate as, even with rising rural populations, businesses close due to the effects of competition and operating cost pressures (Figure 8).

Figure 8



Source: Countryside Agency

1.8 The dispersed pattern of growth that typified the recent past is also thought to have had implications for the South West's economic performance. Economic growth in the major urban areas has been associated with higher overall growth in competitiveness, measured by productivity improvements, compared with smaller settlements in more rural areas. Many parts of the region suffer from longstanding problems of low productivity and relatively low wages. In general this becomes more significant the further west places are located Cornwall's current eligibility for EU funding under Objective One. This is thought to be due to a number of factors including a general lack of economies of scale, knowledge transfer opportunities and increased labour market efficiency. Access to markets in London and the South East are also critical, and it has been found that as travel time from London increases, so productivity drops significantly.[19]

[19] Recent research has shown that e.g. a firm 200 minutes driving time from London is only 82% as productive as one situated close to the capital. Firm capitalisation and factors such as population density are also significant. Companies in high density areas are more likely to have easy access to skilled workers living locally, supplier firms and possibly customers.
D Webber, A Plumridge, M Boddy & J Hudson "Explaining Regional Productivity Differentials", ONS Analysis of Enterprise Microdata Conference, Sept 2005.