Cambridge sub-region Strategic Housing Market Assessment (SHMA), May 2013

Approach to Establishing Objectively Assessed Need for Additional Housing

1. Introduction

1.1 This short paper describes the approach taken to deriving the objectively assessed need for additional housing across the Cambridge Housing Market Area. Both the SHMA Chapter 12 and the Technical Report[1] that informed it include the full details. References within these documents are provided where relevant.

2. Identifying a 2031 population total

2.1 All relevant demographic and economic-led population projections and forecasts were brought together (details of the national, sub-national and local data sources used are included on page 20 of Chapter 12).

2.2 A simple upwards or downwards revision was made to all years of each forecast so that the forecast's 2011 population reflected the 2011 Census[2]. By comparing the various population outputs based on a range of forecasts and projections, it is possible to identify both the outliers and the broad convergence of the other available forecasts. By considering all of the forecasts together, an indicative population figure for each district was determined which encapsulates, within a single figure, the overall outlook for the district's population in 2031, on the balance of the available forecasts.

2.3 The population forecasts for each district are set out from section 6.2 onwards of the Technical Report. These include all the relevant forecasts, adjusted to reflect the 2011 Census, which provide the basis for determining the indicative population at 2031.

3. Identifying employment growth

3.1 Employment growth was determined from a run of the East of England Forecasting Model (the EEFM), with the population figures in 2031 adjusted to reflect the indicative population growth[3].

3.2 Background to the employment forecasts are set out in section 5 of the Technical Report and page 24 of Chapter 12 of the SHMA.

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[1] *Population, Housing and Employment Forecasts, Technical Report* – Cambridgeshire County Council Research and Performance, April 2013.

[2] The specific revision was between the forecast for mid-2011 and the ONS Census-based estimate for mid-2011 (i.e. Census population at March 2011, rolled forward to June to provide a mid-year estimate).

[3] More detail about the operation of the EEFM is provided in the appendix.

4. Identifying housing demand

4.1 Housing figures were produced that reflect the indicative 2031 population total. To determine each district's actual 2011 occupancy ratio, the Technical Report used the Census-based ONS mid-2011 population estimate and a Census-based mid-2011 dwelling stock estimate.

4.2 Each district's 2031 occupancy ratio is based on a rational assumption that occupancy rates will fall by 4.5% by 2031 (in the absence of development constraints). Relevant details are included in section 6 of the Technical Report and on pages 21 – 23 of Chapter 12 of the SHMA.

5. Why population was used as a starting point

5.1 The National Planning Policy Framework and Planning Practice Guidance state that assessments of housing demand should start with considerations of national household projections; these projections rely upon ONS Sub-National Population Projections (SNPP). The assessment of housing demand starts with ONS SNPP and therefore the original evidence source used is the same as that required by national policy.

5.2 However, the Technical Report shows that ONS SNPP population projections for Cambridge are implausibly low, due to the migration methodology. While for other areas in the Cambridge HMA ONS population projections look more reasonable, the fact that the same methodology produces such unrealistic projections for one district caused concern about the consistency of data and approach across the HMA. In order to identify consistent housing demand figures across the HMA, including Cambridge, it is important to follow the same methodology for all districts, using the same evidence sources.

5.3 Using population instead of households as the starting point for an assessment of future housing demand enables comparison of the widest range of projections and forecasts, both demographic and economic-led. This enables comparison and corroboration between different projections and forecasts, without relying on any single source.

6. Addressing historic under-supply and ensuring constraints are not applied to assessing housing need

6.1 Relying on household projections may not address sufficiently the need for future housing provision, because these trend-based projections are likely to reflect suppressed household formation due to past under-supply of housing. The alternative approach using a Census-based

assessment of total expected population provides a basis for determining a housing demand figure that is free from such constraints.

6.2 Cambridgeshire County Council Research Group's dwellings-led population forecasts are included in the population charts for comparison, but do not influence the identified 2031 population total. This figure is derived from a range of unconstrained demographic and economic-led forecasts and projections.

6.3 The indicative 2011-31 population and employment growth figures are based on jobs-led population forecasts rather than solely on demographic-led forecasts. Therefore, the identified population total reflects market and economic signals.

7. Translating 2031 population to housing demand: occupancy ratios

7.1 To determine the future demand for dwellings, the extent to which occupancy ratios will fall is forecast using an East of England-wide assumption based on the fall in occupancy rates over the period 1996 to 2007.

7.2 Using this geography and time period as the basis for an assumption about the future fall in occupancy ratios means that the fall reflects the national trend of an ageing population, but does not reflect issues of suppressed household formation due to the recession in more recent years. The average trend across the East of England region also provides an indication of the underlying trend across areas with varying levels of supply and affordability of housing over this period, and is based on observed data at a regional, rather than national, level.

8. Why an approach based on occupancy ratios was used rather than relying on national household projections

8.1 The most recent CLG household projections are the 2011 ones, which project low levels of household formation. However, planning for this rate of household formation would effectively perpetuate suppressed household formation based on a period of recession. On the other hand, the previous set of CLG household projections (2008) projected household formation rates that did not account for the effect of "the much larger proportion of recent immigrants in the population, whose household formation rates are lower than for the population as a whole" (Holmans, 2013, http://www.tcpa.org.uk/data/files/HousingDemandNeed_TCPA2013.pdf

8.2 Recently published papers, such as the one quoted above, support the Technical Report's assumption that occupancy ratios will fall in the future, but that the fall will not be as strong as the fall suggested by the 2008-based projections.

9. How this approach differs from using headship rates to understand household formation and occupancy levels

9.1 While using an occupancy ratio instead of a headship rate approach does not explicitly set out each component of household age structure and their likelihood of forming a household, the ratio effectively summarises these components to provide an overall measure of the relationship between population and housing specific to each area. For example, the actual 2011 occupancy ratios used in the methodology for different areas are different, reflecting the differences in the characteristics of the different areas, including household age structures.

10. How the age structure of the future population is addressed

10.1 The indicative total population change identified in the Technical Report is not in itself explicitly comprised of projected changes in the age structure of the HMA. However, the 2031 population figure is derived from a number of forecasts, all of which have an associated age structure attached. Identifying an indicative population figure that falls within the range of these forecasts must therefore also have a reasonable age structure.

11. Approach taken to commuting

11.1 The source of the commuting patterns is the 2001 Census. Therefore, an increase in jobs in an area will increase the number of employed residents, not only in that area, but also in the areas where, in 2001, people lived who travelled to work in the area with the increase in jobs. This pattern reflects the working of the Housing Market Area, which by definition assumes that not everyone lives where they work.

11.2 This approach assumes a policy-neutral continuation of past trends using what remains the latest available detailed evidence. Applying a different pattern of commuting to identify the future spatial distribution of housing would require an assumption not based upon evidence (e.g. assuming a 1:1 increase in jobs and employed residents within a district would be unrealistic). This would also constitute a policy choice, which would imply something other than objectively assessed need.

11.3 Using Census 2001 commuting patterns to set the geographic relationship between jobs and resident population forms an assessment of housing demand based on facts and free from constraints.

12. How the outputs from this approach to assessing housing need measure up against other assessments of need

12.1 The Cambridge HMA total 2011-31 population increase identified by the Technical Report of 176,000[4] is substantially higher than that identified by ONS 2008[5], 2010 or 2011[6] projections (the highest of which projects a population increase of 159,000) and the EEFM 2012 baseline (169,900).

12.2 Similarly, the HMA total 2011-31 dwellings increase of 93,000 is also substantially higher than the CLG 2008[7] and 2011[8] household projections (the highest of which projects a household increase of 88,000), the CLG-based *How Many Homes* toolkit (87,700) and the EEFM 2012 baseline (87,600).

12.3 The approach taken therefore more than adequately provides for the collective national total of population change, and the planned dwellings will significantly boost the supply of housing. Comparing all available forecasts also enables an integrated consideration of demographic and economic-led forecasts, so that the identified population total reflects market and economic signals as well as meeting household and population projections.

Appendix - How the East of England Forecasting Model works

- The EEFM is the only readily available tool for the East of England that provides a consistent set of jobs, population and dwellings forecasts, with the number of homes reflecting the number of residents, and the number of residents reflecting the number of jobs. The model has the additional benefit of being flexible so that alternative scenarios can be run.
- **Jobs:** The starting point for the model is a professional assessment of the national economic outlook (provided by Oxford Economics). In forecasting the overall performance of the national economy, the model considers the performance of 31 industry sectors, the total of which gives the overall national total. At a local level, the outlook for each sector reflects the national outlook for that sector, so the outlook, and pace of recovery, in each area depends on its sector mix.
- **Population:** Population forecasts are an output of the model. The EEFM forecasts population growth in line with employment growth, and uses the level of net commuting to maintain the geographic relationship between jobs and employed residents, providing a forecast for the total population, of all ages, which is consistent with the level of employment growth.

[4] This figure includes adjustments to reflect the additional population growth associated with Alconbury Enterprise Zone, and the reduction in South Cambridgeshire's armed forces population.
[5] 2008 ONS population projections and CLG household projections project 2008-33 rather than 2011-31. To provide a comparable increase over a 20 year period, the projections for 2008-28 have been used.
[6] 2011 ONS population projections and CLG household projections are provisional and only project to 2021. To provide a 2011-31 increase the 2011-21 projections have been doubled.
[7] See footnote 4 above.
[8] See footnote 5 above.

- **Dwellings:** As per the approach taken in the Technical Report, the EEFM takes each district's current occupancy ratio from the latest available data, and forecasts future demand for dwellings based on an East of England-wide assumption about the change in occupancy rates over the forecast period, based on observed trends.

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