

Scrutiny Committee



Report of Head of Planning

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To: The Scrutiny Committee

DATE: 22 April 2014

The Oxfordshire Strategic Housing Market Assessment

RECOMMENDATION

To consider this report and make any recommendations to Cabinet

PURPOSE OF REPORT

1. The purpose of this report is to provide an explanation to the Scrutiny Committee of how the Oxfordshire Strategic Housing Market Assessment (SHMA) numbers have been derived for South Oxfordshire District Council.

STRATEGIC OBJECTIVES

2. The Oxfordshire SHMA will form part of the evidence which informs the housing targets identified in the South Oxfordshire Local Plan 2031. This will assist the council in achieving strategic objectives in relation to 'meeting housing need' and 'building the local economy'.

BACKGROUND

3. The SHMA was commissioned by all the Oxfordshire authority areas working together under the Duty to Cooperate. A summary document has been published and the full SHMA report will follow shortly¹. The SHMA sets out the objectively assessed housing need for each of the districts in the Oxfordshire Housing Market Area. For South Oxfordshire an objectively assessed housing need of between 725 and 825 new homes per annum has been identified by the consultants.

Introduction and structure of the report

- 4 This report sets out how the SHMA arrives at the figure for objectively assessed housing need in South Oxfordshire which gives a total requirement of between 14,500 and 16,500 new homes for the period 2011-2031 (725 - 825 per annum). It includes a summary of how the employment and affordable housing need forecasts supporting the SHMA have been conducted and how they affect the housing numbers.
- 5 The report does not consider the wider SHMA findings on housing type, size and tenure in any detail, but includes a brief summary of market and affordable housing mix for information.
- 6 The structure of the report is as follows:
 - SHMA Policy Context
 - About the consultants
 - SHMA methodology
 - Review and adjustment of demographic projections
 - Considering employment growth and future labour force requirements
 - Considering affordable housing needs
 - Other SHMA findings

SHMA POLICY CONTEXT

The National Planning Policy Framework

- 7 The National Planning Policy Framework (NPPF) (March 2012) sets out that local planning authorities should use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area². They should prepare a Strategic Housing Market Assessment to assess their housing needs, working with neighbouring authorities where appropriate³.
- 8 The NPPF also establishes that local planning authorities should ensure that their assessment of and strategies for housing and employment are integrated and that they take full account of relevant market and economic signals⁴.

¹ As soon as it becomes available, the 'Strategic Housing Market Assessment' will be published on the 'Spatial Planning & Infrastructure Partnership' website as follows;

<https://www.oxfordshire.gov.uk/cms/content/spatial-planning-and-infrastructure-partnership>

² National Planning Policy Framework, March 2012, para 47

³ National Planning Policy Framework, March 2012, para 159

⁴ National Planning Policy Framework, March 2012, para 158

National Planning Practice Guidance

- 9 The SHMA methodology is consistent with the SHMA guidance in the National Planning Practice Guidance (NPPG), the guidance for Housing and Economic Development Needs Assessments was issued in March 2014. This replaced the 2007 'Strategic housing market assessments: practice guidance' in place when the SHMA work commenced.
- 10 The NPPG sets out that the assessment of need should be proportionate and should be based on future scenarios that could be reasonably expected to occur. The NPPG acknowledges that estimating future housing need is not an exact science.
- 11 The SHMA should not take account of supply factors such as development constraints, although these are appropriate considerations in the plan-making process in setting a housing target to be delivered.
- 12 The NPPG sets out that the starting point for the assessment should be the latest household projections published by the Department for Communities and Local Government (CLG)⁵.
- 13 In relation to employment trends, the guidance sets out that where the supply of working age population that is economically active is less than the projected job growth, this could result in unsustainable commuting patterns. Planning authorities will therefore need to consider the location of new housing and infrastructure development to help counteract such patterns.
- 14 Where there is a high level of need for affordable housing this may justify an increase in the level of overall housing provision to help meet identified affordable housing needs.

THE SHMA CONSULTANT TEAM

- 15 The Oxfordshire planning authorities commissioned consultants to undertake the SHMA to ensure the appropriate technical capacity, experience and specialist expertise was deployed to the task. The work was supervised and scrutinised by a county-wide working group of experienced planning and housing officers, reporting to council leaders and directors through the Spatial Planning and Infrastructure Partnership, which served as the commissioning body.
- 16 GL Hearn with Justin Gardner Consulting (demographics) and SQW Consulting (economics) were awarded the contract. This consultant team has completed SHMAs for 40 local authority areas in the past three years and are market leaders. At local plan examinations their SHMA evidence to date has been found sound and has supported emerging plans (albeit some have failed for other reasons).
- 17 SQW also produced the 'Oxfordshire Innovation Engine' report (October 2013), an independent study of the Oxfordshire high tech cluster for the University of Oxford and Science Oxford with Oxfordshire Local Enterprise Partnership (LEP) support. This study analysed the characteristics of high tech Oxfordshire today, its future growth potential and the challenges involved in realising that potential.

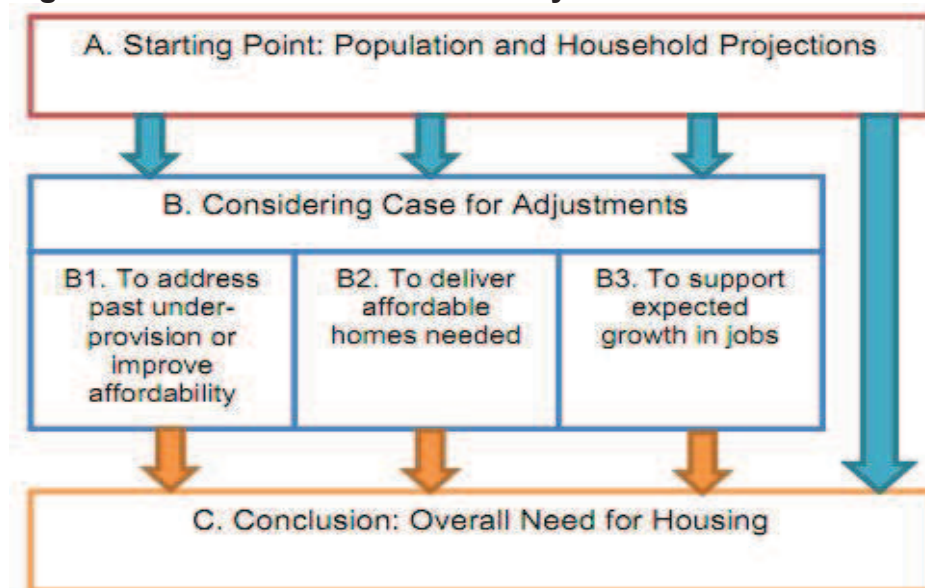
⁵ National Planning Practice Guidance, March 2014, 'Housing and economic development needs assessments'

18 The original SHMA methodology proposed to rely on general economic modelling to assess economic and labour market factors. Supplementary modelling was commissioned from Cambridge Econometrics (CE) to improve robustness and to better align with work for the Oxfordshire LEP Strategic Economic Strategy, prompted by the Government’s Growth Deal announcement in July 2013.

THE SHMA METHODOLOGY

19 The Oxfordshire SHMA looks at the period 2011 to 2031 and considers the number of homes needed, the mix of housing and housing needs of specific groups. It identifies an objectively assessed housing needs figure, which should be used to inform the housing policies of emerging Local Plans. Figure 1 provides a high-level overview of the main stages of the SHMA methodology.

Figure 1: The SHMA model summary



20 Focussing on the key scrutiny issue of overall housing need, the main steps are to:

- Review the housing market area boundary. This was agreed to broadly correspond to the county area, endorsing the previously identified boundary.
- Review national demographic projections, in particular the robustness of national trends such as migration in the study area.
- Adjust the national demographic baseline where appropriate to create a model tailored to the Oxfordshire housing market area.
- Consider affordable housing requirements.
- Incorporate this adjusted demographic projection into employment modelling using a baseline economic model tailored to the structure of the local economy to give projected trend growth for each district.

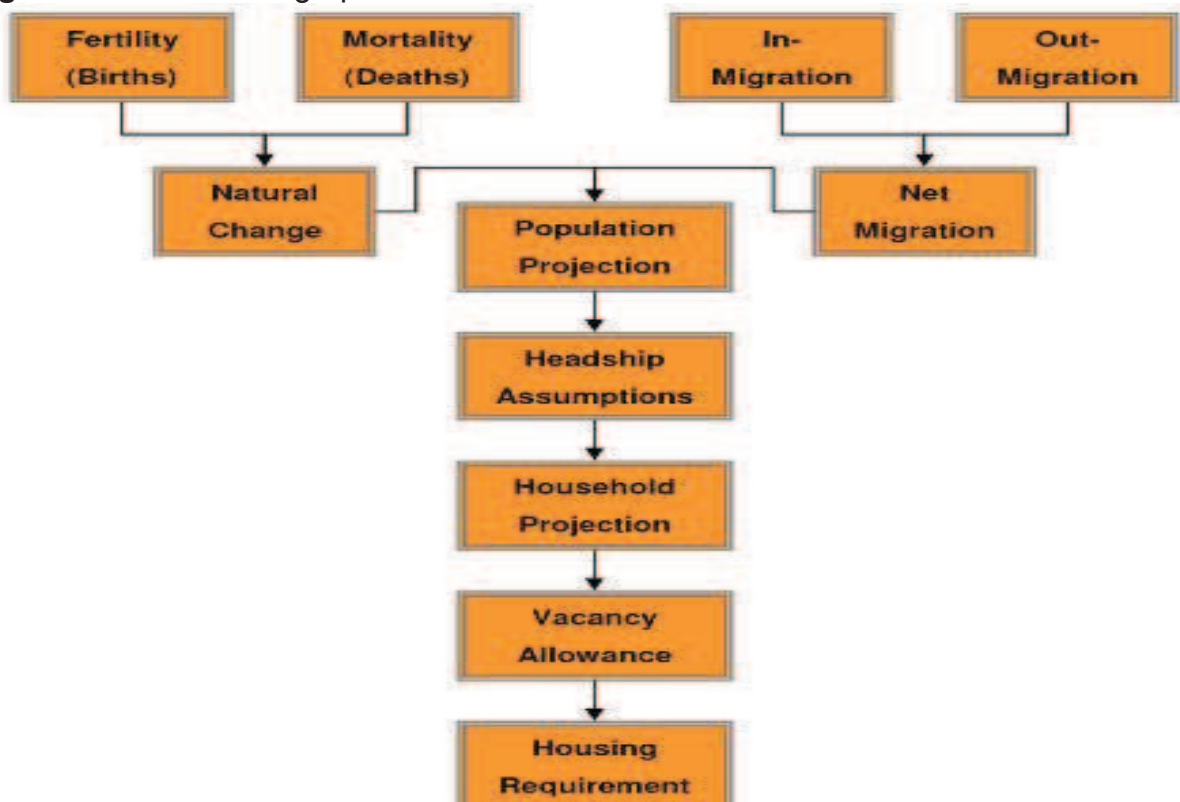
- Review these employment model projections and generate a locally specific employment forecast by incorporating adjustments to projected trend growth based on local circumstances and known economic commitments. This is important to ensure that employment forecasts are robust at examination to factors such as committed investment that the baseline economic model alone would not pick up.
- Incorporate this committed growth employment forecast into the SHMA demographic model to identify and reconcile any imbalance between availability of working age population and forecast employment growth (in essence more homes would be needed if a labour force shortfall is predicted arising from the projected size and age profile of the local population).

22 The key point to note is the inter-relationship of demographic and economic analysis, a particular strength of the Oxfordshire SHMA approach.

Review and adjustment of demographic projections

23 Figure 2 shows in more detail the demographic elements of stage B1 in the figure 1 SHMA summary model.

Figure 2: SHMA demographic model



24 Four main adjustments were made to the latest CLG 2011 Interim household projections for the period 2011 to 2021:

- Extending the interim CLG household projection from 2021 to 2031
- A correction to demographic trend assumptions. The main correction was to redress substantial inaccuracies in migration assumptions for Oxford city, which projected 2.5% decline in Oxford households 2011-2021 (-17,230 population) despite a 14,700 population increase 2001-2011. Based on this population change 2001-2011 the consultants estimated trend based net in-migration to Oxford city of 600 people per annum (by deducting natural change), and projecting this trend forward over the SHMA period to 2031. The same process was applied to the rest of Oxfordshire with lesser corrections arising elsewhere (South Oxfordshire + 5,300 population over 20 years or an increase of 265 people per annum)
- A correction to the headship assumptions (the rate at which households form from the population). The 2011 headship rate was considered unrealistically low, depressed by factors including housing under-delivery relative to targets and recessionary effects including the difficulty in recent years for first time buyers in particular in obtaining mortgage finance. The headship rates from the 2008 household projections were used instead, as they reflect more 'normal' market conditions, to avoid projecting forward constrained past formation rates.
- Stage B1 also adds in 1,400 backlog (housing delivery shortfall from 2006-2011 against the South East Plan target), equivalent to 70 homes per annum 2011-2031.

25 Taken together the demographic corrections that make up the GL Hearn alternative household projection for South Oxfordshire are as follows:

Increase in homes or households per annum	Source / basis
360 households pa	Starting point from the 2011 Interim CLG household projection rolled forward to 2031
482 homes pa	Housing need based on CLG projections adjusted for migration and adjusted headship rates
+70 homes pa	Adjustment to make up 1400 home backlog from SE Plan target 2006-2011
552 homes pa	GL Hearn alternative demographic baseline

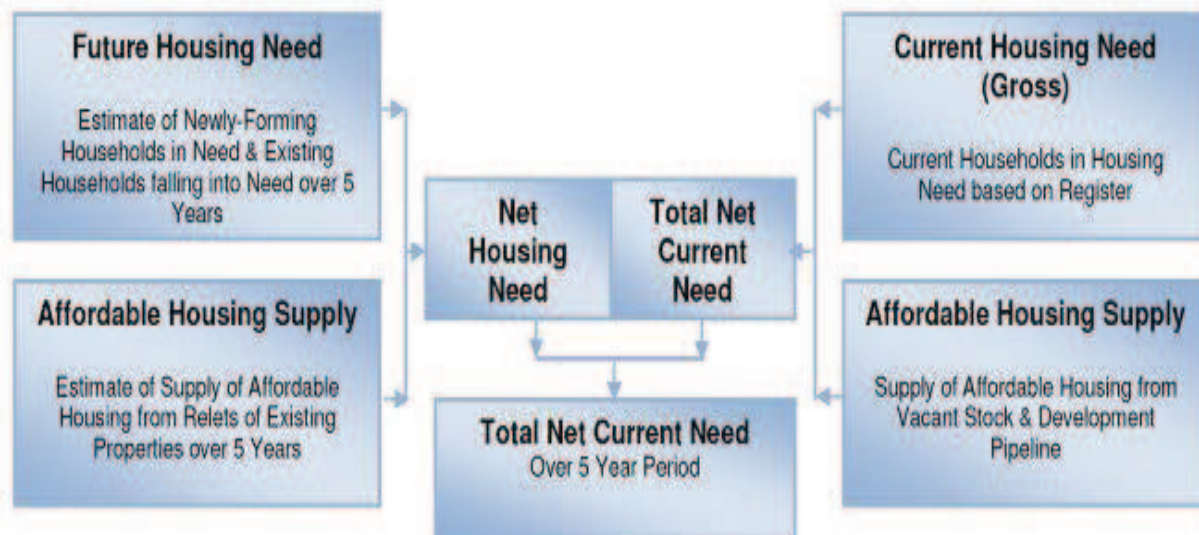
26 In converting households to dwelling requirements it was also estimated that around 4.5% of South Oxfordshire homes are vacant at any given point (census data), reflecting normal market turnover.

27 Note also that the projections exclude residents of institutions, including purpose built student accommodation that would otherwise distort the assessment of mainstream housing needs.

Considering affordable housing needs

28 Figure 3 shows in more detail the considerations in stage B2 in figure 1 SHMA summary model above, delivery of the affordable homes needed.

Figure 3: Housing needs model



29 The SHMA uses a well established Government 'Basic Needs Assessment Model' for affordable housing, which is a point-in-time snapshot.

30 In accordance with Government advice on evidence base proportionality the model uses secondary data sources including census, demographic projections, house price, rents and incomes data, and a market survey of housing costs in June 2013. It also uses local authority data on the affordable housing stock and data on those housed in unsuitable accommodation (in particular overcrowded households).

31 A key assumption is that households that spend more than 35% of their gross income on housing costs cannot afford market housing - a 35% affordability ratio. This means that on average across Oxfordshire any household with a gross income below £31,710 falls into housing need and would leave households with a residual income of £20,610 after housing costs have been paid. It is recognised that some households may already own their home e.g. pensioners even though their future income is forecast to be below the threshold. The consultants estimate that 37% of households with an income below the threshold would have sufficient income/equity to afford market housing and the total number of households falling into need has been reduced by this figure. The net affordable housing requirement for South Oxfordshire 2013-2018 was 386 per annum. This was calculated in the following way:

Estimated level of housing need per annum

Backlog of need	Newly forming households falling into need	Existing households falling into need	Total need	Projected supply from relets	Net need per annum
37	472	138	647	260	386

32 To fully meet affordable housing need assuming 40% affordable housing is secured in accordance with policy would require a target of 965 homes per annum. The consultants make a consideration about whether we will need to make an upward adjustment from the demographic trend projection and the economic growth projection to meet affordable needs. They acknowledge that the affordable need projection is likely to be an overestimate as the model used was not designed to forecast needs over a 20 year period. It does not make an allowance for the increasing number of relets likely to become available from increasing the supply of affordable units. In addition the affordable need calculated includes some households who are already housed, for example in private rented accommodation, and those that may be housed in this way in the future. The consultants have therefore concluded that the Objectively Assessed Need for South Oxfordshire should be in the range 725 to 825 homes per annum, this is to support an improvement in affordability over time and to support the economic growth needs set out below.

Considering employment growth and future labour force requirements

- 33 Stage B3 in the figure 1 SHMA summary model considers how employment and economic growth factors will affect future housing requirements.
- 34 To inform the SHMA Cambridge Econometrics, proprietary demand-led Local Economy Forecasting Model was used (LEFM illustrated at Appendix A, further details at the link footnoted⁶). This was jointly developed by Cambridge Econometrics and the Institute for Employment. LEFM is a well established and accepted economic model that has been used in a wide variety of projects throughout the UK⁷.
- 35 The LEFM starts by projecting a continuation of past economic trends as the baseline projection. The Oxfordshire LEFM assumes that historical trends in relative growth in Oxfordshire compared with the wider South East (or UK) economy (on an industry-by-industry basis) seen over the past 15 years or so continue into the future. This projected Oxfordshire employment growth of 0.4-0.5% 2011-2031 (+36,400 jobs), considerably lower than the 0.8% achieved 2001-2011 a period including a severe economic downturn.
- 36 The LEFM base model was tailored to reflect the Oxfordshire specific circumstances. This included use of GL Hearn's alternative population-based projection to better reflect population change in the county. This projected employment growth of 0.6%, still well short of recent trends and was considered overly cautious in the context of the potential of the area as we emerge from the recent recession.

⁶<http://www.camecon.com/SubNational/SubNationalUK/ModellingCapability/LEFM/LEFMOverview.aspx>

⁷http://www.camecon.com/SubNational/SubNationalUK/ModellingCapability/LEFM/examples_of_projects_using_lefm.aspx

- 37 The consultants (SQW) then considered whether the LEFM model alternative baseline growth projections adequately captured likely employment growth. A number of adjustments were made based on qualitative information and professional judgement to produce a planned/committed economic growth forecast. This forecast allows for credible expectations for 'above trend' employment growth arising from policy and funding commitments not captured by the LEFM model, including the Science Vale enterprise zone, Bicester eco-town, City Deal and committed infrastructure investment. This work was informed by consultation for SQW's Oxfordshire Innovation Engine report with a large number of economic and other stakeholders, together with local authority information on development and infrastructure funding commitments.
- 38 A county total of 88,000 jobs are forecast with the committed economic growth scenario over the period 2011-2031. This represents employment growth of 1% pa with annual growth rates varying between 0.6% in Oxford and 1.5% in VOWH. This compares with an average annual growth rate of 1.7% across Oxfordshire and 2.1% in Vale 1981-2000. The CE and SQW report considers that this would be 'an achievement, especially in the current economic environment, but is by no means unprecedented'⁸.
- 39 For South Oxfordshire 11,400 additional jobs are forecast between 2011 and 2031 of which 9,100 reflect trend based economic growth using the alternative population projection, and 600 arise from 'above trend' adjustments and 1,700 from indirect jobs arising from the above trend population increase in Oxfordshire. A summary of above trend business class jobs growth in Oxfordshire to 2031 are set out in Appendix B. The balance is made up of 6000 jobs in all other uses/sectors (not previously quantified).
- 41 In order to test the robustness of these findings, CE and SQW conducted a risk assessment including housing and infrastructure provision, and contacting a large number of organisations throughout Oxfordshire to 'sense-check' the modelling outcomes (listed at Appendix C). They concluded that
- "We would therefore not recommend that the Planned Economic Growth forecasts are reduced to account for the risks discussed in this Chapter, because they do not appear to us to be particularly likely to reduce employment growth below that forecast."⁹

Balancing jobs and homes

- 42 Having established a robust view on future employment requirements, the next step is to consider what level of housing would be needed to support committed economic growth. This exercise relates back to the NPPF requirement to align planning for jobs and housing (para 158) by considering job growth against the projected future labour force.
- 43 The SHMA assumes current productivity levels will hold constant and that slightly older people will remain in work reflecting pensionable age changes and evident trends over the last decade. It also assumes that current commuting patterns will remain. At present there are 120 residents in employment for every 100 jobs in the district, thus modest net out-commuting (NB 2001 census data is the best currently available).

⁸ 'Economic Forecasting to Inform the Oxfordshire Strategic Economic Plan and Strategic Housing Market Assessment' (28 February 2014) section 5.2

⁹ 'Economic Forecasting to Inform the Oxfordshire Strategic Economic Plan and Strategic Housing Market Assessment' p42.

- 44 By considering the age profile and labour market participation rates of households, the additional homes required to fully support economic growth can be estimated.
- 45 The starting point is the trend economic forecast based on the alternative population, the figure before above trend jobs are added. Trend jobs growth of 9,100 generates a housing requirement of 655 homes per annum or 13,100 total 2011-2031.
- 46 The above trend jobs growth of 2,300 jobs generates a requirement for 94 additional homes.

OTHER SHMA FINDINGS

Housing market signals

- 47 2012 Q3 median house prices in the Oxfordshire HMA were found to be 32% above national average and South Oxfordshire prices were 8.7% above the Oxfordshire average, indicating strong relative housing demand (Q3 2012 data, HM Land Registry and CLG). Rents follow a similar trend, for example 'rooms' (the cheapest market entry point) in South Oxfordshire were £400 per month compared to the South East average of £370 (Valuation Office data). The ratio of entry level house prices to incomes stands at 10.75 compared to the England average of 8.59.
- 48 The key constraint on the market is the ability of people to raise deposits for house purchases. House prices in South Oxfordshire increased by 5.1% to £286,975 during the period 2008-2012. This compared with an increase of 3% in Oxfordshire to £250,000 during the same period.
- 49 The latest land price data available (2010 Valuation Office and HCA) shows Oxfordshire has the highest housing land values in the South East region (outside London).
- 50 It was also clear from the stakeholder consultation process¹⁰ that the Oxfordshire Housing Market Area (HMA) has been resilient to economic factors, and was picking up during 2013. Strongest market recovery and demand pressures were noted in Oxford followed by the VOWH and South Oxfordshire.
- 51 Taken together these market signals provide further strong evidence of a need to deliver more homes.

¹⁰ Stakeholder consultation took place in November 2013

The current housing offer and future requirements

- 52 The local market is weighted towards larger and owner-occupied homes. The total housing stock in South Oxfordshire stood at 56,370 (2011 census). There is an above average proportion of owner occupation in South Oxfordshire at 73.8% in 2001 and 72.9% in 2011. The proportion of detached houses is particularly high in South Oxfordshire at 35.8% compared with 9% in Oxford city.
- 53 The SHMA estimates future requirement for market housing to broadly follow current size mix, with 75.8% of new homes to be 3+ bedrooms.
- 54 For affordable housing there is a significant requirement for smaller homes, 68.1% 1-2 bedrooms.

Financial Implications

- 55 None.

Legal Implications

- 56 We operate in a plan-led system and it is a statutory requirement to produce a local plan, which is supported by up to date evidence, including a 'Strategic Housing Market Assessment'.

Risks

- 57 The 'Strategic Housing Market Assessment' has been prepared, by consultants, on behalf of all the Oxfordshire authorities and provides an up to date evidence base for the updating of each of the districts Local Plans. We will need to prepare a new local plan to replace our core strategy and make provision for these new housing requirements. It is not clear from the guidance or through appeal decisions how generous the government will be in allowing time for the local plan preparation and we should progress this work with reasonable haste in order to prevent uncertainty about our five year land position and the potential for sustainable development proposals being agreed outside the plan-led system.

Other Implications

- 58 Lack of policy certainty could be a disincentive to private sector and public investment in much needed development and infrastructure.

Conclusion

- 59 The Oxfordshire SHMA and its conclusions for South Oxfordshire are comprehensive, robust and fully compliant with national policy and guidance. Both the SHMA and supporting forecasting have been fully scrutinised by South Oxfordshire and other Oxfordshire officers, and sense checked by well qualified and experienced consultants who are leaders in their respective fields.
- 60 The upward adjustments for above trend employment growth reflect committed policy and investment programmes and the further upward adjustment of the higher end of the range for affordable housing needs reflects the high house prices in the district and the high level of need for affordable homes.

USEFUL REFERENCES

'Oxfordshire Strategic Housing Market Assessment – Summary of key findings' (March 2014)

<https://www.oxfordshire.gov.uk/cms/content/spatial-planning-and-infrastructure-partnership>

'Economic forecasting to inform the Oxfordshire Strategic Economic Plan and Strategic Housing Market Assessment' (28 February 2014)

<http://www.whitehorsedc.gov.uk/sites/default/files/Oxfordshire%20Economic%20Forecasting%20Final%20Report%202014.pdf>

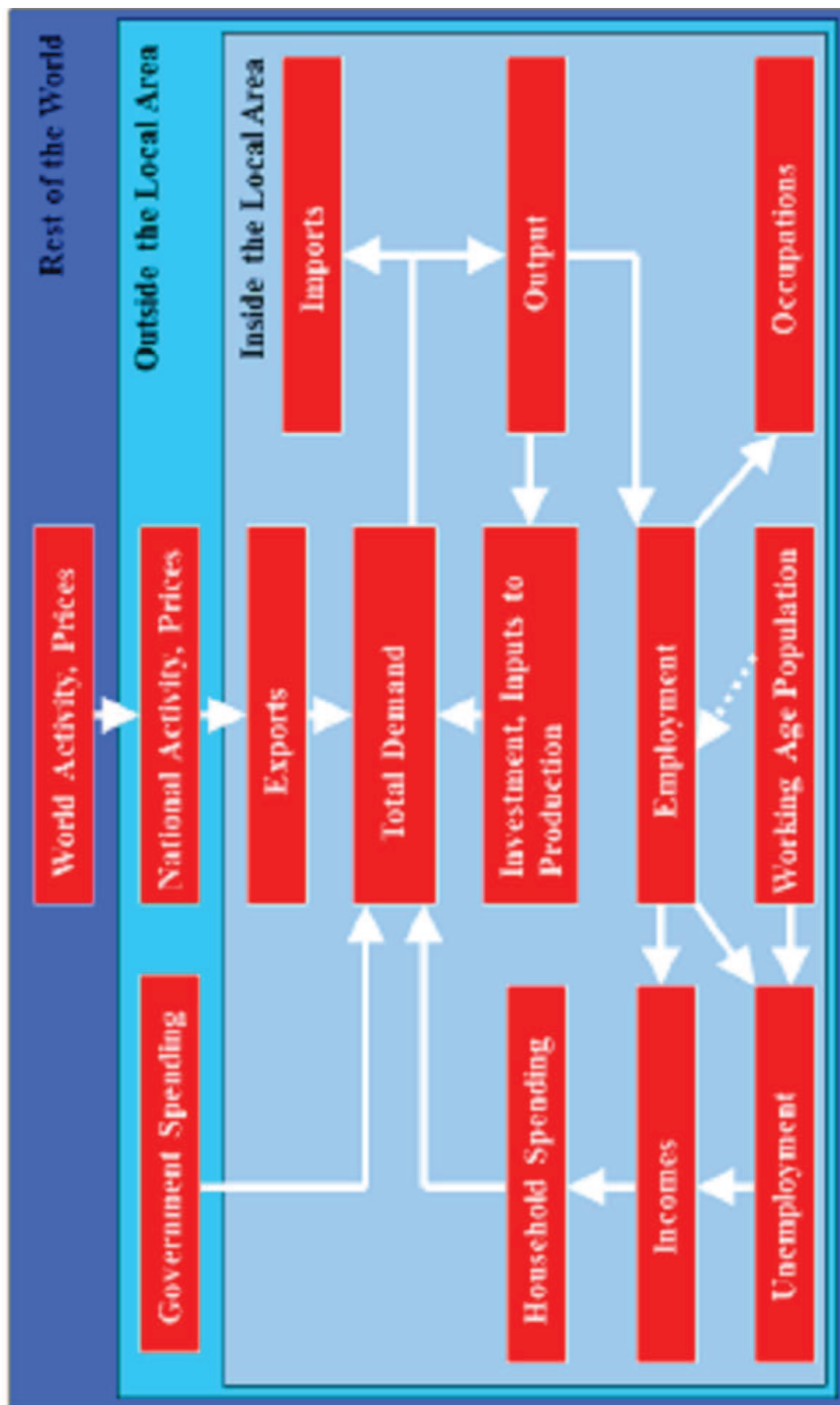
National Planning Policy Framework, Department for Communities and Local Government (March 2012)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

National Planning Practice Guidance, Department for Communities and Local Government (updated March 2012)

<http://planningguidance.planningportal.gov.uk/>

APPENDIX A – THE STRUCTURE OF THE LOCAL ECONOMY FORECASTING MODEL (LEFM)



APPENDIX B – SUMMARY OF ABOVE TREND BUSINESS CLASS JOBS GROWTH IN OXFORDSHIRE TO 2031

Type of jobs	Total	2011-21	2021-31	South Oxfordshire		Vale of White Horse		Sector
				Oxford	Oxfordshire	Oxford	Oxfordshire	
University	2,000	1,000	1,000	2,000				Education
Culham research	500	250	250	500				R&D, IT services, electronics, pharmaceuticals
Enterprise Zone	5,400	5,400			5,400			R&D, IT services, electronics, pharmaceuticals
Satellite technology	4,000	2,000	2,000	1,500	2,500			R&D, IT services, other transport services
Bioscience	2,500	1,250	1,250	1,500				R&D, pharmaceuticals
Healthcare	2,500	1,250	1,250	2,500				Healthcare, R&D
Advanced engineering	3,000	1,500	1,500	1,000	500			Motor vehicles, electronics, electrical equipment, architectural & engineering services
Construction	150	150		150				Construction
Environment technologies	1,000	500	500	100	100	100		Other professional services
Retail	2,200	2,100	100	1,000	200			Retail
Distribution	2,500	1,500	1,000	1,000	1,500			Warehousing & postal
Oxford airport and technology park	2,000	1,000	1,000	2,000				Air transport, R&D, electronics, retail, food & beverage services, architectural & engineering services
Total	27,750	17,900	9,850	8,100	600	10,200	600	

Source: SQW

APPENDIX C – LIST OF ORGANISATIONS CONTACTED, INFORMING THE CE REPORT

- Advent Life Sciences
- Allen Associates
- Barclays Bank plc
- Begbroke Science Park
- Bloombridge Development Partners
- Caterham F1
- Cherwell District Council
- Circassia Holdings Ltd
- Dehns
- Diamond Light Source Ltd
- Drayson Racing Technologies
- Evotec
- Federation of Small Businesses, Oxfordshire
- Grant Thornton UK LLP
- Goodman
- HSBC Bank plc
- Immunocore Ltd
- Inhibox Ltd
- Invest in Oxford
- Isis Innovation
- James Cowper
- Lotus F1
- Mahler Ventures
- Manches
- Marks & Clerk
- Medinnovate Ltd
- MEPC Milton Park
- MRC Harwell
- NERC Centre for Ecology & Hydrology, Wallingford
- Nexeon Ltd
- NHS Innovations South East
- Nielsen Group
- Numerical Algorithms Group
- OBN
- Oxford Airport
- Oxford & Cherwell Valley College
- Oxford BioMedica plc
- Oxford Brookes University
- Oxford Capital
- Oxford City Council
- Oxford Gene Technology Ltd
- Oxford Innovation & SQW Group
- Oxford Instruments plc
- Oxford Investment Opportunity Network
- Oxford Nanopore Technologies Ltd
- Oxford Science Park
- Oxford Technology Management
- Oxford University Hospitals NHS Trust
- Oxford University Press
- Oxfordshire Chamber of Commerce
- Oxfordshire County Council
- Oxfordshire Local Enterprise Partnership
- Oxfordshire Skills Board
- Prodrive
- Rockley Group
- RM plc
- Said Business School, University of Oxford
- Science & Technology Facilities Council
- Science Oxford
- Siemens Magnet Technology
- Sophos
- South Northamptonshire Council
- South Oxfordshire District Council
- SV Life Sciences
- Technology Strategy Board
- The Oxford Science Park
- The Royal Society Enterprise Fund
- Tokamak Solutions (UK) Ltd
- UK Atomic Energy Authority & Culham Centre for Fusion Energy
- Unipart Group
- University of Oxford
- Vale of White Horse District Council
- Venturefest Oxford Ltd
- VSL & Partners
- West Oxfordshire District Council
- Wiley-Blackwell Publishing
- Williams F1
- Yasa Motor

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