East Staffordshire Evidence Base
Note in response to the Inspector's Interim Findings

January 2015

Contents

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For and on behalf of GVA

1.   Introduction

1.1   This note has been prepared by GVA in response to the points raised by Inspector B J Sims in his Interim Findings dated 11th November 2014 in relation to the examination of the East Staffordshire Local Plan (ESLP), and where appropriate to representations made to the Local Plan (reference: Docs PS-20, PS-21 and PS-27).

1.2   Particular reference is made to the points raised by the Inspector within paragraphs 17 and 18 concerning the Objectively Assessed Housing Need (OAHN) put forward by East Staffordshire Borough Council (ESBC) based on employment projections.

1.3   The Inspector has said in this respect: "It is fair to say that the ESBC benchmarking of employment predictions appears to represent a reasonable and balanced approach in an area where predictions are necessarily uncertain and widely variable. Dispute arises from the treatment of the results."

1.4   Accordingly this note focuses firstly on those points concerning the Employment Land Review Update ('the ELR') and its conclusions (Section 2).

1.5   It then addresses questions about economic activity rates (Section 3).

2.   Employment Land Review Update

2.1   The key points identified in relation to the ELR within the Inspector's Interim Findings have been summarised for the purposes of this note as listed in the bullet points below. Paragraph references relate to the Interim Findings note issued on 11th November 2014.

2.2   Each point is then considered in turn in the remainder of this note.

- the source and the treatment of the employment predictions with reference to alternative scenarios and models put forward by representations (para 17) ('Point 1' below); and

- the ELR is unclear in the way it discounts from gross employment yield of 12,670 to the net figure of 4,751 with only passing reference to the English Partnerships Additionality Guidance 2008 (para 18) ('Point 2' below).

Point 1

2.3   At paragraph 17 of the Interim Findings note, the Inspector makes reference to representations made which question the source and the treatment of the employment predictions with reference to alternative scenarios and models.

2.4   For clarity, the following bullet points identify the econometric forecasts put to the Inspector as part of the examination:

- GVA for East Staffordshire Borough Council's ELR considered Experian Business Strategies and Cambridge Econometrics models; and

- Regeneris (on behalf of Gladman Developments, PS-21) have considered Oxford Economics data.

2.5   In addition the further comments are noted from the representations made:

- "The 2014 SHMA increases the level of dwelling requirement to reflect an increase in employment over the plan period of 5,728 full time equivalent (FTE) jobs (the Alternative Labour Demand scenario forecasts). This level of employment growth is under half the level of growth set out in East Staffordshire Regeneration and Growth Plan - Delivery Plan 2012- 2015 which suggests a growth rate of 790 jobs a year which in itself is just below past rates of growth of 800 jobs a year so would appear to be a reasonable assumption." (Sarah Butterfield, Alliance Planning on behalf of Barwood Strategic Land II LLP and Mr and Mrs G Skipper, PS-20)

- "In the Council's OAHN there is a misalignment between the proposed level of housing and the positive approach to employment adopted in the Local Plan. In the employment led scenarios the Council assumes a rate of job growth significantly below the recorded historical rate of growth in jobs across the District and its own economic ambitions as set out in Local Enterprise Partnership (LEP) documents and the Council's Regeneration & Growth Delivery Plan. This pessimistic view of future levels of job creation is effectively constraining housing provision." (Susan Green, Home Builders Federation, PS-27)

2.6   Taking first the introduction of Oxford Economics (OE) econometric forecasting data, as put forward by Regeneris / Gladman (PS-21).

2.7   The OE data presented at PS-21 Appendix 1 suggests a forecast growth of 6,700 jobs between 2011 and 2030, at an annual rate of 352 jobs per annum and 0.5% annual growth rate. As stated by the representation, this growth rate of 0.5% is consistent with the forecasts within the ELR, with the difference actually being the base data used upon which the forecasts are applied.

2.8   Appendix 1 of the representation does not set out the exact figures by sector within the OE model, and therefore it is difficult to draw direct comparison between it and the Experian model identified in the ELR as the preferred scenario. However, on the basis of Figure 5.1 in Appendix 1 of the representation, there are notable areas of alignment with the preferred scenario including contraction within overall manufacturing, growth within distribution and logistics sectors including wholesale activities, land transport, warehousing and transportation, and forecast employment growth in some Business, Professional and Financial Services (BRFS) sectors.

2.9   With the information available it is not possible to do a direct comparison of the two forecast models, but at headline level this appears on the basis of the summary at para 2.8 to be a question of the base data used. The representation suggests that the ELR use of Business Register and Employment Survey (BRES) data is inappropriate in this context on the basis that it under-represents self-employment.

2.10   BRES publishes estimates of employees and employment. BRES provides definitions of:

- Employees – "anyone working on the BRES reference date who is aged 16 years or over that the contributor directly pays from its payroll(s), in return for carrying out a full-time or part-time job or being on a training scheme."

- Employment – "adds the number of working owners to the number of employees. Working owners include sole traders, sole proprietors and partners who receive drawings and/or a share of profits, but are not paid via PAYE."

2.11   The ELR utilizes the BRES 'employment' data. While this does not include all self-employed people, it does include sole traders and sole proprietors and it is the most comprehensive employment data available by industry at the local geographical level. BRES data is used so that growth by individual industrial sector can be considered (at a detailed sector breakdown – 2 digit SIC code). There is a lack of data relating to numbers of self-employed people by industry at the local level. Appendix 1 of the representation does not provide a solution to this lack of data, claiming that the ELR "may" underestimate employment growth but offering no alternative.

2.12   With regards the further representations made in relation to the preferred employment scenario, the following responses are made.

Comparison with historic jobs growth

2.13   Considering the latest BRES employment data allows analysis of employment change over the period 2009 and 2013, which shows an increase of 1,038 jobs over the period at an annual average of 260 jobs. This includes a contraction in employment between 2011 and 2012. This data includes a growth in manufacturing employment between 2012 and 2013 of 800 which is likely to be exceptional. This annual average employment growth over the period, based on the latest data available, is marginally below but generally in line with that presented in the ELR. As such therefore the latest data available generally supports the level of growth included in the ELR, and if taken directly even questions if the ELR figure is too high (although that argument is not being pursued by the Council).

Analysis of past trend models

2.14   The alternative job figures generated under the five different models considered are considered in detail within the ELR, including the job figures associated with:

- Labour demand (Cambridge)

- Labour demand (Experian) (referred to in the ELR as the 'Additional Forecast')

- Past trend scenario 15 years

- Past trend scenario 25 years

- Labour supply

2.15   The ELR recognises that these five models suggest a range of forecast job figures over the plan period. For this reason within Section 6 of the ELR, the forecasts are

considered against a series of benchmarking exercises, which allow differing degrees of confidence to be placed in each.

2.16   The benchmarking exercises include:

- A breakdown of growth forecasts by sector to allow more detailed consideration of the *nature* of employment change in each – this is critical given that each model suggests a different type of economy.

- For example, the past trend 15 yr and 25 yr models project growth within some manufacturing sub-sectors, and significant growth within BPFS, the largest of any of the scenarios set out, including growth within head office and management consultancy advice, and employment activities.

- Past economic trends; allowing consideration of the above breakdown of growth forecasts suggests contraction in manufacturing, growth in distribution, and contraction in some (but not all) BPFS sectors.

- Commercial market drivers, which included the following conclusion presented at para 6.19: "There is limited evidence identified to suggest that the office market is going to grow significantly over the plan period associated with the drivers identified. This brings into question the more optimistic models suggesting significant growth within the office sector, with very little sense from the analysis undertaken of commercial market indicators that East Staffordshire's positioning as an office location will change over the plan period."

- Alignment with strategy and aspiration, with no expectation within LEP strategic documents of significant growth within office sectors in East Staffordshire, expecting such growth to be focussed instead on areas with competitive advantage / clear and apparent market drivers / established prime markets.

- 'Project-on' comparison, which does supports potential capacity in the identified sites higher than that under the preferred scenario, but does not support the level within the 15yr and 25yr past trend models.

- Labour force considerations, which highlight the vulnerabilities of some of the larger employment estimates emerging from the demand models including specifically the Cambridge and 15-year historic trends analysis.

2.17   On this basis, the ELR discounted both the nature and scale of growth within the 15yr and 25yr trend models.

Alignment with other documents

2.18   Neither the GBSLEP or the SSLEP have produced projections of employment growth in East Staffordshire and hence it has not been possible to take account of any such projections. Each LEP sets out aspirations for the whole of its LEP area, but it is illogical to expect that these aspirations apply equally to every part of the area. There is therefore no inconsistency between the ELR and LEP strategies.

2.19   The job growth figures within the Council's historic Regeneration and Growth Delivery Plan related to Growth Point status. The document did not actually articulate how the figure of 790 jobs pa had been arrived at and it has not therefore been possible to take account of the methodology or to give that number any credence. The ELR is more current and supersedes earlier work.

2.20   In conclusion, the ELR is not pessimistic about employment growth, it is reasonable and balanced, as recognised by the Inspector.

Point 2

2.21   The point raised by the Inspector at paragraph 18 makes reference primarily to paragraphs 6.28 to 6.31 within the ELR and pages 13-14 of the representation put in to the Inquiry by Alliance Planning on behalf of Barwood Strategic Land II LLP and Mr & Mrs G Skipper (PS-20).

2.22   Paragraphs 6.28 to 6.31 of the ELR present one of a number of benchmarking 'tests' undertaken to consider the confidence which can be placed in the econometric forecasting figures identified and analysed – and ultimately informing the conclusions of the study.

2.23   This particular benchmarking exercise relates to the consideration of the *potential* capacity of known projects and extant planning permissions for B1, B2 and B8 uses, both in gross and net terms.

2.24   The ELR does not explain the methodology for taking the gross *potential* job yield from the identified sites to an estimated net position, and this is therefore set out below.

Establishing potential gross yield of identified sites

2.25   Having established with the Council the list of extant planning permissions, committed sites, and key projects, including a site area for each, a standard plot ratio was applied to generate a potential gross employment floorspace yield for each.

2.26   A plot ratio assumption allows the calculation of floorspace yield, taking into account other associated 'uses' on the site including landscaping, roads, car parking, etc. The plot ratio applied was 0.4 (or 40%), a standard (but general) plot ratio assumption in line with the 2002 Office of the Deputy Prime Minister (ODPM) Employment Land Review Guidance Note.

2.27   Applying this plot ratio assumption to the sites identified generated a potential gross floorspace yield by B1, B2, B8. This calculation identified a potential commercial floorspace yield of 294,021 sqm across East Staffordshire, broken down as follows:

- B1(a): 44sqm (NB: relates to sites where specific B1a uses identified)

- B1: 88,187sqm

- B2: 70,907sqm

- B8: 134,883sqm

2.28   Having established these potential floorspace outputs, standard employment density assumptions were applied to generate a potential gross employment yield. The employment densities applied were obtained from the latest Employment Density Guide (Homes and Communities Agency, 2012, Second Edition), and are listed below:

- B1(a): 12sqm per FTE (applied to net floorspace, assuming an 85% gross to net assumption based on commercial experience)

- B1: 29.5sqm per FTE (applied to net floorspace, assuming an 85% gross to net assumption based on commercial experience)

- B2: 36sqm per FTE

- B8: 70sqm per FTE

2.29   Having applied these employment densities to the floorspace quantum's, a potential employment yield of between 9,900 and 12,700 was identified (the range representing the exclusion and inclusion of committed sites respectively).

Potential gross to net job yield calculation

2.30   Having established the potential gross employment yield from the identified sites it is necessary to consider the potential net additional employment yield. In order to undertake this calculation, a methodology in line with the English Partnerships Additionality Guide was undertaken. At the time of undertaking the exercise the most up to date Additionality guidance was the 2008 edition.

2.31   The Additionality Guide sets out four key considerations in calculating net impacts from gross, summarised below:

- Leakage: the proportion of outputs that benefit those outside of the intervention's target area or group;

- Displacement: the proportion of intervention outputs/ outcomes accounted for by reduced outputs/ outcomes elsewhere in the target area;

- Substitution: this effect arises where a firm substitutes one activity for a similar one to take advantage of public sector assistance. So a firm may recruit to a new post while making another employee redundant. It can be thought of as "within firm" displacement; and

- Multiplier effects: further economic activity (jobs, expenditure or income) associated with additional local income and local supplier purchases.

2.32   At page 17 of the guidance, paragraph 4.1, part (v) reference is made to 'ready reckoners' relating to the above four considerations. The guidance states that the ready reckoner "…simplifies the process of assessing the net additional impacts by providing a series of estimates of the scale of each effect." It goes further in stating that project specific information should always be used in preference to standard assumptions – but only where these are available.

2.33   For the purposes of this exercise, which is intended only as a benchmarking 'sense check' of the econometric forecasts considered within the ELR – as a direct response to the range of econometric forecasts identified – project specific information was not available. This is also a reflection of the 'status' of many of these sites – which are not necessarily projects, but rather allocated sites.

2.34   Making more detailed 'project specific' assumptions as a result would not be appropriate – and is not necessary given the high level nature of this calculation and the use of the information.

2.35   As a result, the calculation of gross to net included 'medium' ready reckoner assumptions across the four considerations, with the exception of 'substitution' which is

not necessary to be factored in assuming no public sector intervention / support directly on any of the sites.

2.36   On this basis the following assumptions were applied:

- Leakage: 25%; and

- Displacement: 50%.

2.37   Indirect employment was not calculated in the ELR, but the medium ready reckoner for this calculation is 1.1. However the multiplier can only really be applied in respect of a single site. It does not work at a higher level because much of the indirect employment could be on other sites to which the multiplier would then also be applied resulting in double counting. None-the-less if this 1.1 multiplier had been applied in the Update ELR the figure at Table 6.5 would read as:

- Total excluding committed sites: 4,083

- Total including committed sites: 5,226

2.38   At paragraph 6.31 the ELR concludes on the basis of this benchmarking exercise that the figures suggest that the job outputs associated with the Experian (4,430) and Labour Supply (3,610) models are potential under-estimates of the economic potential within the area. This conclusion remains the same on the basis of the figures presented above at 2.51.

2.39   However this is simply a reference to employment land availability not a reference to demand for sites and hence a prediction of employment growth. The fact that sites might be available does not mean that they will necessarily be developed or that they will provide the theoretical number of jobs. It is more appropriate to look at this issue the other way round; the ELR has established that there will be sufficient land to accommodate the employment growth predicted by the econometric forecasting. Hence the availability of land will not be a constraint on that employment growth, and hence the forecast employment growth does not need to be factored down.

2.40   As noted previously, this is only one of the benchmarking exercises undertaken and reported within the ELR from paragraph 6.2 onwards. The conclusions drawn around a preferred scenario for East Staffordshire are based on a collective consideration of these benchmarks – not just those set out relating to potential yield from identified sites.

Updated HCA Additionality Guidance

2.41   As noted during examination, and highlighted in the Inspectors Findings, since the undertaking of the ELR, updated Additionality guidance has been issued by the Homes and Communities Agency (HCA) (Fourth Edition, 2014).

2.42   However this guidance does not change the principles applied in the ELR around the four considerations. Under the Fourth Edition guidance the following assumptions should be applied:

- Leakage: 25%, no change from the 2008 guidance;

- Displacement: 50%, no change from the 2008 guidance; and

- Multiplier: 1.1, no change from the 2008 guidance.

2.43   As a result the latest guidance does not alter any of the calculations within the ELR relating to this specific benchmarking exercise.

3.   SHMA Update on Economic Activity Rates

Query raised by Inspector in Interim Findings:

3.1   "The relevant sections of the SHMA remain unclear as to the basis of labour force increase scenarios with respect to such considerations as activity rates." (para 18)

SHMA Assumption

3.2   The SHMA Employment-led scenario firstly applied an average economic activity rate (16-64 years) of 65.9% derived from the Annual Population Survey data over the 5-years 2007 to 2011, disaggregated to finer age groups (16-74 years) using the 2001 Census.

3.3   A variation was then applied to this assumption to reflect likely changes to pension ages over the long-term. This variation assumed for the age groups 50-64 years and 65-74 years that economic activity rates would incrementally increase by 10% between 2011 and 2030.

Updated Analysis

3.4   Edge Analytics have produced updated analysis of likely changes in the economic activity rates of older people, as follows.

3.5   Economic activity rates by five year age group (ages 16-74) and sex have been derived from 2001 and 2011 Census statistics. The 2011 Census statistics include an open-ended 65+ age category, so economic activity rates for the 65–69 and 70–74 age groups have been estimated using a combination of Census 2011 tables, disaggregated using evidence from the 2001 Census. Between 2001 and 2011, the rates are linearly interpolated.

3.6   For East Staffordshire, rates of economic activity increased for all age groups between 55-74 for men and between 20-74 for women between the 2001 and 2011 Censuses (Figure 3).
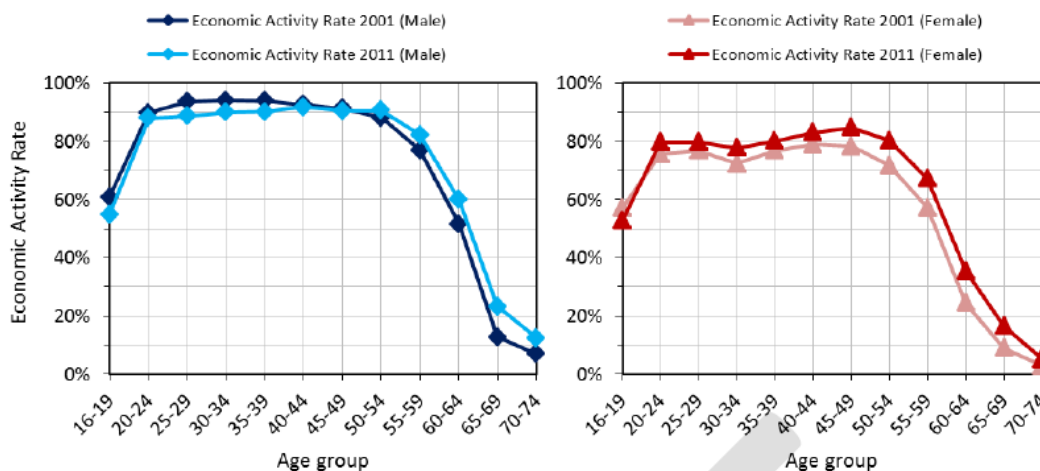
Figure 3: Economic activity rates: 2001 and 2011 Census comparison (source: ONS)

3.7   In all scenarios, Edge Analytics has made changes to the age-sex specific economic activity rates to take account of changes to the State Pension Age (SPA) and to accommodate potential changes in economic participation which might result from an ageing but healthier population in the older labour-force age-groups.

3.8   The SPA for women is increasing from 60 to 65 by 2018, bringing it in line with that for men. Between December 2018 and April 2020, the SPA for both men and women will then rise to 66. Under current legislation, the SPA will be increased to 67 between 2026 and 2028.

3.9   ONS published its last set of economic activity rate forecasts from a 2006 base. These incorporated an increase in SPA for women to 65 by 2020 but this has since been altered to an accelerated transition by 2018 plus a further extension to 66 by 2020. Over the 2011–2020 period, the ONS forecasts suggested that male economic activity rates would rise by 5.6% and 11.9% in the 60-64 and 65-69 age groups respectively. Corresponding female rates would rise by 33.4% and 16.3% (Figure 4).

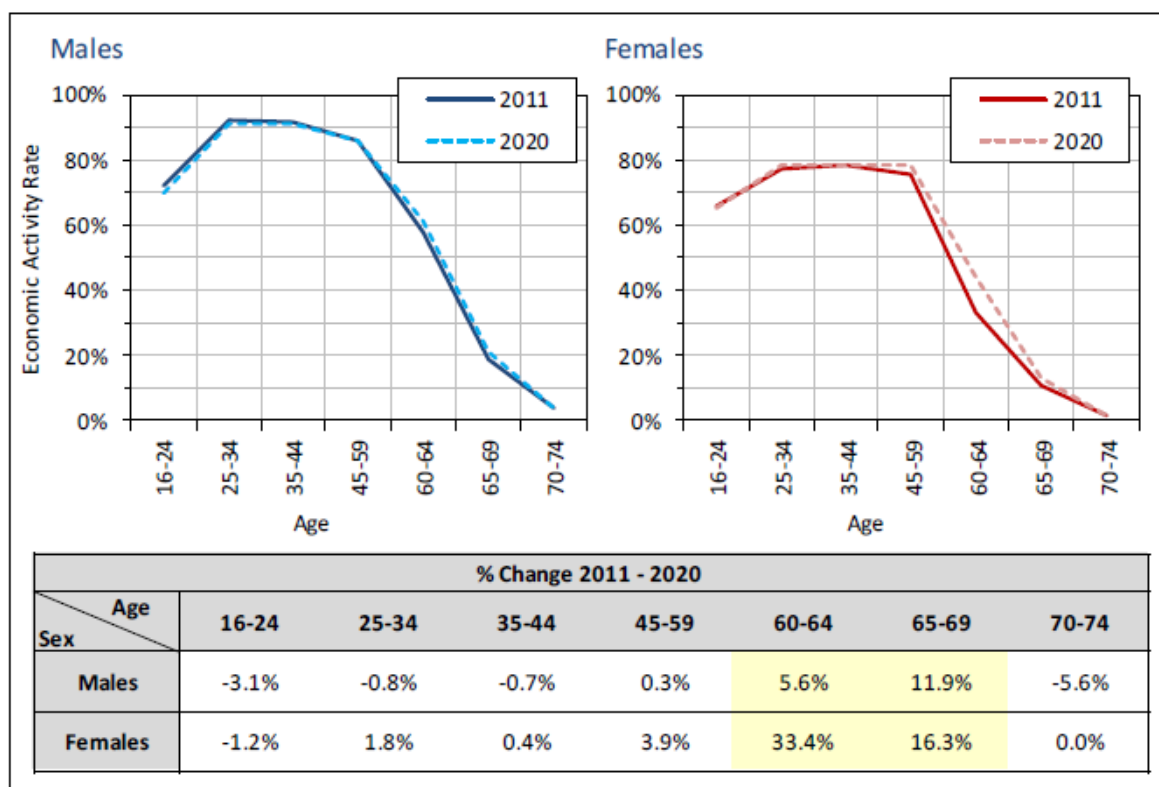| % Change 2011 - 2020							
Age Sex	16-24	25-34	35-44	45-59	60-64	65-69	70-74
Males	-3.1%	-0.8%	-0.7%	0.3%	5.6%	11.9%	-5.6%
Females	-1.2%	1.8%	0.4%	3.9%	33.4%	16.3%	0.0%

Figure 4: ONS Labour Force Projection 2006 – Economic Activity Rates 2011–2020. Source: ONS

3.10   To take account of planned changes to the SPA, the following modifications have been made to the Edge Analytics economic activity rates:

- Women aged 60-64: 40% increase from 2011 to 2020.

- Women aged 65-69: 20% increase from 2011 to 2020.

- Men aged 60-64: 5% increase from 2011 to 2020.

- Men aged 65-69: 10% increase from 2011 to 2020

3.11   Note that the rates for women in the 60–64 age and 65–69 age-groups are higher than the original ONS figures (Figure 4), accounting for the accelerated pace of change in the SPA. No changes have been applied to other age-groups.

3.12   Given the accelerated pace of change in the female SPA and the clear trends for increased female labour force participation across all age-groups in the last decade, these 2011–2020 rate increases (Figure 5) would appear to be relatively conservative assumptions.
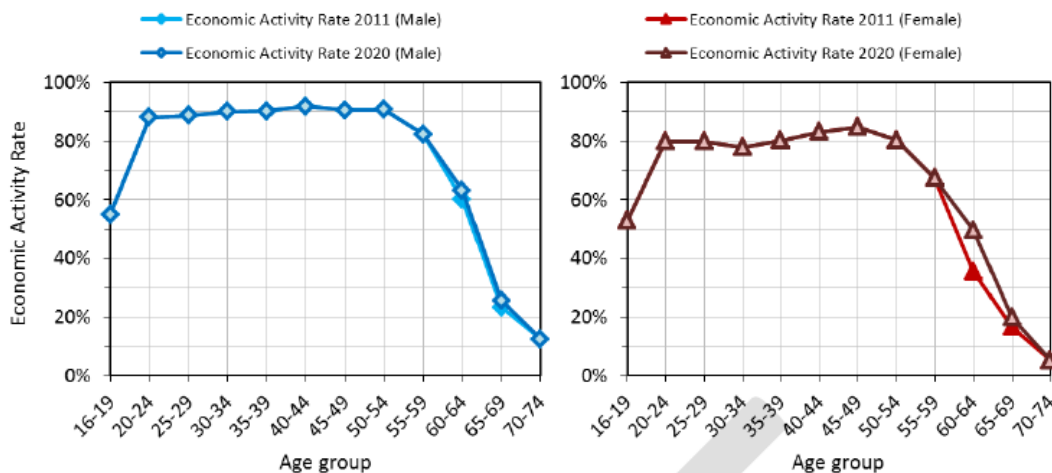
Figure 5: Edge Analytics economic activity rate profiles, 2011 and 2020 comparison.

3.13   This additional work indicates that the economic activity rate is likely to be higher than the rate assumed in the SHMA. This in turn suggests that the Council's housing requirement will be sufficient to support a higher level of jobs growth than is projected in the ELR. It therefore provides reassurance that the housing requirement is more than adequate and does not need to be increased.