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Strategic Housing Market Assessment
Part 1 – Objectively Assessed Need

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1 INTRODUCTION

Scope of the instruction

1.1 Shepway District Council (SDC) and Dover District Council (DDC) jointly commissioned to undertake this study in March 2016.

1.2 As part of the commission to update the SHMA (Strategic Housing Market Assessment) for both districts, the brief set out that the following requirements:

- Define the housing market area for both Districts
- Objectively assess the level of housing need in Dover and Shepway
  - Consider demographic projections of need
  - Assess likely change in job numbers and the implications of this for housing need
  - Look at market signals
- Calculate affordable need
- Estimate future housing need by dwelling size, household type and tenure
- Consider the housing requirements of specific groups
- Assess need from London
- Consider other policy changes
- Engage with key stakeholders

1.3 The brief confirmed that the 'updated SHMA will be used to inform a review of planning policies in both Dover and Shepway to ensure they are up-to-date and in conformity with the NPPF'.

Structure of the report

1.4 The study is structured as follows:

- Section 2 provides a brief overview of the policy and evidence base background;
- Section 3 draws Shepway (and Dover's) housing market area.
- Section 4 establishes the demographic starting point with reference to the evidence base background, the latest CLG projections and alternative trend-based scenarios.
- Section 5 reviews evidence on past housing provision, market signals and affordable housing to establish whether a market signals uplift to the demographic starting point is required.
- Section 6 considers the alignment of housing and future jobs
- Section 7 draws together the preceding three sections to identify the objectively assessed need (OAN).
- Finally, Section 8 summarises our findings and discusses how the SDC might translate the assessed need into housing targets for the Local Plan.

1.5 Accompanying this Part 1 report, is the Part 2 report which focuses on the calculation of the level of affordable housing need and the size and tenure of all dwellings within the OAN.

2 POLICY BACKGROUND AND EVIDENCE BASE

Policy background

2.1 The development plan for Shepway comprises the Core Strategy (2013) and the saved policies of the Local Plan Review (2006).

2.2 Shepway District Council (SDC) are currently producing a Places and Policies Local Plan document; an issues and options consultation took place in early 2015 and a further round of consultation in late 2016. Once adopted, the PPLP will form part of the development plan. As part of the PPLP, SDC are allocating sites for housing in line with the need identified in the Core Strategy.

2.3 The Core Strategy, adopted post-NPPF (National Planning Policy Framework) and following the revocation of the Regional Spatial Strategies (RSS), considered the RSS-set target of 290 dwellings per annum over the period to 2026 and stated that:

> *'This is lower than the rate of delivery achieved in Shepway, which has been in the order of 300 to 500 dwellings a year for most years between 1990 and 2006. Local evidence in the SHMA and SHLAA also suggested that future housing needs, and potentially, land availability were greater than identified in the South East Plan.'*[1]

2.4 Drawing on the findings of the previous SHMA[2] and Shepway's 2011 SHLAA (Strategic Housing Land Availability Assessment), the adopted Core Strategy included the following targets:

- minimum annual delivery of 350 dwellings over the period from 2006 to 2031 i.e. 8,750 dwellings
- of which 8,000 dwellings should be delivered in the period to 2026 i.e. 400 dwellings per annum

2.5 We consider how SBC has performed against these targets in Section 6.

Material considerations

2.6 As set out above, the adopted housing target is derived from a combination the previous SHMA and SHLAA. However, for this study, it is important to note that many older SHMAs were commissioned for a very different purpose to the new-style SHMAs.

2.7 The main product of a 'new style' SHMA is to advise on the housing market area's NPPF- and Planning Policy Guidance (PPG) - compliant housing need i.e. its objectively assessed need (OAN) and possible housing targets (including a policy-led affordable housing uplift). They form the main evidence base to inform a local authority's housing target.

[1] Para. 4.33

[2] Ecotec, June 2009

2.8 A number of pre-PPG SHMAs have proposed various geographies across Kent. The most recent, the 2009 East Kent SHMA, identified an East Kent HMA which included Canterbury, Dover, Shepway, Swale and Thanet. This does not however follow the current guidance on the definition of HMAs set out in the PPG.

2.9 Added to this, the older SHMAs were informed by now out-of-date data: all pre-date the 2011 Census and new Travel to Work Area data. The statistical base underpinning this study is very different to older versions.

2.10 For these reasons, this study does not consider the findings of the East Kent SHMA in any further detail.

Summary

2.11 The main development plan document was adopted following the publication of the NPPF. However, the housing target was derived from an old-style SHMA which was carried out prior the publication of the PPG and does not follow the required method.

2.12 However, the PPG is clear that this does not necessarily render the housing targets out of date. With regard to housing requirements, the PPG states that:

> *'Housing requirement figures in up-to-date adopted Local Plans should be used as the starting point for calculating the five year supply. Considerable weight should be given to the housing requirement figures in adopted Local Plans, which have successfully passed through the examination process, unless significant new evidence comes to light. It should be borne in mind that evidence which dates back several years, such as that drawn from revoked regional strategies, may not adequately reflect current needs.'*[3]

2.13 This study, as new evidence, will identify an OAN for Shepway. In the event the identified OAN is in-keeping with the adopted housing requirement for Shepway, SBC may continue to place weight on those targets.

[3] Reference ID: 3-030-20140306

3 DEFINING THE HOUSING MARKET AREA

Introduction

3.1 Much of the demand or need for housing is not tied to specific local authority areas, because people's decisions on where to live are driven by access to jobs, schools, family etc., rather than administrative boundaries. An HMA is an area of search.

3.2 The NPPF instructs that, where a housing market area (HMA) covers more than one local authority, plan-makers should assess housing needs for the whole area rather than each authority individually. Therefore, the first step in the study is to see if Shepway is a standalone HMA. If it were not, in order to provide a sound needs assessment we would need to add further authorities to the analysis, even if they are not taking part in the study.

3.3 The PPG provides technical advice on how housing market areas should be defined, noting that an HMA should be a reasonably self-contained area in terms of migration – so that a high proportion of house moves occur within the area, as opposed to crossing its boundaries. It adds that this share of moves occurring within the HMA is '*typically 70% ... excluding long-distance moves* (*e.g. those due to a change of lifestyle or retirement)'*. The PPG also identifies other data that can help identify HMAs, including commuting patterns, '*which will influence house price and location*'.

3.4 In identifying a housing market area for Shepway, our starting point is the geography defined in a study by the Centre for Urban and Regional Studies (CURDS) and others for the former National Housing and Planning Council (NHPAU). That study, published by CLG in 2010[4], created a consistent set of HMAs across England, based on migration and commuting data from the 2001 Census. As the NHPAU study is the only one of its kind and has not been updated following the 2011 Census, we test the findings against up-to-date migration and commuting data from that Census, as well as house price and other contextual data.

The NHPAU geography

3.5 The results of the NHPAU study are hosted on the CURDS website. It defines a three-tiered hierarchy of HMAs: strategic, single-tier and local. The study starts from a fine-grained analysis, producing HMAs that cut across administrative boundaries. But for the strategic and single-tier layers the study also provides a 'silver standard' version, which fits the HMAs to local authority boundaries.

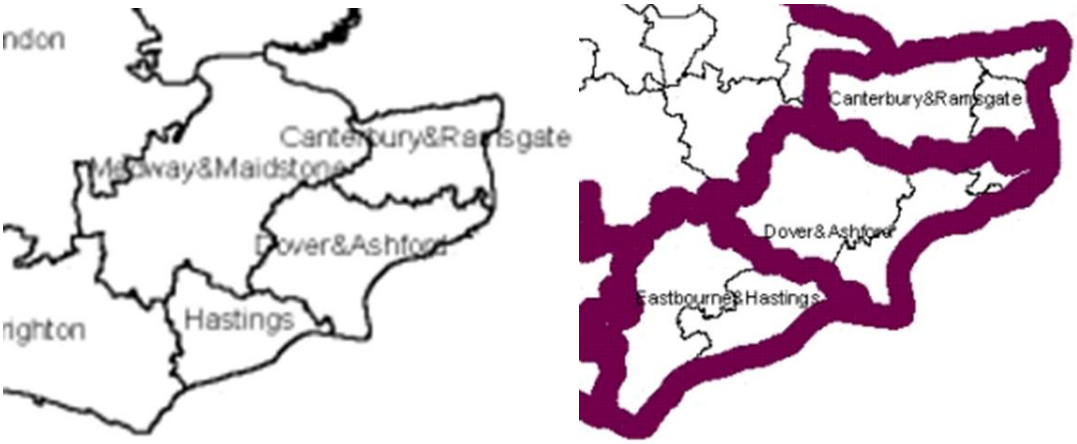
3.6 In our view, for our present purpose the single-tier 'silver standard' geography[5] is the most helpful. We take this view for pragmatic reasons. Thus, we prefer the single-tier layer because strategic HMAs are often too large to be manageable; we prefer the 'silver standard' because HMAs boundaries that straddle local authority areas are

[4] C Jones, M Coombes and C Wong, Geography of housing market areas, Final report, November 2010, Department for Communities and Local Government

[5] http://www.ncl.ac.uk/curds/assets/documents/6.pdf / http://www.ncl.ac.uk/curds/assets/documents/28.xls

usually impractical, given that planning policy is mostly made at the local authority level, and many kinds of data are unavailable for smaller areas.

Figure 3.1 CURDS geography – single tier (left) and strategic tier (right)



Source: CURDs

3.7 The single tier geography shows an HMA comprising Dover, Shepway and Ashford (108). The strategic tier, which is less used because it is often much too large, shows the client authorities on the fringes of much larger HMAs: Shepway and Ashford are grouped as one strategic HMA (93) and Dover, Canterbury and Thanet are grouped separately (94).

3.8 However, the CURDS geography was based on the 2001 Census. We therefore undertake below an updated analysis of commuting and migrations flows derived from the recent 2011 Census as a more robust basis for defining the HMA.

Migration

3.9 The next step in our analysis is to test Shepway and Dover (as Shepway's commissioning partner) separately. Although this study has been jointly commissioned (and this itself is a very strong contextual indicator implying the two LPAs recognise strong housing market links), it would not be sound to simply conclude they form a HMA without testing each LPA first.

The 70% test

3.10 The PPG does not specify how self-contained a HMA needs to be. So for more precise guidance on how to test the HMA we refer to the original source behind the PPG, which is an advice note published by CLG in 2007[6]. The note's introductory comments on this are already familiar, because they are repeated in the PPG:

> *'Analysis of migration flow patterns can help to identify these relationships and the extent to which people move house within an area. The findings can identify the areas within which a relatively high proportion of household moves (typically*

[6] Communities and Local Government, *Identifying sub-regional housing market areas, Advice note, March 2007*

70 per cent) are contained. This excludes long distance moves (e.g. those due to a change of lifestyle or retirement).

3.11 The 2007 advice note goes on to provide more specific guidance, which is not repeated in the PPG:

'Identifying suitable thresholds for self-containment: The typical threshold for self-containment is around 70 per cent of all movers in a given time period. This threshold applies to both the supply side (70 per cent of all those moving out of a dwelling move within that same area) and the demand side (70 per cent of all those moving into a dwelling have moved from that same area).'

3.12 The tables below show these measures of containment for the area. In this calculation:

- Migration data is taken from the 2011 Census and relates to persons moving house in the year ending on Census day.
- Total moves comprises moves within England and Wales only, excluding those whose origin or destination is in other countries of the UK or overseas. We exclude this category because they are long-distance moves, as defined by the PPG following the 2007 advice note.
- This is a conservative definition of long-distance moves, because in practice many moves within England and Wales also qualify as long-distance, regardless of how 'long-distance' is defined. This issue will be explored in more detail later.

3.13 Looking at the two districts in isolation neither district meets the indicative 70% self-containment thresholds.

3.14 For Shepway the 'origin' self-containment is 67% i.e. 67% of local people moving home, who already live in Shepway, move to another home within the district. But for 'destination' moves this is lower at 62%. This reflects the fact that Shepway migration flows are positive and natural change is negative; people move from elsewhere to live in Shepway and then remain in the district for the rest of their lives. This pattern is very common all along the south coast.

Figure 3.2 Shepway self-containment calculations

Origin (moves from)	**Destination (moves to)**			
	Shepway	Elsewhere	Total trips from the HMA	**Origin containment**
Shepway	7,778	3,834	11,612	**67%**
Elsewhere	4,694			
Total moves to the HMA	12,472			
Destination containment	**62%**			

3.15 The pattern for Dover, when viewed in isolation is similar.

Figure 3.3 Dover self-containment calculations

Origin (moves from)	Destination (moves to)			
	the HMA	Elsewhere	Total trips from the HMA	**Origin containment**
the HMA	7,519	3,846	11,365	**66%**
Elsewhere	3,774			
Total moves to the HMA	11,293			
Destination containment	**67%**			

3.16 The self-containment thresholds are only indicative; they should not be applied rigidly. But the destination self-containment for both districts is significantly below the 70%. This could be improved if we started to exclude additional long distance and lifestyle moves as the guidance suggests. However, practically the data does not support such analysis. The motivation for migrating is not captured in the data so this analysis could only be based on very broad assumptions that could not be verified e.g. that all older age moves are 'retirement' and so classed as lifestyle.

3.17 A larger HMA is likely to be more statistically robust and does not need to be defined on such broad assumptions. So we next test the relationship with the two districts together. As noted, the commissioning authorities consider their housing markets are linked; this work is commissioned jointly, and so testing the two districts together is a reasonable step.

3.18 When the two districts are considered together, self-containment improves and the *'around'* 70% threshold is achieved. Destination moves, which when viewed in isolation were too far from the threshold for us to conclude they formed self-contained HMAs, now reaches 69%. It is reasonable to assume that, if we could robustly remove any long-distance or lifestyle moves, it would exceed the 70% threshold.

Figure 3.4 Shepway and Dover self-containment calculations

Origin (moves from)	Destination (moves to)			
	the HMA	Elsewhere	Total trips from the HMA	**Origin containment**
the HMA	16,491	6,486	22,977	**72%**
Elsewhere	7,274			
Total moves to the HMA	23,765			
Destination containment	**69%**			

3.19 In migration terms, we consider that the two districts form a reasonable HMA.

Could the HMA be improved further?

3.20 Before we firmly conclude that the two districts form an HMA, we briefly look at the links between this possible HMA and its neighbours. We do this by adding neighbouring authorities into our analysis to see how this improves the headline self-containment. Mathematically the larger the HMA, the more self-contained it will be. But we look to see whether any improvement is to such a degree as to change our initial conclusions.

3.21 We do this for the Kent authorities; starting with those having the highest flows with Dover and Shepway. We do not extend the analysis to the west because the data shows that migration links with Hastings and Rother are very weak. Also Hastings (with Rother) both have post-NPPF plans and their HMA geography has already been found sound by their respective plan Inspectors.

3.22 Adding further local authorities to the HMA makes only modest improvements to the degree of self-containment. In summary, a potential HMA of:

- Dover, Shepway and Thanet would achieve 77% (origin) 72% (destination) containment
- Dover, Shepway, Thanet and Canterbury would achieve 76% and 71%
- Dover, Shepway, Thanet, Canterbury and Ashford achieve 77% and 72%.

3.23 As noted above the larger the HMA, the more likely self-containment will improve. For the more challenging destination measure no combination provides more than a 2.5% improvement over the two districts alone.

3.24 Looking at migration data suggests Dover and Shepway form a reasonable HMA; adding neighbours improves self-containment but not to any large degree. However, migration is only one measure we need to consider. In the next section we consider commuting and the new Travel to Work areas.

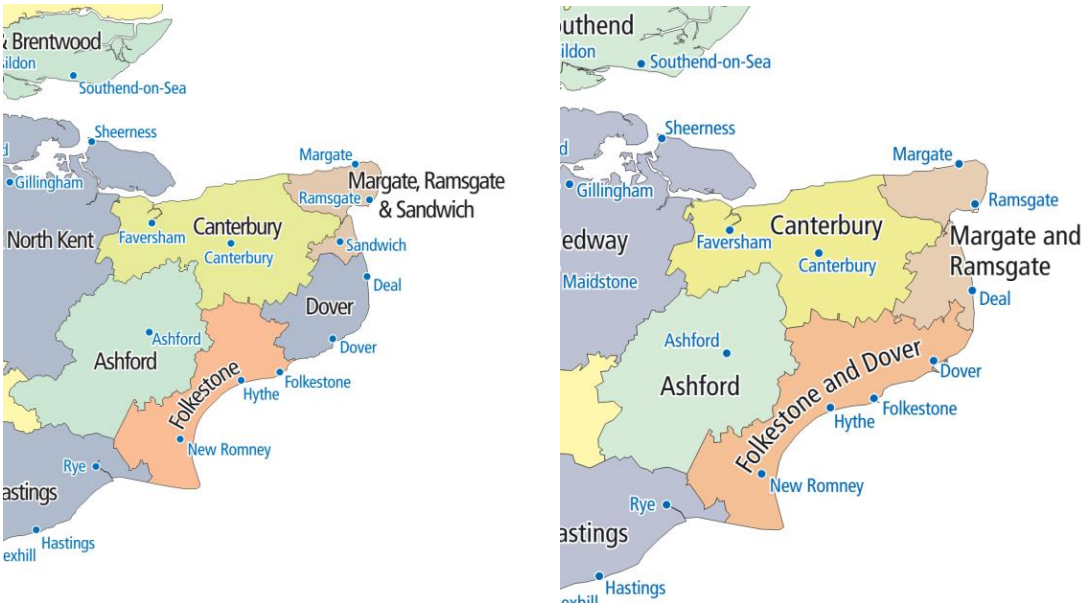
Commuting

3.25 In considering commuting, we focus our analysis on the Travel To Work Area (TTWA) geography. Within TTWAs commuting is as self-contained as possible. The calculations are undertaken at the national level and the resulting single-tier geography is the 'best fit' possible. It does not conform to LPA boundaries and is made up of middle-level super output areas.

3.26 In August 2015, new TTWAs were published by the ONS. These are based on 2011 Census data and supersede the 2001-based TTWA data which informed the NHPAU analysis. However, it is useful to consider how the geographies, and therefore commuting flows and linkages, have changed over time.

3.27 In the 2001-based TTWA geography, Dover and Folkestone were in separate TTWAs. However, in the latest set, their TTWA has been merged. However, the merger is not simple: the northern parts of Dover district, which are less accessible to Dover (town) and especially Folkestone, are now placed in the Margate and Ramsgate TTWA (Thanet).

Figure 3.5 2001 TTWA (left) and 2011 TTWA (right)



3.28 Connectivity between Dover and Folkestone experienced a step change improvement in the mid-1990s with the opening of the A20 dual carriageway and Roundhill tunnel. Because it takes time for commuting (and housing) patterns to adjust, the true impact of this would not have been felt in time for the 2001 Census. So the 2011 Census is the first set of data available which shows this amended geography. This may explain why the TTWA geography has shifted in this area.

3.29 Because this TTWA now splits Dover district between two areas in our Dover report we discuss the commuting links between Dover and its (non Shepway) neighbours in much more detail. This is because there is a query; arising from the recent Thanet SHMA, suggesting that Dover, Canterbury and Thanet form a HMA. Partly supported by TTWA analysis.

3.30 But for this report, there is no suggestion that Shepway is included in this potential HMA. Also in any event our testing shows that Dover district has very strong links with Shepway and while parts of Dover district (Sandwich) have links with Canterbury and Thanet on balance Dover district is best placed in a Shepway & Dover HMA. Cross-boundary issues should be addressed through the Duty to Co-operate (DtC).

3.31 There is no suggestion, in evidence or alternative SHMAs, suggesting Shepway forms part of a housing market with Thanet or Canterbury.

House prices

3.32 Another measure used to define HMAs is house prices. The PPG states:

> *"This analysis [of house prices] uses house prices to provide a 'market-based' reflection of housing market area boundaries. It enables the identification of areas which have clearly different price levels compared to surrounding area"*

3.33 In simple terms house price 'cliffs' can be used to help define an HMA.

3.34 The map below is a snapshot in time from Zoopla (one of the main online house price databases). Prices in Dover and Folkestone towns are very similar and distinct from either Canterbury and Ashford. So in the main this supports a two district HMA, clearly separated from Canterbury and Ashford.

3.35 Within Shepway and Dover there are towns where housing is more expensive than Folkestone or Dover. Shepway has Hythe and New Romney, Dover has Sandwich and Deal. Sandwich has clear parallels with Canterbury to the west but a very clear differential with Margate (Thanet).

3.36 For the northern part of Dover district, where the TTWA splits Dover, the data does not show a very strong pattern. But it does show Sandwich as a reasonably clear threshold separating a possible Thanet market from Dover town market. But Sandwich is very difficult to place. From this data, following the advice in the PPG, Sandwich town would appear to be the boundary between a Thanet market and a Dover one.

Figure 3.6 House price data

Source:

Contextual evidence

3.37 In addition to the quantitative data above, the PPG requires to also consider contextual data.

3.38 According to the most recent retail study[7], Folkestone, is defined as a sub-regional centre though its catchment is limited to the surrounding area. Elsewhere in the

[7] *Shepway Town Centres Study*, PBA, November 2014

District, centres face strong completion from Ashford and Canterbury[8]. Both these centres attract significant comparison goods trade draw from Shepway's centres. Dover town has no impact on Shepway's retail catchment area.

3.39 The figure below shows the draft housing allocations being explored in the PPLP. This shows that the main focuses for growth are Folkestone (and Hawkinge), Hythe and New Romney.

Figure 3.7 Draft housing mix for the PPLP

Character Area	Settlement	Number of units proposed to be allocated in Preferred Option Document
Folkestone & Hythe Urban Area	Folkestone Hythe Sandgate	648 505 77 **Total for Character Area 1230**
North Downs	Hawkinge Sellindge Lyminge Densole Lympne Etchinghill Elham Stelling Minnis Stanford Westenhanger	184 54 30 25 125 41 5 11 5 11 **Total for Character Area 491**
Romney Marsh	New Romney Lydd St Mary's Bay Greatstone Brookland Brenzett	**579** **65** **85** **21** **40** **20** **Total for Character Area 810**

Source: Places and Policies Local Plan - Preferred Options, SDC, October 2016In relation to recent housing growth in the district.

- Folkestone: housing growth has been very limited, with the expansion of Hawkinge taking the increase for the town throughout the 1990s and 2000s, in particular providing family housing and larger units. However, more recently there has been fairly significant housing growth through new development at Shorncliffe Garrison (1,200 units), Eversley College (42 units), Scholars Village (122 units), and Westbrooke House (103 units) which were all under construction at the time of writing. The Folkestone Seafront development (1,000 units) is due to commence in 2017.
- Hythe: is largely constrained by surrounding hills and sea. Large-scale growth to west of the town at Nickolls Quarry Quarry (1,050 units) has now commenced, and mainly consists of family housing. SDC have also noted that house prices in this part of the district have increased in recent years.
- New Romney: recent growth provided to south of town (60 units) with construction on site at the former potato company for 56 units. A further 226 units to north of town have resolution to grant permission.

[8] Ashford has a VENUESCORE rank of 123 though this ranking excludes the popular Ashford Designer Outlet, Canterbury has a rank of 76. Dover is ranked 270. Scores and rankings are for 2015-16.

Neighbouring local authorities

3.40 Before concluding we briefly look at the neighbouring local authorities' evidence bases.

3.41 As noted above, links westwards; into Rother and Hastings are very weak and their Plans have already adopted a Rother/Hastings HMA. Links between Hastings and Ashford could be enhanced if the railway line was improved or electrified.

3.42 Looking northwards the Ashford SHMA addendum (2014) does not suggest an Ashford HMA extends into either Shepway or Dover. So, considering neighbouring Councils evidence the only natural HMA partner for Shepway is Dover.

3.43 As noted above there is a query regarding the Thanet HMA which has been defined in their recent SHMA to include Dover, but exclude Shepway. We discuss this is detail in the Dover report. But we conclude that on balance Dover and Shepway form a reasonable HMA and cross boundary Dover related issues, especially relating to unmet Thanet district need, should be managed through the duty to co-operate.

3.44 This is especially pragmatic given the Canterbury plan is reaching the final stages of its examination and applying the Thanet defined HMA in practice (Dover, Canterbury and Thanet), developing a SHMA which addresses housing need across the whole HMA is currently not possible.

3.45 There is no suggestion in neighbouring SHMAs or evidence, that land in Shepway can meet housing need arising from the Thanet towns, nor Canterbury,

Conclusion

3.46 The possible Shepway HMA is reasonably non contentious. To their west the HMA is soundly defined, to the north Ashford does not consider Shepway as part of their HMA – although as with any HMA there are cross boundary links. The strongest Shepway flows and links are with nearby Dover and Dover district.

3.47 Placing Dover district is more challenging because parts of the administrative area of Dover have links with Canterbury and Thanet. But on balance we conclude that Dover and Shepway form a reasonable HMA for assessing housing needs. Homes in one district, Dover or Shepway, are reasonably substitutable between the two areas. This is especially the case with the two main towns of Dover and Folkestone which are now very well connected.

4 PAST DEMOGRAPHIC CHANGE

Introduction

4.1 Before considering the future population in Shepway, including demographic projections, we first briefly look at the past. This is important because demographic projections are derived by rolling forward into the future - 'projecting' *past trends* in the *components of demographic change* for different *demographic groups.* It is normal to find that different 'vintages' of population and household projections only differ in their results because they incorporate a different base period with a different base population or migration profile.

4.2 In this section we focus on demographic change up to 2014. New 2015 data has recently been released but this does not inform the last, and most recent round, of official population projections. When we consider alternative demographic scenarios however we include an additional sensitivity test which considers this single year of new data.

Changes 2001-14

4.3 Since mid-2001[9] the population of Shepway has been estimated to have risen by 13,100 to reach 109,500 at mid-2014. This increase has been made up of a loss of 900 due to natural change (births to resident women being less than deaths of residents) and an increase due net migration and other changes gain of 14,000 persons.

4.4 But the data here is especially difficult to interpret because there is a known error in the pre-census ONS population estimates. This is called the 'unattributable population change' (UPC). In summary, pre 2011 census estimates of population change in Shepway were wrong and were found to be underestimating the size of the census reported Shepway population. This is not a problem unique to Shepway; while UPC was not significant at the national level, it was significant in many other Councils as well.

4.5 With the Census in hand the ONS tried to rectify this error, re-examining their data to try and understand how and why the Shepway population was larger than expected. But this post census audit of 'raw' data failed to explain why the population, as reported by the Census in Shepway has grown faster than expected. So the ONS introduced a new 'component of change' in their datasheets – alongside the normal reasons for population growth (natural change & migration). This new 'balancing column' is known as the 'UPC'. Its presence in the data ensures that the ONS estimated population pre-census 'balances' with the Census.

4.6 In this area the population growth of 14,000 people includes an 'unattributable population change' (UPC) gain of 6,110. That is 6,110 people living in Shepway who

[9] We use 2001 simply because it is a Census year, so we have an accurate demographic baseline.

were not reported in the 2001 census, but 'found' in the 2011 census and the ONS has no statistical data showing how they arrived in the district.

What is UPC?

UPC is a discrepancy in the official population statistics that arose between the 2001 and 2011 Censuses. In this inter-censual period the ONS makes estimates of the components of population change, which are published as mid-year population estimates (MYEs). Births and deaths are measured easily and accurately, because the UK has an efficient registration system. But migration (UK and international) cannot be measured directly, and is estimated from indirect and incomplete data such as GP registrations.

When the 2011 Census results came to light, the population in many places was different from what had previously been estimated. ONS accordingly revised the MYEs for the inter-censual period to bring them into line with the Census. But for many places it proved impossible to fully reconcile the revised components of change with population numbers at the two Censuses. To deal with this remaining discrepancy, ONS introduced an additional component of change, in effect an 'errors and omissions' factor. This is the UPC.

The UPC may be due to miscounted population in one or both Censuses. It may also be due to unrecorded or misreported migration between the Censuses.

UPC, therefore, is at least partly a correction for failings in the combination of measuring and assigning international migrants at the local authority level.

UPC as a statistic ceased in 2011; because it was used as a 'balance' to align estimated population data with the Census. But for projections we still need to consider it because UPC is evident in the ONS trend period and also in any longer tend projections (where pre 2011 data is used). Depending on local evidence we either include, or exclude the UPC population from the projections.

The reason UPC is so important here is because the ONS exclude UPC in their population projections. But if we assume the UPC is misreported migration, which will repeat in the future, then we may need to make a positive adjustment to the official projections to ensure everyone is suitably housed.

4.7 If UPC and other changes, such as armed forces and prisoners, are ignored there was an estimated net migration gain of only 8,020, as seen annually in Table 4. Net migration within the UK was estimated to have been a gain of 5,700 and there was an estimated net migration gain from overseas of 2,330.

4.8 Over the thirteen-year period being studied annual births have tended to increase while deaths have varied little. Therefore, natural change has changed from losses of around 300 per year in 2001-03 to annual gains or losses mainly in the tens since 2006-07 (see Figure 15).

4.9 Net migration within the UK has been the main driver of population increase but has varied between gains of 700-800 in 2001-04 to a gain of less than 100 in 2007-08.

4.10 Net Overseas migration has been positive in all years since 2002 with a maximum of over 400 in 2004-05. Other changes, which apart from UPC include net movements of prisoners, armed forces and boarding pupils, was a gain averaging around 600 a year in 2001-11 when it included UPC, but has been an average loss of 21 a year since 2011.

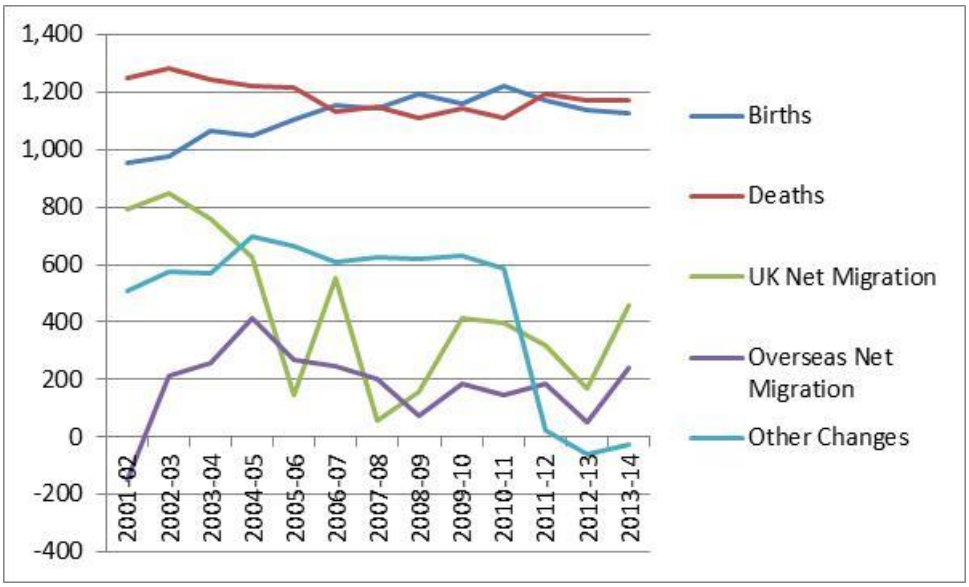
4.11 The net result is that the population has risen in all years since 2001 but at very different annual levels varying between 130 and over 1,500.

Table 4.1 ONS mid-year estimate change analysis 2001-14.

	Start Population	Births	Deaths	Natural Change	Migration UK Net	Migration Overseas Net	Other	Migration & Other	Total Change	End Population
2001-02	96,345	955	1,247	-292	795	-150	507	1,152	860	97,205
2002-03	97,205	978	1,282	-304	849	215	575	1,639	1,335	98,540
2003-04	98,540	1,066	1,244	-178	759	259	569	1,587	1,409	99,949
2004-05	99,949	1,047	1,219	-172	623	411	698	1,732	1,560	101,509
2005-06	101,509	1,104	1,217	-113	144	266	663	1,073	960	102,469
2006-07	102,469	1,153	1,130	23	555	248	607	1,410	1,433	103,902
2007-08	103,902	1,141	1,149	-8	59	203	626	888	880	104,782
2008-09	104,782	1,196	1,112	84	157	71	622	850	934	105,716
2009-10	105,716	1,161	1,143	18	411	186	631	1,228	1,246	106,962
2010-11	106,962	1,224	1,113	111	397	144	585	1,126	1,237	108,199
2011-12	108,199	1,171	1,194	-23	320	183	21	524	501	108,700
2012-13	108,700	1,137	1,170	-33	169	54	-58	165	132	108,832
2013-14	108,832	1,125	1,174	-49	457	239	-27	669	620	109,452

Source: ONS © Crown Copyright

Figure 4.1 Components of change 2001-14



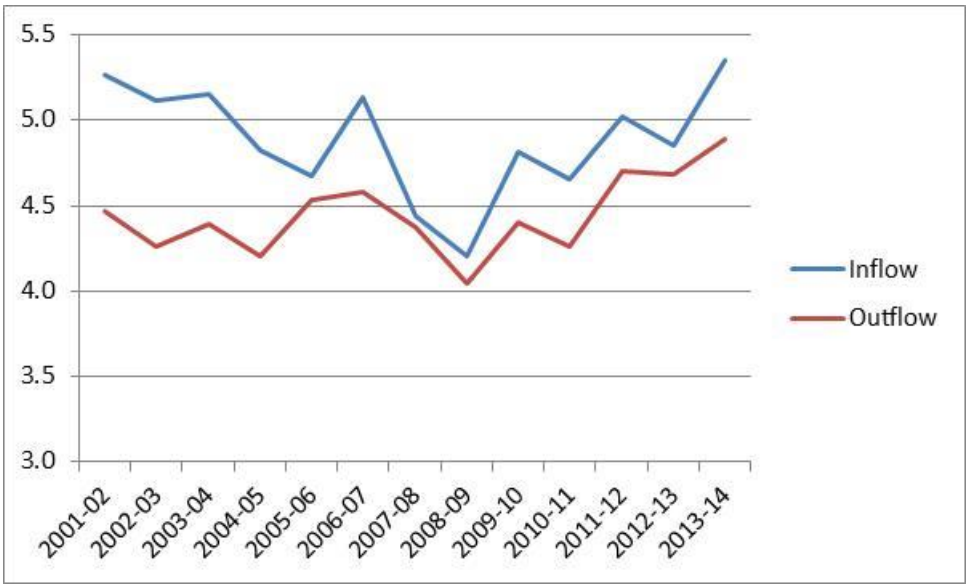
Source: ONS © Crown Copyright

4.12 Three aspects of population change require more detailed analysis; gross migration movements, both within the UK and with Overseas, and UPC.

4.13 In the chart above the scale of UPC can clearly be seen in the 'other changes' line. Prior to the Census 'other changes' was strongly positive, post 2011 (when UPC ceased because it was not needed to balance the estimated population with the census) the 'other changes' component becomes negative.

Gross migration

Figure 4.2 Gross UK migration flows 2001-14 (thousands)



Source: ONS © Crown Copyright

4.14 The gross outflow from Shepway to the rest of the UK has averaged around 4,450 per year and has shown a rising trend since 2008-09. The gross inflow has been more variable, falling from 5,300 in 2001-02 to 4,200 in 2008-09. It has since recovered to 5,300 in 2013-14. The inflow was generally in decline from 2001-02 to 2008-09 before recovering. Recession effects on Shepway appear to be less than in many other locations.

4.15 What this shows is while the net effect of domestic migration into Shepway remains positive it has been falling partly because outflows from the district have increased. In the early 2000s inflows exceeded outflows but a considerable margin gross outflows are now approaching the scale of gross inflows.

4.16 The demographic data provides no evidence as to why this may have been the case; why outflows increased prior to the recession; nor why outflows were higher immediately post-recession. However, one reason maybe that thought the mid-2000s the relative performance of the Shepway economy deteriorated. We know that the profile of migration is not unusually elderly (i.e. retirement driven) and includes many people of working age. But in the mid-2000s unemployment in Shepway increased compare to other areas.

4.17 In 2001 unemployment in Shepway (3.7%[10]) was higher than the regional average (3.3%) but lower than the County average (3.9%). Unemployment in 2001 was also lower than the national rate (5.1%). But by 2008 Shepway's unemployment had risen to 5.8% and was now higher than the national rate at 5.7% and much higher than the Kent average at 5.1%. The South East Region unemployment was 4.4%.

[10] Source – Experian ILO Unemployment

4.18 Over the next three years, unemployment in Shepway grew at a much faster rate compared to the regional rate and by 2011 unemployment in the South East was 6.2% but 8.3% in Shepway.

4.19 So; knowing that Shepway grows through migration, the weakening economy, may have discouraged inward migration and encouraged out migration.

4.20 This weakening economic pull to migrate (or remain) in Shepway may help explain why migration and housebuilding fell compared to other areas; despite Shepway having a five-year land supply. The economic motivation to live in the district had weakened compared to competing areas in the region or nationally.

4.21 Since 2011, the Shepway gained 1,800 jobs and the unemployment rate has fallen to 5.2%

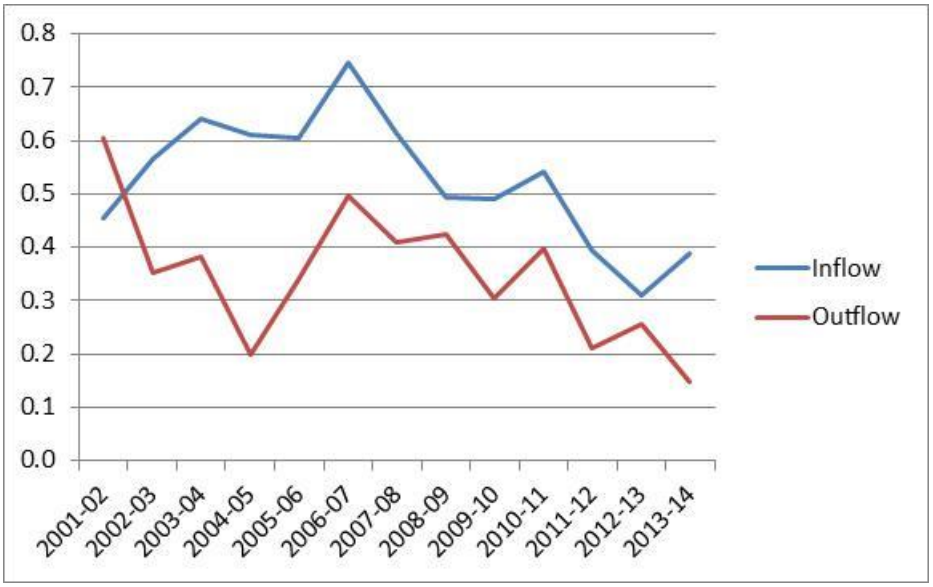
International migration

4.22 Looking at International migration; the scale of international migration into (and out of) Shepway is much smaller than domestic flows. They average around 530 in and 350 out each year.

4.23 There were peak inflows and outflows in 2006-07 but levels have tended to decline since with the exception of the 2013/14 year when inflows increased and out outflows decreased.

4.24 Overall, in net terms, as with domestic migration the net effect of international migration is still positive. International migration is one reason the population of Shepway has grown in the past.

Figure 4.3 Gross overseas migration flows 2001-14 (thousands)



Source: ONS © Crown Copyright

Unattributable population change

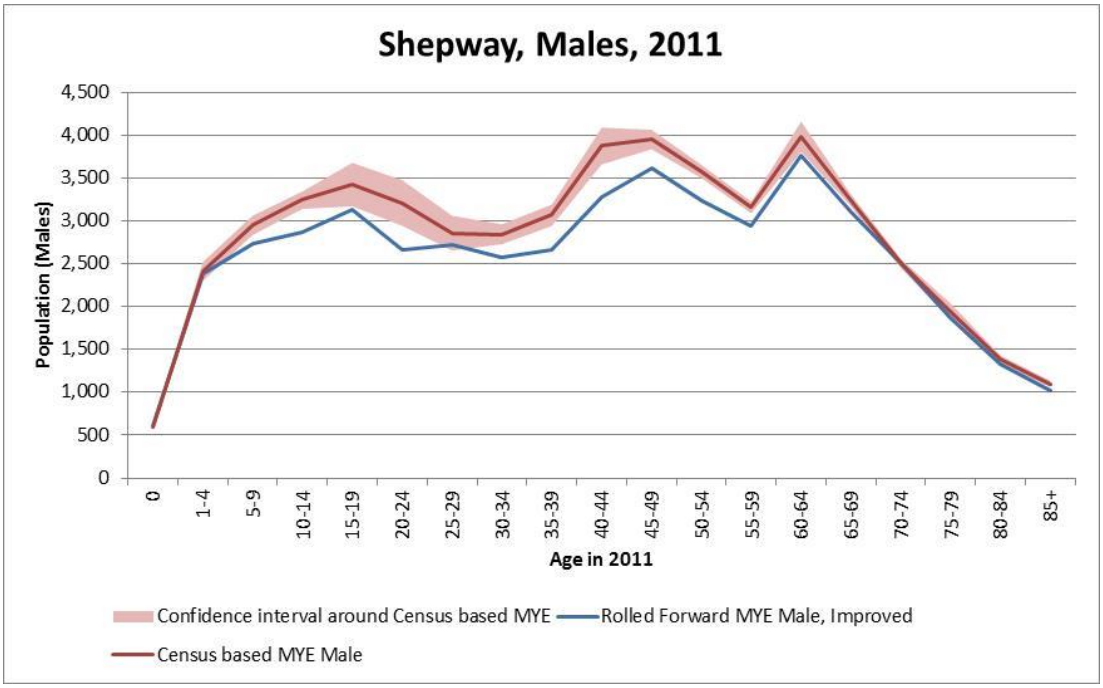
4.25 As can be seen from the chart and tables above the impact of UPC on the population estimates in Shepway is especially significant. Prior to the 2011 Census 'other

changes' (which includes the UPC adjustment) was running at 600 people per year. Post 2011 this dropped to almost zero without the other components of change increasing to offset this.

4.26 In September 2015, ONS published a paper (Further understanding of the causes of discrepancies between rolled forward and census based local authority mid-year population estimates for 2011) and an associated data tool. This is effectively the ONS seeking to further audit the UPC elements of population growth[11]. It provides an insight as to how and why UPC was reported at the district level.

4.27 The two following charts, prepared by ONS, show that the 2011 Census based mid-year population estimates for Shepway were above the rolled forward estimates based on the 2001 mid-year estimates as follows: Males between 5 and 69 and females between 10 and 54. Therefore UPC – the population change balancing factor – is positive. In particular, the differences were most apparent for males in the teens, 20s and 40s and for females in the teens and 20s. At these ages the rolled forward estimates for both males and females lay outside the 95% confidence intervals of the 2011 Census based estimates.

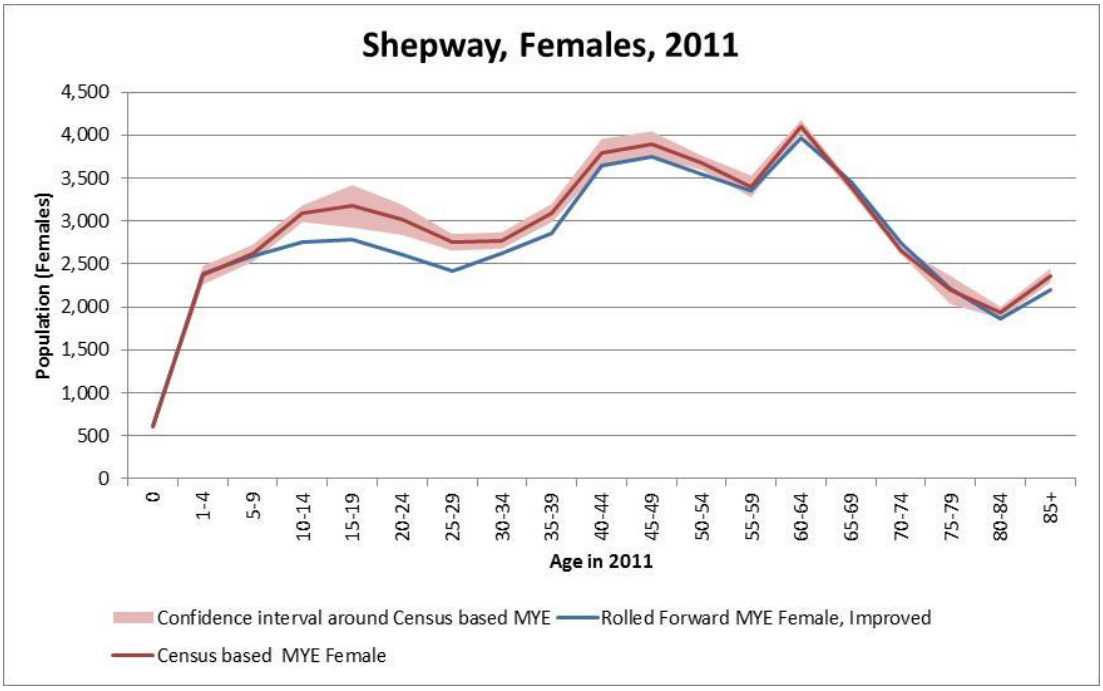
Figure 4.4 Male population estimates (2011)



Source: ONS © Crown Copyright

[11] After the Census the ONS tried to audit the error (which because known as UPC) resulting in revised mid-year population estimates. This 2015 review is a further audit of the data.

Figure 4.5 Female population estimates (2011)



Source: ONS © Crown Copyright

4.28 The discrepancies – the differences between the rolled forward estimates and the census based estimates for 2011 - are the accumulated UPC over the period 2001-11. The discrepancies for males were generally higher than those for females.

4.29 The causes of the low rolled forward estimates have been analysed by ONS under a number of headings: international emigration, international immigration, internal migration and the process of rolling forward from 2001.[12]

4.30 In terms of **international emigration,** the estimates for Shepway for males aged 20-39 and females aged 20-34 were considered to be too high. These exaggerated estimates were considered to have reduced the rolled forward estimates. *(i.e. Prior to the Census the ONS (estimates) were exaggerating the outflow of Shepway residents to live overseas – whereas in reality those people were still found to be living in Shepway when the Census reported. This meant that the Census population was higher than expected)*

4.31 In terms of **international immigration,** the estimates for Shepway for males aged 5-19 and females aged 5-39 were generally considered to have been too low. These under estimates of immigration would also tend to reduce the rolled forward estimates. On the other hand, there was thought to have been too much international immigration for males aged 25-34. *(i.e. the ONS were underestimating international in migration for some age groups but overestimating for males aged 25-34)*

4.32 The estimates of **internal migration** for Shepway were considered not to have been a problem.

[12] ONS also considered the estimates of school boarders and the presence of armed forces. Neither was relevant to Shepway.

4.33 The process of **Rolling Forward from 2001** is only likely to have had a relatively small impact of reducing the rolled forward estimates for both males and females aged 10-14 and females aged 20-24.

4.34 Although ONS offer no direct numerical insight of the individual effects UPC appears from the analysis that most of the discrepancy is due to some inaccurate estimates of international migration; including exaggerating outflows from Shepway to overseas and underestimating some inflows. But there is no indication from the ONS data of the annual effects of each of the factors throughout the decade and some errors counterbalance one another.

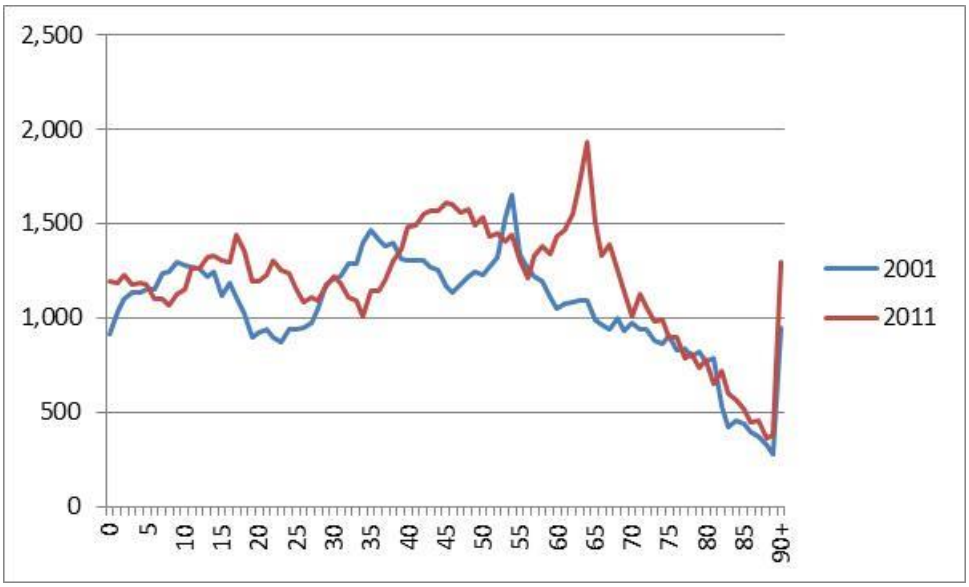
4.35 Although the ONS data is very unclean, and auditing an error is challenging, the data suggests that here UPC is mainly due to inaccuracies in migration estimation. UPC should be considered as mis-recorded migration. This requires further testing to see what impact; if any; it has on the OAN for Shepway.

4.36 As all of the effects tended to reduce the rolled-forward population any projection needs to take account of some combination of increased gross inflow and reduced gross outflow at particular age groups to best reflect past changes in the base period.

Age profile

4.37 Figure 4.6 shows that Shepway's population has aged over the last inter-censal decade, particularly with an increase in people in their 60s and early 70s. There are also some increases of mature workers in their late 40s and early 50s as well as teenagers and those in their 20s.There are a few more pre-school age children, but a small reduction of those of primary and early secondary school ages. Some of these differences, notably the spike at age 64 in 2011, are partly due to the ageing on of the population resident in 2001, but others also include net migration effects.

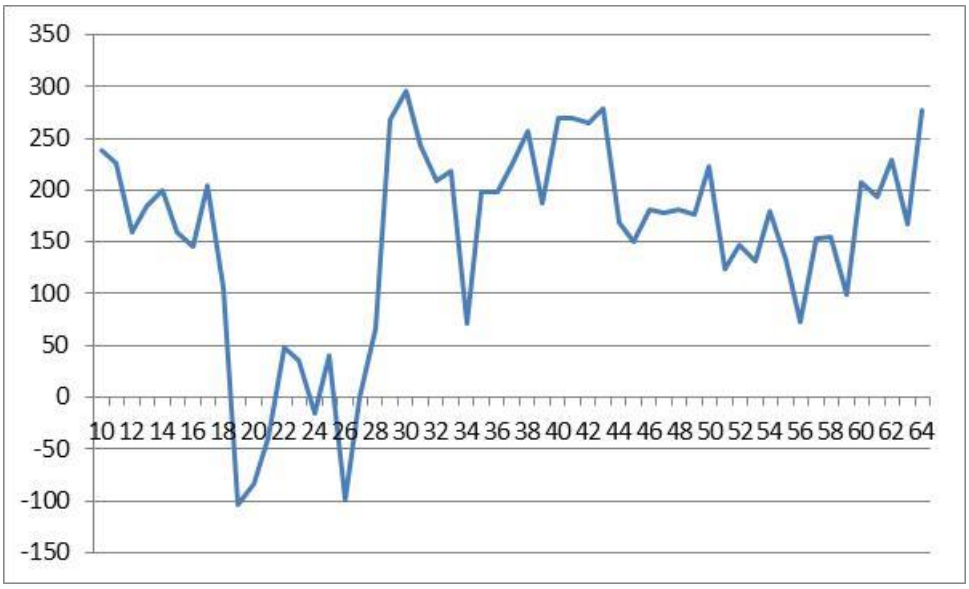
Figure 4.6 Detailed age structure (2001 and 2011)



Source: ONS © Crown Copyright

4.38 Figure 4.7 shows the net migration pattern of Shepway over the decade 2001-11. The data are obtained by differencing the ONS 2001 and 2011 mid-year estimates with an allowance for 10 years difference in age, i.e. 20 year olds in 2011 less 10 year olds in 2001. The figures will therefore also contain the small impact of deaths in the resident population aged 0-54 at 2001 over the following decade. As all ages are as at 2011 the average age of migration would be about 5 years younger than shown by the x-axis scale, though relatively little migration tends to occur before age 18.

Figure 4.7 Net migration 2001-11 by ages 10-64 (2011)

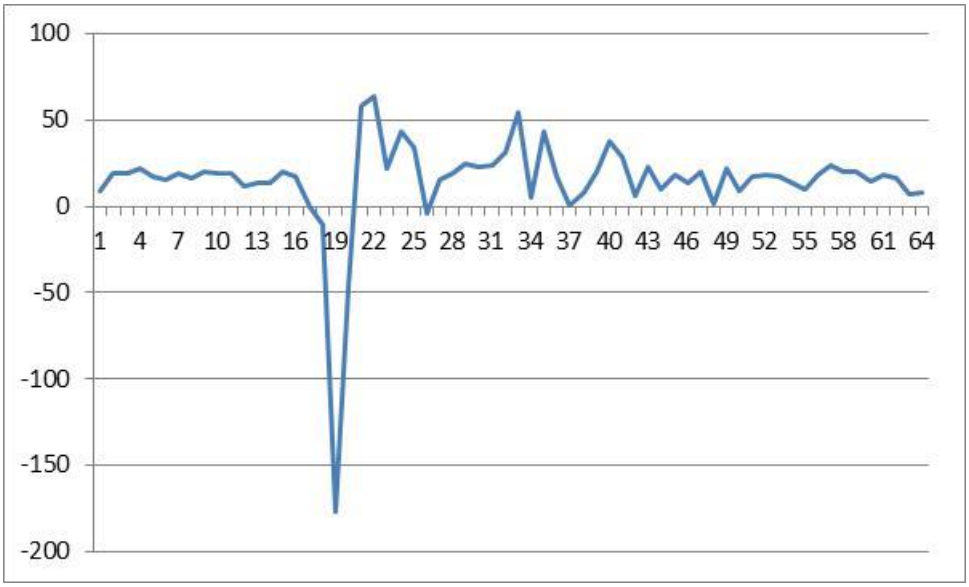


Source: ONS © Crown Copyright

4.39 The net impact has been a gain of children, a significant net loss of students and young workers in their early and late 20s but large gains from the early 30s through to the 60s. Shepway has therefore failed to attract back much of its student outflow but has continued to attract a working age population and their families as well as the pre-retired.

4.40 Figure 4.8 takes a different view of net migration, presenting the average annual levels by age over the decade. These data also exclude the minor impact of annual deaths by age 64 of the resident population. The figure clearly confirms the high net outflows at the student ages (18-20) followed by a smaller 'graduate' return flow in the early 20s. Few people are attracted to Shepway in their mid/late 20s but there is an inflow of workers from the early 30s that segues into pre-retirement inflows.

Figure 4.8 Average annual net migration 2001-11 by age



Source: ONS © Crown Copyright

Summary

4.41 The population of Shepway has been growing over the past 14 years. This growth has been fuelled by domestic migration, from other parts of the Country, although international migration is also positive. In the last few years the ratio of domestic to international net migration has been running at 2:1.

4.42 Natural change is now broadly balanced but moved from a position of positive growth in the early 2000's where births outnumbered deaths. The age profile of the population shows signs of ageing with new (compared to 2001) bulges around 65 and 45 years old. But the size of the 20 year old population has also grown.

4.43 While the district shares many similarities with Dover, a noticeable exception is weaker outflows at the university ages (around 20 years old) but a much more prolonged grouping of ages where migration is negative. Shepway generally loses population between the ages of 18 – 27 years old with a strong 'rebound' at 28.

4.44 Data by individual years are very unreliable and surrounded by a very large margin for error. But the longer term averages show that migration, domestic and international has been falling over the past 13 years. In the early 2000s net migration was roughly double that seen in more recent years. Part of why net migration has declined over time is that domestic outflows from Shepway have increased.

4.45 However, the analysis shows that data in this area needs treating with extreme caution. Many districts have an element of 'UPC' in their data, the balancing mechanism between the estimated components of change pre-census and the reported census population. But here UPC is unusually large at around 600 persons per year; almost equal to the known domestic and international net migration flows into Shepway.

4.46 The recent ONS data tool provides some insight to what this UPC was and so how to manage it going forward. The most likely cause was mis-recorded international migration into Shepway; people identified by the Census as living in the district but omitted from the estimated population flows.

4.47 The PPG provides no advice on how to manage this error in SHMA assessments. The ONS data tool provides no numerical insight. At examinations elsewhere the development industry has often suggested UPC be excluded from projections because that is the line ONS have adopted when preparing their official projections. But this predates the ONS data tool and explicit acknowledgement that in this district this error can be mis-recorded local migration. In the next chapter we consider the impact of making this adjustment in our Trends projections.

5 DEMOGRAPHIC EVIDENCE

Method

5.1 In line with the PPG, the starting point of our objective assessment of housing need is the official household projections from the Department for Communities and Local Government (CLG), which are derived from the sub-national population projections (SNPP) produced by the Office for National Statistics (ONS). The SNPP show future population by local authority area and are normally released at two-year intervals, with additional releases in response to new data – recently the 2011 Census. The CLG translates the population into households. The projected growth in household numbers, with a small adjustment for vacant and second homes, is used as the measure of housing need.

5.2 The official projections, like all projections, are trend-driven – that is, they roll forward (project) past trends into the future. Accordingly, still following the PPG, we test and amend them through alternative projection scenarios that adjust for:

- Technical flaws in the official modelling, including:
  - Superseded or otherwise inaccurate historical data - projections are only past trends rolled forward, so a projection based on the wrong trends will be inaccurate);
  - Anomalies in the modelling – the official models are very complex, mainly because they cover hundreds of local authorities; even if the models are accurate 'on average', they will not necessarily be accurate for every single authority in every single year.
- External (non-demographic) factors that bear on demographic change but are not captured in the projections, because they are likely to differ in the future from what they were in the past – in particular the macroeconomic climate.

5.3 For any geographical area, the change in housing numbers is the outcome of three components: The first two factors, natural change (equal to births minus deaths) and migration (UK and international) impact on population change. The third factor is the ratios that turn population into households, known as household representative rates (HRRs, also known as headship rates, reference rates or household formation rates). Alternative scenarios are mostly based on varying assumptions about migration and household formation. In contrast to natural change, these factors are difficult both to measure for the past and even more difficult to predict for the future.

5.4 Later in this chapter we will sensitivity-test the projections and consider alternative scenarios to deal with any factors that the projections do not capture, in line with the PPG. This includes scenarios with UPC included.

Official releases

5.5 The official demographic projections are issued in two separate publications:

- ONS produces the Sub-National Population Projections (SNPP), which show population by age and sex, based on rolling forward past rates of natural change (births minus deaths) and migration for each demographic group.
- CLG then converts each SNPP into household projections.

5.6 The factors that translate population into households, known as Household Representative Rates (HRRs, also known as headship rates or household formation rates), are based on rolling forward past trends for different demographic groups. The resulting household numbers, with a small adjustment for vacant and second homes, are used as a measure of future housing demand, or objectively assessed need.

Recent releases

5.7 The NPPF, published in March 2012, advised that the official CLG household projections should be the starting point for assessing housing need. However, at that time, and until recently, we did not have a full set of recent projections that were fit for purpose.

5.8 The 2008-based projections were increasingly out of date and known to be erroneous. The Census when reported did not support the expected (projected) population of household structure. Effectively the Census 'disproved' the projections.

5.9 The 2011-based projections, published in 2013, were labelled 'interim' because of data limitations, and they only ran to 2021.

5.10 On 27 February 2015 CLG produced 2012-based household projections ('CLG 2012'), which superseded earlier versions. These CLG projections were derived from the 2012-based sub-national population projections ('SNPP 2012') published in 2014.

5.11 In order to model future HRRs the CLG 2012 projections use the same method as CLG 2011, but use a different starting point - in that they are based on revised estimates of actual HRRs at 2011.

5.12 Finally; earlier this year (2016) this 2012 set of data was superseded with a new set of 2014 based projections. In a break from past trend, where population and household projections were published in alternate years, the 2014 based population projections were quickly followed by new 2014 based household projections.

5.13 The household projections, and their HRRs, were calculated using the same method as the 2012s although used two years of additional data. However, as we discuss in detail below, the household projections use a very long series of data (1971 onwards) and so the introduction of two years of additional data is not significant.

5.14 At the time of writing the PPG has not been amended to reflect the new 2014s. Instead it refers to the older (superseded) 2012s as the official 'Demographic Starting Point'. But despite this common sense would suggest that the 2014s should now be used regardless.

5.15 So for this work we take the 2014 based population and household projections as the starting point, but we use the 2012s as an additional sensitivity test.

5.16 Because Dover and Shepway form a single HMA the following analysis covers both districts to ensure that the work complies with paragraph 159 of the NPPF which required the SHMA to assess the housing need across the HMA. However, this report focuses on Shepway district and only a summary for Dover is included.

Population projections

5.17 The ONS 2014-based sub national population projections (SNPP) were the second to take full advantage of the results of the 2011 Census. As noted above earlier sets, including both the 2008s and (to a lesser extent) 2011s, were shown to be erroneous when the Census reported. The census did not report the population nor household structure projected.

5.18 As with the 2012 projections the 2014-based population projections used as the base for migration the annual average flows that each authority had with each authority in the rest of England in the previous five years and with overseas in the previous six years. Cross-border flows within the UK were also based on the previous five years but treated separately in the modelling.

5.19 For population the projections are composed of two main elements. Firstly, migration into or out of the district. This can be domestic (England plus cross UK border and international (EU and outside EU). Secondly 'natural change' which is births over deaths. A migrant arriving in the district, who then has a child (or dies) can also inform the natural change elements.

5.20 We consider both main areas of population growth below.

Migration

5.21 For England there is an annual long-term net migration gain of 163,200 – including a cross-border loss of 6,300 to the rest of the UK. This compares to an overall long-term net gain of 143,500 in the ONS 2012 SNPP including a cross-border loss of 6,500. In general, the increased net international migration is spread amongst English local authorities according to the average distribution of the gross in and out flows over the previous six years. This in most cases leads to an increased net inflow.

5.22 Table 5.1 compares the ONS 2012 and ONS 2014 projections of migration for Shepway

Table 5.1 Net migration by origin 2014-37

		2012 SNPP		2014 SNPP
2014-15	**England**	400		500
	Cross-border	-100		-100
	International	100		200
	Total	**530**		**718**
2036-37	**England**	800		1,000
	Cross-border	-100		-100
	International	100		100
	Total	**915**		**1,115**
2014-37	**Total**	**17,689**		**21,396**

Note that figures apart from totals are only available to nearest 100
Source: ONS 2012 SNPP and ONS 2014 SNPP

5.23 The ONS 2014 SNPP shows nearly four thousand more net migration into Shepway over the 23 years 2014 to 2037 and the total population at 2037 is now projected to be nearly 1,200 more than in the ONS 2012 SNPP. This is in spite of the 2014 mid-year estimate being 270 fewer than the 2012 projection for 2014. Table 5.2 shows the components.

Table 5.2 Population change by component 2014-37

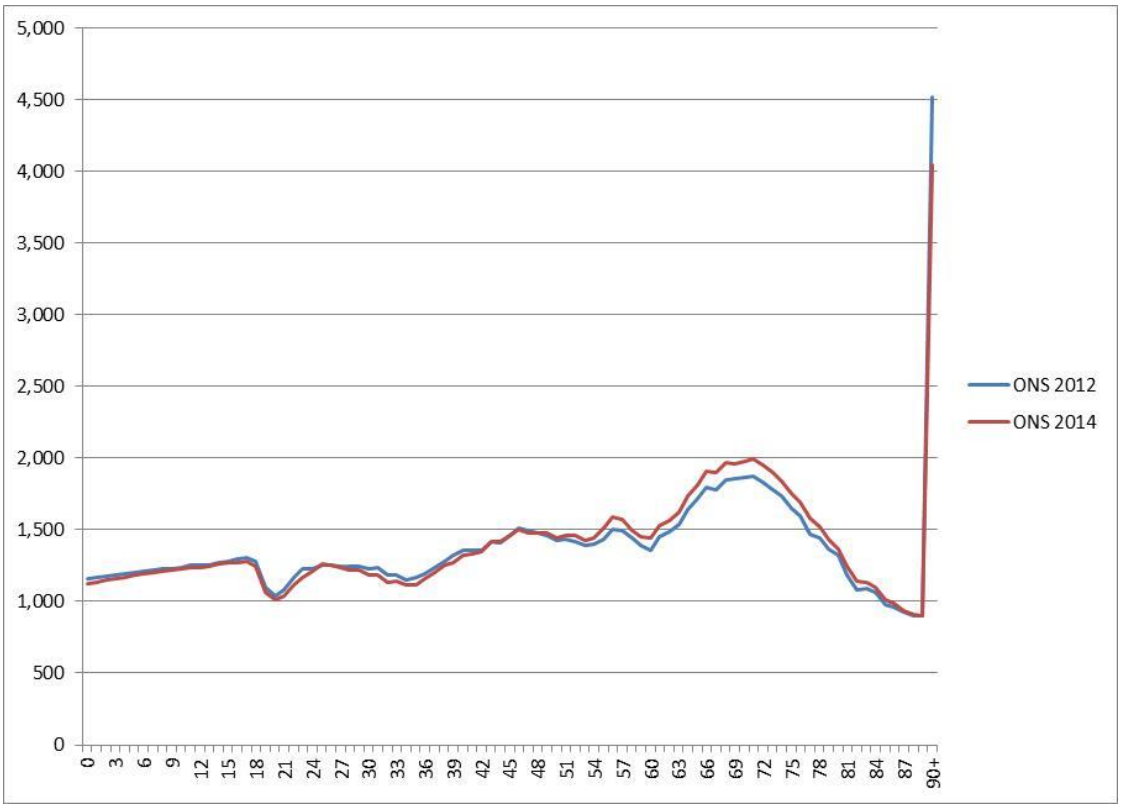
		2012 SNPP		2014 SNPP
2014	**Population**	**109,724**		**109,452**
2014-37	**Births**	26,473		25,431
	Deaths	28,592		29,775
	Natural Change	-2,119		-4,344
	Net Migration	17,689		21,396
	Total Change	15,570		17,052
2037	**Population**	**125,293**		**126,505**

Source: ONS 2012 SNPP and ONS 2014 SNPP

5.24 Natural change 2014-37 is now projected to be reduced by 2,200. This is due to projected increases of about 1,200 deaths and 1,000 fewer births. Figure 2 shows the effect of the changed components on the age structure at 2031. The most significant change is the reduction in the projection of persons aged 90+. This reduction has a knock-on effect to the household projections as the elderly living in private households have the highest overall household representative rates. This group also

has a high likelihood of requiring residential care. In general, the projection is higher at most ages from the 50s to the 80s with little change at younger ages.

Figure 5.1 Age structure 2037



Source: ONS 2012 SNPP and ONS 2014 SNPP

CLG 2014 household projections

5.23 Over the period 2014-37 the population projections show Shepway's population increasing from 109,500 to 126,500 persons. The population projections provide a detailed age and sex structure for this population and this structure is attributed to households in the household projections by applying 'headship rates'.

5.24 These rates are often also referred to as HRRs, Household Reference Rates or Household Formation Rates.

5.25 In summary, the Headship Rate is the propensity that any person (age or sex) will form the head of a household. For historic reasons males are chosen as the head of household over women living in the same household. So for middle age males their headship rate is very high whereas rates for females are always much lower.

5.26 A reasonably new complication is that CLG have now produced two sets of headship rates to accompany the official projections, Stage 1 and Stage 2. However, only Stage 1 rates inform the number of households in the official projections (NPPF 159). Stage 2 rates are constrained to the Stage 1 outputs and can never be used to derive an alternative number of households. We discuss this in more detail below.

Stage 1 HRRs

5.27 Table 5.3 compares the Stage 1 results from the CLG 2012 and 2014 projections.

Table 5.3 Stage 1 household projection by age of representative 2014-37

		15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+	Total
2014	**CLG 2012**	148	1,200	2,411	2,997	3,105	4,039	4,720	4,593	4,219	4,338	5,089	3,759	3,096	2,510	2,632	48,852
	CLG 2014	147	1,170	2,347	2,895	3,075	4,033	4,787	4,667	4,242	4,349	5,182	3,797	3,114	2,504	2,592	48,901
2037	**CLG 2012**	152	1,148	2,411	2,944	3,512	4,136	4,406	4,298	4,548	4,713	5,834	6,156	5,043	4,228	6,348	59,878
	CLG 2014	147	1,102	2,381	2,766	3,387	4,109	4,428	4,426	4,812	4,977	6,218	6,579	5,386	4,429	6,118	61,268
2014-37	**CLG 2012**	4	-52	0	-53	407	97	-314	-295	329	375	745	2,397	1,947	1,718	3,716	11,026
	CLG 2014	0	-68	34	-129	312	76	-359	-241	570	628	1,036	2,782	2,272	1,925	3,526	12,367
	Difference	-4	-16	34	-76	-95	-21	-45	54	241	253	291	385	325	207	-190	1,341

Source: CLG 2012 and CLG 2014 projections

5.28 The CLG 2014 projections imply growth in households 2014-37 that is over 1,300 more than the CLG 2012 projection. Increases occur across most ages with the largest exception being the 190 reduction at 85+. Some of these changes are due to the changes in the age structure of the ONS 2014 SNPP and some would be due to any amendments to the underlying household representative rates. To test the changing rates, the ONS 2014 SNPP for 2037 was put into the CLG 2012 model.

Table 5.4 Stage 1 household projection by age of representative at 2037

	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+	Total
CLG 2012 HRRs	149	1,105	2,394	2,812	3,399	4,104	4,414	4,413	4,806	4,978	6,227	6,574	5,368	4,431	6,130	61,304
CLG 2014 HRRs	147	1,102	2,381	2,766	3,387	4,109	4,428	4,426	4,812	4,977	6,218	6,579	5,386	4,429	6,118	61,268
Difference	-2	-3	-13	-46	-12	5	14	13	6	-1	-9	5	18	-2	-12	-36

Source/notes: CLG 2014 projection compared to using the CLG 2012 rates with the ONS 2014 SNPP

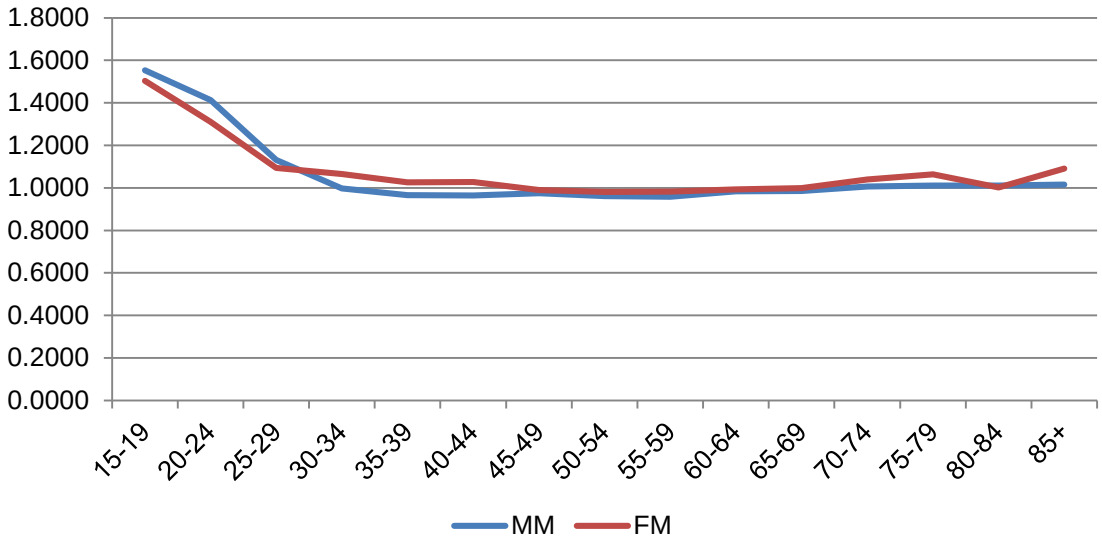
5.29 The are some minor differences in the estimates of the institutional population at ages below 74 but the implication is that although the differences at each age group in the representative rates are small, in general representative rates at 25-39 appear to be a little lower than previously.

5.30 There is no evidence that headship rates in Shepway need any amending to reflect local issues related to household formation. Compared to national rates households generally form much more readily than the UK average; especially for younger coupled households which form the bulk of household formation.

5.31 The chart below compares the national rate and the local (Shepway) rate across the five-year age bands. The analysis uses the 2012 HRRs but as noted above they are nearly identical to the 2014s.

5.32 Where the ratio is above 1.0 then households form more readily in Shepway than the UK average. The chart shows both Male/Males coupled households (MM) and Female/Male households (M/F). In both cases household formation is higher in Shepway than the UK.

Figure 5.2 Coupled HRRs (2012-based HRRs) at 2014



Source: CLG

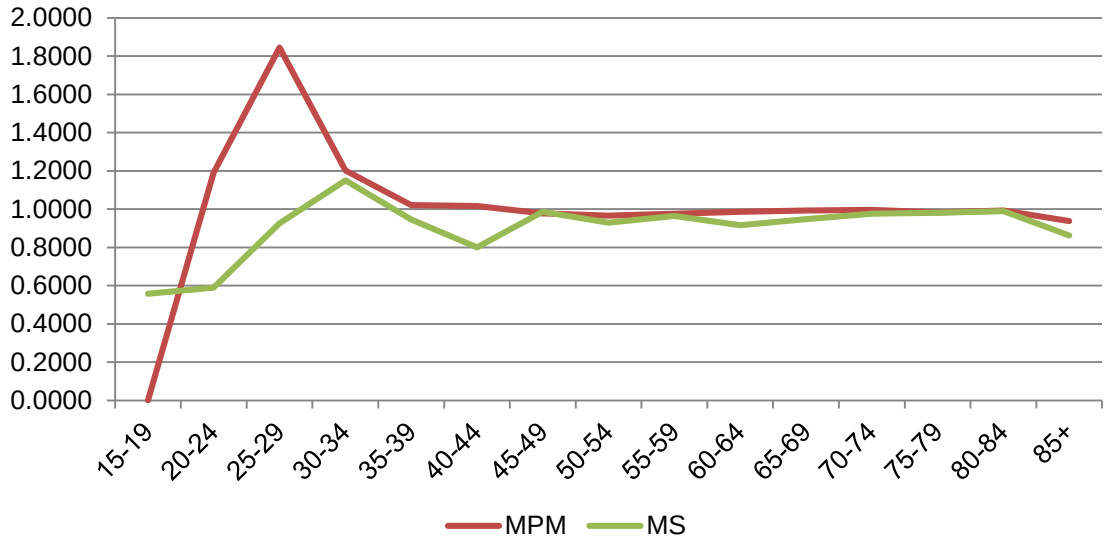
5.33 Looking at single people the picture is much more mixed. For those previously married household formation is much higher than nationally (Male Previously Married or Female Previously Married or MPM/FPM).

5.34 But for singles (never married) the local rates are slightly poorer (Male Single or Female Single MS/FS) at the young age groups. But for these groups the absolute difference on the number of households needed is very limited because few young single people are the head of the household. For example, the national rate for single males aged 20-24 is only 0.13.

5.35 At the older ages single households form in line with national trends with the exception of a slight worsening for male singles at 40-44. This is caused by a local drop on rates at these ages, falling from 0.6 at ages 35-39 falling to 0.5 at 40-44 before recovering again post 44 to the national average.

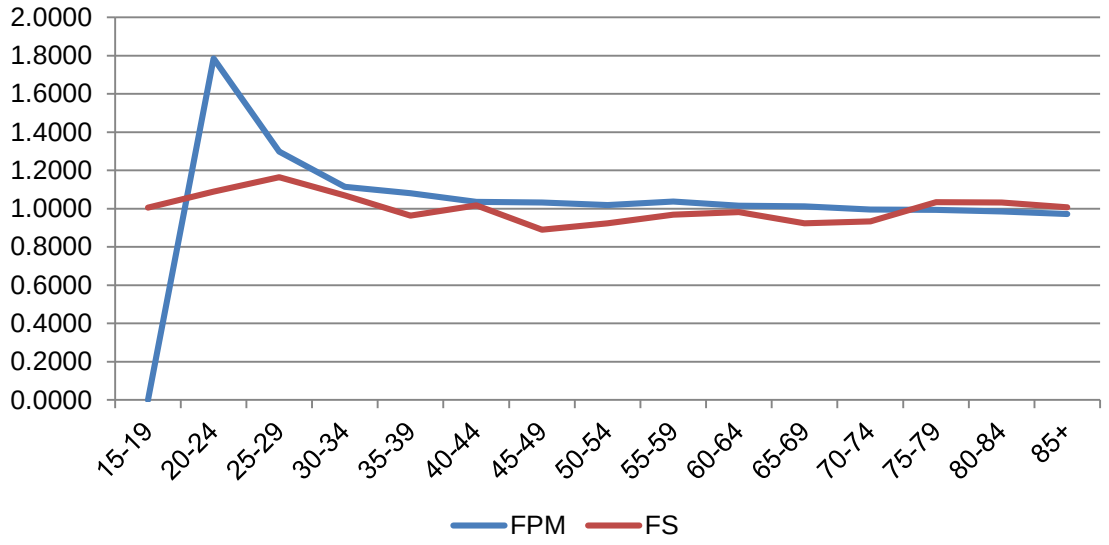
5.36 This is unlikely to be realistic because it suggests that some single males (who had households at age 39) lose their homes and regain then at 45. This anomaly highlights the difficulty in interpreting the data at this very detailed level. The samples are small and the data needs treating with a large degree of caution.

Figure 5.3 Male Single HRRs (2012-based HRRs) at 2014



Source: CLG

Figure 5.4 Female Single HRRs (2012-based HRRs) at 2014



Source: CLG

5.37 On balance the testing shows that the CLG headship rates are sensible to apply in Shepway. Planning cannot control how housing stock is used in practice; whether it be used for single people or families. But here, for the majority of households and population, those living in coupled households, the application of CLG rates here allow room for households to form much more in reality than nationally. There is no weight of evidence to suggest we should depart from the national rates.

Stage 2 HRRs

5.38 As noted above CLG have now released a further set of rates. These stage 2 rates do not inform the number of households shown in the official projections. The number of households is derived from the use of Stage 1 rates only.

5.39 Stage 2 rates present a variation on how the population may form into the same number of households but using a different set of assumptions. The main difference is that Stage 1 rates use a long term trend, from 1971 onwards, whereas Stage 2 a very short-term trend (2001 onwards).

5.40 The two sets of HRRs (Stage 1 & 2) are not directly compatible; they cannot be merged or directly compared with any degree of accuracy. At Stage 2 the CLG Stage 1 results are converted to eight household types but by a reduced number of age groups that are mainly 10-year groups rather than 5-year.

5.41 Applying the Stage 2 rates to the Shepway population still results in a household growth of 12,366 (as with the Stage 1) but the households are spread differently. This results in some significant differences with the age structure of the two sets of results.

Table 5.5 Stage 2 household projections 2014-37

	2014	2037		2014-37	%
One person households: Male	8,033	13,203		5,170	64.4
One person households: Female	8,769	10,550		1,781	20.3
One family and no others: Couple: No dependent children	13,803	16,729		2,926	21.2
A couple and one or more other adults: No dependent children	3,258	3,786		528	16.2
Households with one dependent child	5,645	6,429		784	13.9
Households with two dependent children	4,228	3,886		-342	-8.1
Households with three dependent children	2,145	2,232		87	4.1
Other households	3,021	4,453		1,432	47.4
Total	**48,902**	**61,268**		**12,366**	**25.3**

Source: CLG 2014

5.42 Overall households are projected to increase by 25.3% but the growth in two groups exceeds this level; males living alone (64.4%) and 'other' households (47.4%). 'Other' households are 2 or more unrelated adults not living as a family. The only loss is households with two dependent children.

5.43 Although the Stage 2 results are constrained overall to the results of Stage 1, a different set of basic data have been used to generate the household headship rates – rather than household representative rates. This results in some significant differences with the age structure of the two sets of results. This is shown in Table 5.6.

Table 5.6 Stage 1 and 2 household projections by age 2014-37

	15-24	25-34	35-44	45-54	55-59	60-64	65-74	75-84	85+		Total
Stage 1 2014	1,317	5,242	7,108	9,454	4,242	4,349	8,979	5,618	2,592		48,901
Stage 1 2037	1,249	5,147	7,496	8,854	4,812	4,977	12,797	9,815	6,118		61,268
Stage 2 2014	1,326	5,179	7,139	9,524	4,199	4,386	8,896	5,647	2,606		48,901
Stage 2 2037	1,218	4,550	7,547	9,917	4,921	5,020	11,740	9,997	6,358		61,268
2014 S1 less S2	-9	63	-31	-70	43	-37	83	-29	-14		0
2037 S1 less S2	31	**597**	-51	**-1,063**	-109	-43	**1,057**	-182	-240		0
Stage 1 2014-37	-68	-95	388	-600	570	628	3,818	4,197	3,526		12,367
Stage 2 2014-37	-108	-629	408	393	722	634	2,844	4,350	3,752		12,367
2014-37 S1 less S2	40	**534**	-20	**-993**	-152	-6	**974**	-153	-226		0

Source: CLG 2014

5.44 There are some differences between Stage 1 and Stage 2 at 2014, which is just three years after the 2011 Census data on which the Stage 2 projections are based, but by 2037 there are several age groups with differences in excess of 500 and two of over 1,000. Significantly the Stage 2 results have reduced households headed/represented by persons aged 15-34 and 65-74 while increasing at other ages, notably 45-54 by nearly 1,000.

5.45 So in summary, while still generating the same number of households overall, Stage 2 rates show that, following short term trends in household formation, older people are more likely to consume more of the housing stock at the expense of younger people.

5.46 Given planning cannot control how homes are occupied this undermines suggestions that providing more new homes will somehow help younger people to be better housed. Conversely, what Stage 2 rates show is that should Stage 2 rates be preferred, and used to promote more new homes for young people, then this increased supply will disproportionally benefit older people as opposed to younger generations. Simply providing more new homes by adjusting formation rates for some ages cannot reverse structural changes in the way the population is consuming the housing stock.

ONS 2015 mid-year population estimate

5.47 The 2015 MYE was published in June 2016. It shows an increase of 582 persons since 2014 reaching a total of 110,034. The total change over the year compares to 620 in 2013-14, maintaining the lower annual rises seen since 2011. Natural change (-308) was the lowest since before 2001, due to an increase in deaths coupled with a reduction in births. This was partly compensated by an increase in net migration to 890 as a consequence of a higher net inflow from the rest of the UK. The new estimate is very close to the ONS 2014 SNPP at 2015 and its incorporation as the

base of a new 2010-15 Trends projection is unlikely to significantly alter the 2009-14 Trends projection.

5.48 Although this is only one year of additional data; and so needs treating with extreme caution it suggests that the population is growing in line with the 2014 based projection in Shepway. This contrasts with Dover where we found the estimated 2015 projection was departing from the projection.

Summary

5.49 The current set of household projections are 2014-based. For Shepway they show average growth in households 2014-37 of 538. This compares with 479 in the CLG 2012 projections.

5.50 In terms of average annual requirement – the OAN for Shepway – the CLG 2014 projections imply a rate of 566 net new homes per year compared to 505 from the CLG 2012 projections.

5.51 Both calculations assume that the 2011 Census net vacancy/second homes level of 5.0 per cent persists.

5.52 For Dover the 2014 household projections show average growth in households 2014-37 of 450. This compares with 368 in the CLG 2012 projections.

5.53 In terms of average annual requirement – the OAN for Dover District – the CLG 2014 projections imply a rate of 481 net new homes per year compared to 393 from the CLG 2012 projections. Both calculations assume that the 2011 Census net vacancy/second homes level of 6.4 per cent persists.

5.54 So for the HMA as a whole the two sets of official projections show a combined demographic housing need of 1,047 dpa (2014-based) and 898 dpa (2012 based).

5.55 Although the PPG has yet to be revised, still referring to the CLG 2012 as the official demographic starting point, common sense would suggest that CLG 2014 should be used in preference.

Alternative scenarios

5.56 As we explained earlier, to predict UK migration the ONS population projections carry forward the trends of the previous five years[13]. This choice of base period can be critical to the projection, because for many areas migration has varied over time.

5.57 A number of local authorities have chosen to adopt ten-year projections (or longer) to help minimise this volatility. This approach, adopting a long term trend projection, has most vocally been championed by the GLA. The GLA have repeatedly made the case that Councils in and around London, or with London links, should adopt a longer term trend when estimating their demographic need. In the London case this is because migration flows between London and elsewhere pre, post and during the

[13] Similarly, the distribution of international migration across local authority areas is projected from the previous six years.

recession were very different. The short term trend period used by the ONS therefore fails to pick up likely migration, and so the need for new homes, over a long plan period.

5.58 Although London links with Dover and Shepway are reasonably weak, and so the GLA advice less directly relevant, to sensitivity-test the impact of different base periods PBA have run a number of alternative base period projections.

5.59 There is also a query in Shepway surrounding the impact of including UPC.

The alternative projections

5.60 Drawing on Section 4's conclusions, all the alternatives include an adjustment for UPC.

5.61 One of the projections (09-14 Trends) uses a short five-year trend period, as also used in the SNPP but includes UPC whereas the official projections exclude UPC.

5.62 Two of the projections use a longer trend period. So helping smooth any peaks and troughs in the year to year migration data while still picking up long-term trends. These two projections are a 01-14 Trends Projection (census to census) and a 10 year 04-14 Trends Projection. Both include UPC.

5.63 For completeness we also show the 2008 and 2012 official projections.

5.64 All the scenarios are presented using both their respective Stage 1 HRRS and the Trends Scenarios use 2014s. All Trends scenarios use the 2014 ONS population estimates as the base population and are based on recent migration levels. All Trends scenarios include UPC as additional net migration in the appropriate years, but with its impact by age reflecting the recent ONS analysis.

5.65 A summary of the outputs are shown below:

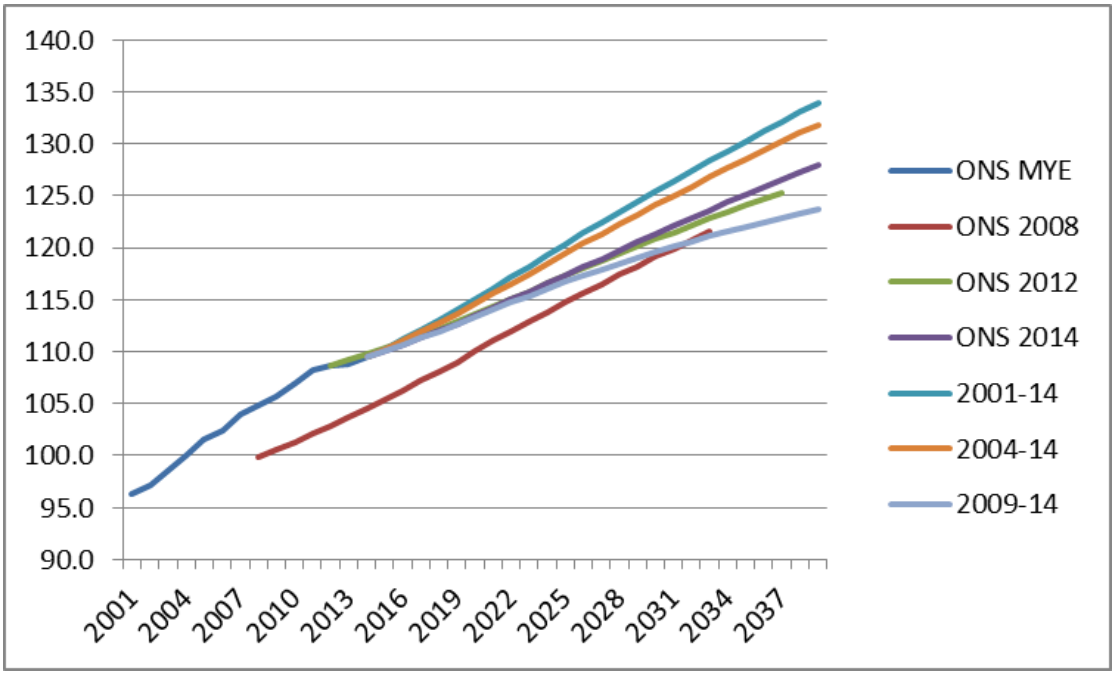
Table 5.7 Alternative projections summary

	ONS/CLG 2008	ONS/CLG 2012	ONS/CLG 2014	2001-14 trends	2004-14 trends	2009-14 trends
	Population (thousands)					
2001	96.3	96.3	96.3	96.3	96.3	96.3
2011	102.1	108.2	108.2	108.2	108.2	108.2
2014	104.5	109.7	109.5	109.5	109.5	109.5
2016	106.3	110.9	110.7	111.2	111.0	110.7
2021	111.0	114.3	114.2	116.1	115.5	114.0
2026	115.6	118.0	118.1	121.4	120.4	117.3
2031	119.9	121.5	122.1	126.4	125.0	120.1
2037		125.3	126.5	132.1	130.2	122.9
2039			127.9	133.9	131.9	123.7
	Population					

	ONS/CLG 2008	ONS/CLG 2012	ONS/CLG 2014	2001-14 trends	2004-14 trends	2009-14 trends
2001-14	8,155	13,379	13,107	13,107	13,107	13,107
2014-37		15,570	17,053	22,635	20,736	13,415
pa		677	741	984	902	583
	Households (thousands)					
2001	41.3	41.3	41.3	41.3	41.3	41.3
2011	45.1	47.5	47.5	47.5	47.5	47.5
2014	46.8	48.9	48.9	48.9	48.9	48.9
2016	48.0	49.8	49.9	50.1	50.0	50.0
2021	51.0	52.2	52.6	53.2	53.0	52.6
2026	54.0	54.7	55.4	56.4	56.1	55.2
2031	56.7	57.2	58.2	59.7	59.2	57.7
2037		59.9	61.3	63.5	62.7	60.3
2039			62.2	64.7	63.9	61.1
	Households					
2001-14	5,499	7,541	7,590	7,590	7,590	7,590
2014-37		11,026	12,367	14,562	13,822	11,359
pa		479	538	633	601	494
	Homes					
2014-37		11,606	13,018	15,328	14,550	11,957
pa		505	566	666	633	520

5.66 The chart below compares the population from the scenarios. It shows very clearly how the 2008 projections, when the Census reported, were erroneous. The 2011 population was expected to be around 102,000 persons but the census reported around 6,000 more people living in the district.

Figure 5.5 Alternative population projections (thousands)

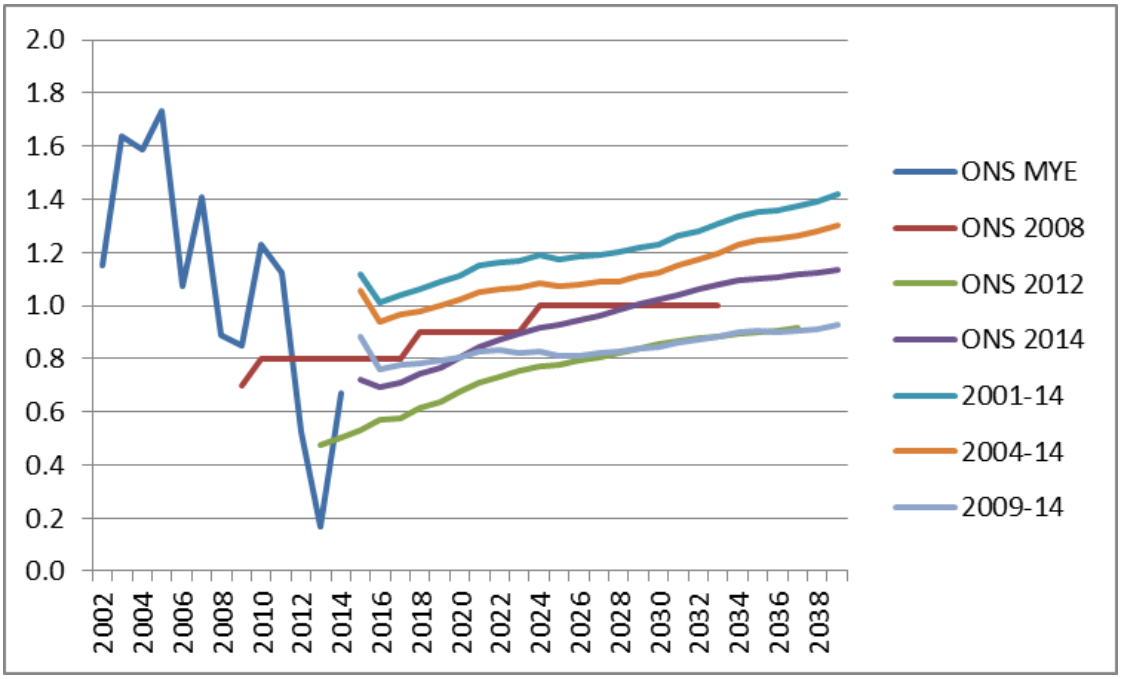


Source: Table 5.7

5.67 Compared to both the SNPP 2012 and the SNPP 2014 the various longer term Trends projections produce a much larger population. Population change in the SNPP 2012 was 677 and 741 persons per year in the SNPP. Our 04-14 and 01-14 projections show 984 and 902 persons. So in terms of population growth the SNPP looks low.

5.68 The chart below compares the migration element of the projections, the main driver of the different results. The chart also shows the past migration into Shepway. As discussed above net migration in the early 2000s was much higher then in the later years, partly driven by higher domestic outflows in recent years. This higher migration assumption explains why longer term projections tend to be higher here compared to the shorter trend periods.

Figure 5.6 Migration within the alternative projections



Source: ONS/CLG/PBA

5.69 Of interest is the fact that the SNPP is also higher than the PBA Trends 09-14 projection despite the fact that the 09-14 Trends projection shares the same trend period as the SNPP.

5.70 In most cases elsewhere the PBA Trends 09-14 projection closely mirrors the SNPP. But here the ONS project an increasing rate of inward migration; higher than the strict application of the projection period would suggest.

5.71 We also found this in Dover. As with Dover the most likely explanation is that the ONS expect those local authorities related to Shepway to export migrants more readily than in the past. The ONS model migration flows by applying propensities to migrate to the age and sex of every local authority in the UK. So where the age structure of the origin districts changes over the projection period, the scale of the migration flow can also change. Unfortunately, the ONS does not provide a breakdown of the origin of their migration so it is difficult to evidence this in practice; nor can it be fully replicated outside the ONS model.

5.72 One possible drawback of this method it that is assumes that people will continue to migrate at the same ages as observed in the past. However, as people live longer, work for longer and form families later, this propensity may be delayed as well. Only time will show whether the ageing population, increased retirement ages and demand to stay in work for longer will delay people choosing to migrate to Shepway in the future. But from a practical perspective, while the two approaches to migration project a different population size but when converted to households the difference is much less because of the differing age structures projected and the way they form into households (46 dpa higher in the CLG 2014s).

Preferred demographic scenario

5.73 The official demographic starting point for housing need is the CLG 2014 based household projections. These show a demographic based need for 538 households per annum or 566 dwellings per annum using 2014 HRRs.

5.74 We have tested these using a number of differing sensitivity tests including an alternative short term (09-14) projection which allows for UPC as mis-recorded migration. In terms of the number of households / dwellings needed the results are similar to the official projections (520 dpa or 566 dpa). The difference is not enough to consider departing from the slightly higher (566dpa) official projections.

5.75 In line with good practice we have also considered longer-term projections (01-14 and 04-14) which include UPC.

5.76 Alternative long term scenarios are higher than the CLG 2014s. Our 01-14 Trends Projection (including UPC) projects 666 dpa and our 04-14 Trends Projection 633.

5.77 Looking at whether a long or short term projection should be favoured here. While a longer trend projection smooths peaks and troughs in migration the declining net migration trend here started to fall from 2005 onwards. The trend is very much downwards and cannot simply be attributed to 'peaks and troughs' in the data. Nor can it be explained simply by the recession because by 2008, the peak of the property boom, net migration had already roughly halved, falling from 1,700 in 2005 down to 900 in 2008. In our analysis of migration flows we found a possible relationship between the worsening relative performance of the Shepway local economy (ILO unemployment) and possible competing housing markets.

5.78 Turning to the PPG. Regarding the demographic starting point, Paragraph 015, states:

> *'The household projection-based estimate of housing need may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trends'*[14]

5.79 With this in mind the current set of CLG 2014 household projections appear to capture past trends – migration into Shepway has been falling sharply since 2005. This is despite a supply of land and may be linked to the worsening economic outlook for the district in that period. The policy off Experian forecast does not expect this relative economic position to reverse.

5.80 This does not mean that the official projections are pessimistic here. While migration is not as high a long term trend projection (with UPC) the official projection report a return to positive net migration. Migration increases in the official projections faster than projecting forward past levels of migration in the trend period may suggest. As noted this is most likely a product of demographic changes and propensities to migrate to Shepway in districts elsewhere.

[14] Reference ID: 2a-015-20140306

5.81 In summary; our testing does not provide sufficient evidence to depart from the official 2014 based projections as the demographic starting point. They show that they start from a period when net migration into Shepway was declining, most likely reflecting the structural weakness in the resident economy, but positively reverse this most likely reflecting higher demand in other areas being displaced to Shepway.

5.82 But the fact that housing delivery, and migration, was higher in the years pre-dating the trend period used in the official projections suggests that in favourable market conditions, and with the right sites a higher than 2014 based projection could be supported.

5.83 An improved local market (economic and housing) could possibly further reduce migration outflows and so result in higher net migration.

5.84 But this type of adjustment is running very close to a policy on adjustment and so strictly outside OAN. The High Court has ruled that 'regeneration' is a policy-on matter and not one to be considered as part of the OAN[15]. We return to this when considering the Market Signals adjustment (which is inside the OAN) and also possible economic adjustment to the OAN.

[15] Most clearly in Borough Council of Kings Lynn and West Norfolk v Secretary of State for Communities and Local Government, ELM Park Holdings Ltd. EWHC 2464.

6 PAST DELIVERY AND MARKET SIGNALS

Introduction

6.1 The starting point of our 'market signals' analysis is provided by paragraphs 2a 015, 019 and 020 of the PPG:

> *'The household projection-based estimate of housing need may require adjustment to reflect factors affecting local demography and household formation rates which are not captured in past trends. For example, formation rates may have been suppressed historically by under-supply and worsening affordability of housing. The assessment will therefore need to reflect the consequences of past under delivery of housing. As household projections do not reflect unmet housing need, local planning authorities should take a view based on available evidence of the extent to which household formation rates are or have been constrained by supply.'*[16]
>
> *'The housing need number suggested by household projections (the starting point) should be adjusted to reflect appropriate market signals, as well as other market indicators of the balance between the demand for and supply of dwellings. Prices or rents rising faster than the national/local average may well indicate particular market undersupply relative to demand …'*[17]
>
> *Appropriate comparisons of indicators should be made. This includes comparison with longer term trends (both in absolute levels and rates of change) in the: housing market area; similar demographic and economic areas; and nationally. A worsening trend in any of these indicators will require upward adjustment to planned housing numbers compared to ones based solely on household projections.'*[18]

6.2 Considered together, the above passages explain why market signals are relevant and how they should be used in relation to housing needs assessments. In summary:

- Demographic projections roll forward past reality – the amount of housing that has been provided in the reference period on which they are based.
- If this past supply met demand (need) in full then, other things being equal, the projection should be an accurate reflection of future demand.
- But if past supply under delivered against demand, then the projections will carry forward that under delivery; therefore they understate demand and should be adjusted upwards.
- To determine whether past supply has indeed under-delivered against demand, the PPG suggests two kinds of evidence: a series of specified 'market signals' such as prices or rents, and 'other indicators' which are not specified.

[16] Reference ID: 2a-015-20150227
[17] Reference ID: 2a-019-20150227
[18] Reference ID: 2a-020-20150227

6.3 Below, we use two kinds of evidence to assess the balance of demand and supply in line with the PPG. Firstly, we interrogate the history of past delivery to see if there is any direct evidence that the supply of housing land has underprovided against demand. Secondly, we analyse the specific market signals listed in the PPG.

Policy context

6.4 The Kent Structure Plan (2006) set the scale and spatial strategy to housing development in Shepway. The plan emphasised development on previously developed land in sustainable locations. The Kent and Medway Structure Plan appeared to take a position of housing restraint within the county, allocating a target of 313 dwellings per annum (dpa) in Shepway between 2001 and 2016.

6.5 The South East Plan, the RSS, was published in May 2009 and from then on informed Kent's strategic planning objectives. Despite Shepway achieving historic annual completions between 300 and 500 dpa, the RSS set a minimum target of 290 dpa for the District between 2006 and 2026. The reason behind allocating Shepway a constrained target is unclear; completions in Shepway averaged 462 dpa between 2001 and 2005.

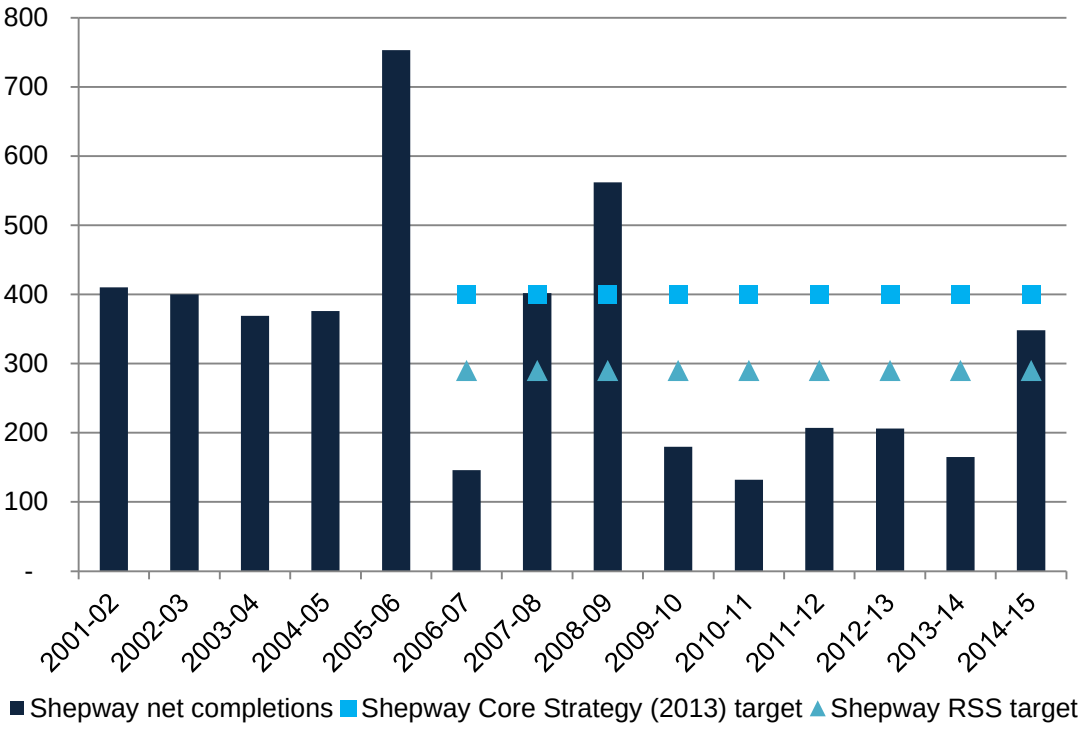
6.6 Between 2006 and 2015, Shepway delivered 2,348 dwellings against an RSS target of 2,610 dwellings. Housing completions almost met the RSS target despite the time period covering a period of historic under delivery in the district due to the economic recession. The Core Strategy had a target of 3,600 dwellings during the same period, translating into a deficit of 1,252 dwellings. Between 2006 and 2013, there was limited allocation of strategic sites in the District. The Core Strategy sought to remedy this.

Past delivery

6.7 To see if planning in Shepway has underprovided housing land in the period on which our projections are based, we first examine the history of housing development in the district. We then look at various house prices, affordability, rents and finally overcrowding.

6.8 Figure 6.1 below shows net housing completions between 2001 and 2015 in Shepway. Net completions in the HMA peaked in 2005-06 and only met the RSS target once in 2008-09. Since 2014, the district has met its Core Strategy targets and is set to exceed this target in 2016/17. Net completions in the district between 2001 and 2015 averaged 333 dwellings per annum (dpa).

Figure 6.1 Net housing completions in Shepway



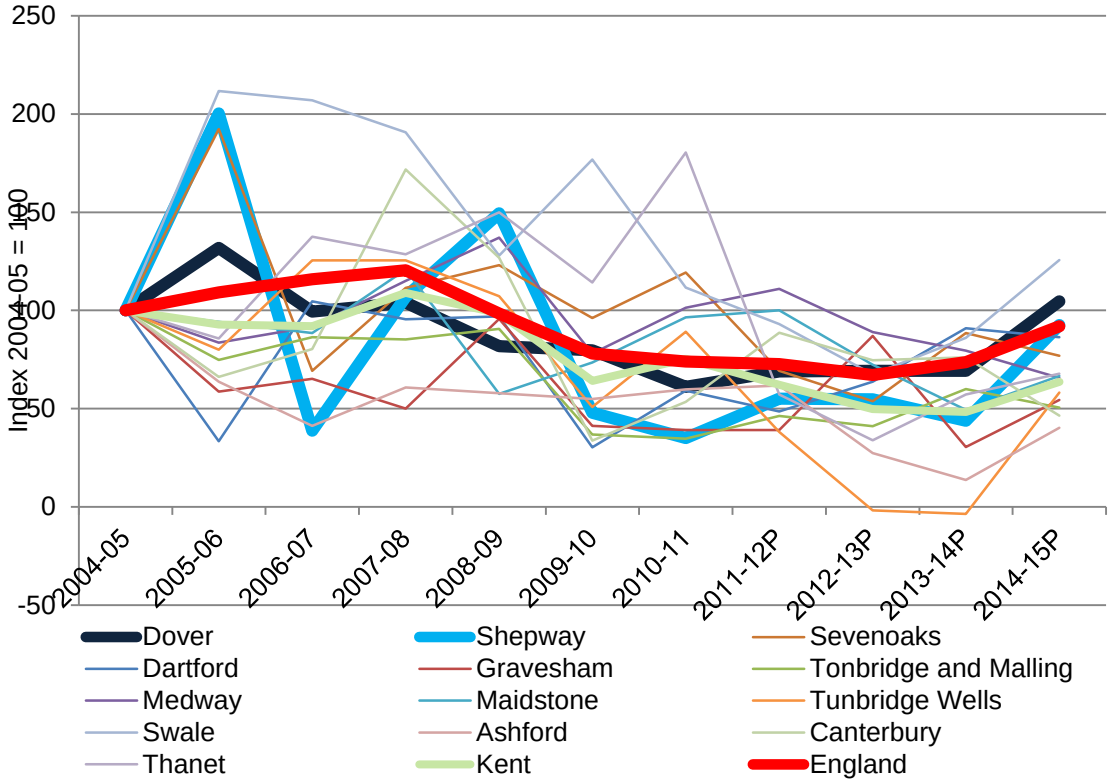
6.9 During this period Shepway maintained a supply of available development sites. The AMR[19] attributes the fall in completions from 2009 to the economic recession but as we know from our demographic work the resident economy was experiencing a shock readjustment from very low unemployment, around the regional rate, to a rate above the higher national rate before then. It is reasonable to conclude that declining delivery in the district was a product of a demand-side fall as opposed to undue planning constraint.

6.10 Figure 6.22 benchmarks the net housing completions in Shepway with Kent and England. We also include the indexed completions of all the Kent authorities for comparison.

6.11 It above shows that Shepway outperformed the comparator areas in the mid-2000s with completions falling during the recession but also in 2006. Since 2013, the district has seen an upswing in net completions at a faster rate than Kent and England. Across Kent, only Dover and Swale have experienced a faster rate of recovery in net housing completions in recent years.

[19] Annual Monitoring Report SDC

Figure 6.2 Indexed net housing completions



Source: CLG Table 122 / Dover and Shepway AMRs

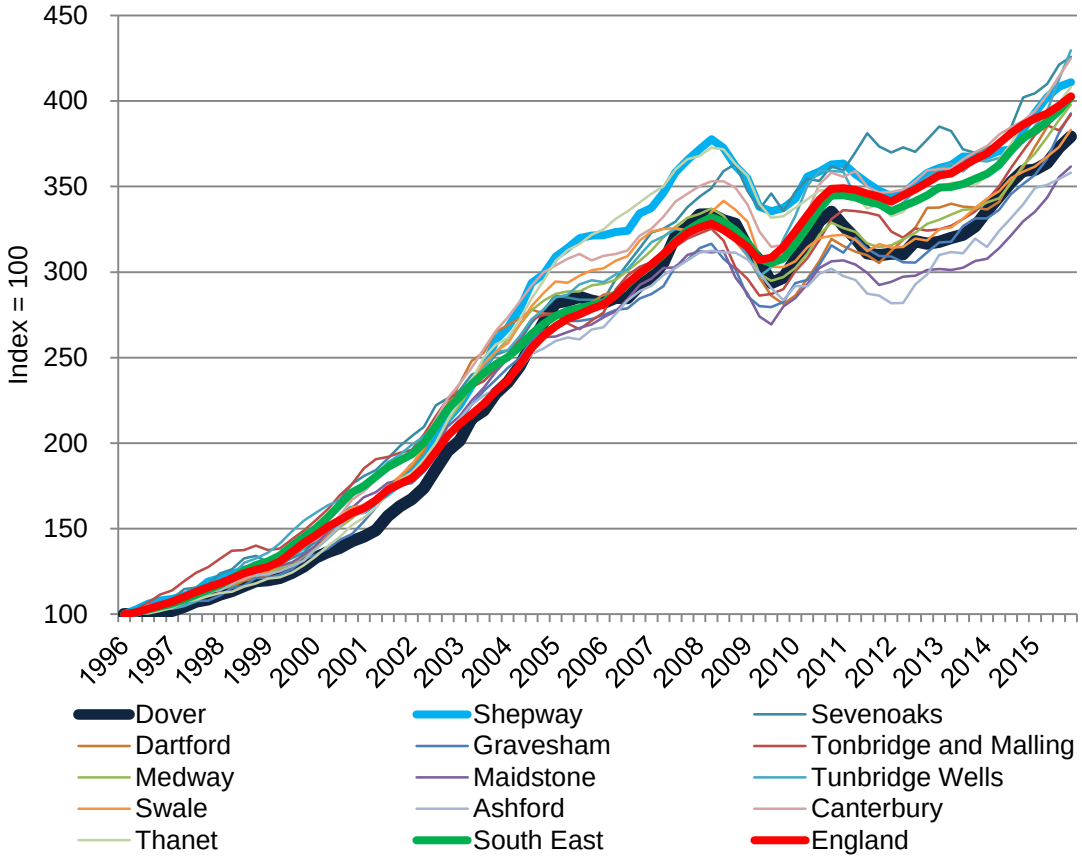
Market signals

6.12 The PPG advises that house prices should be monitored to identify if longer term changes indicate an imbalance between the demand for, and the supply of housing.

6.13 Land Registry data published by the ONS[20] shows that the average house price in the fourth quarter of 2015 for Shepway was £233,912 compared to £331,757 for the South East and £276,922 for England. Figure 6.3 below shows the change in median house price indexed from 1996 against country, regional and national figures.

[20] *House Price Statistics for Small Areas,* ONS available at: https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/medianhousepricefornationalandsubnationalgeographiesquarterlyrollingyearhpssadataset09 (Table 2a)

Figure 6.3 Indexed mean house prices, 1996-2015



Source: House Price Statistics for Small Areas, ONS

6.14 The change in house prices in Shepway followed the national and regional trend until the early part of the 2000s. From 2004 onwards, Shepway outperformed the comparator areas suggesting that house prices rose at a faster rate. The rate of change in house price fell during the post-recession period in Shepway closely aligning with England and the South East.

6.15 For the period 09-14 (the trend period used to inform the CLG 2014 projections) house change fell in Shepway compared to the region and England. This fall offset relative increases seen in earlier years.

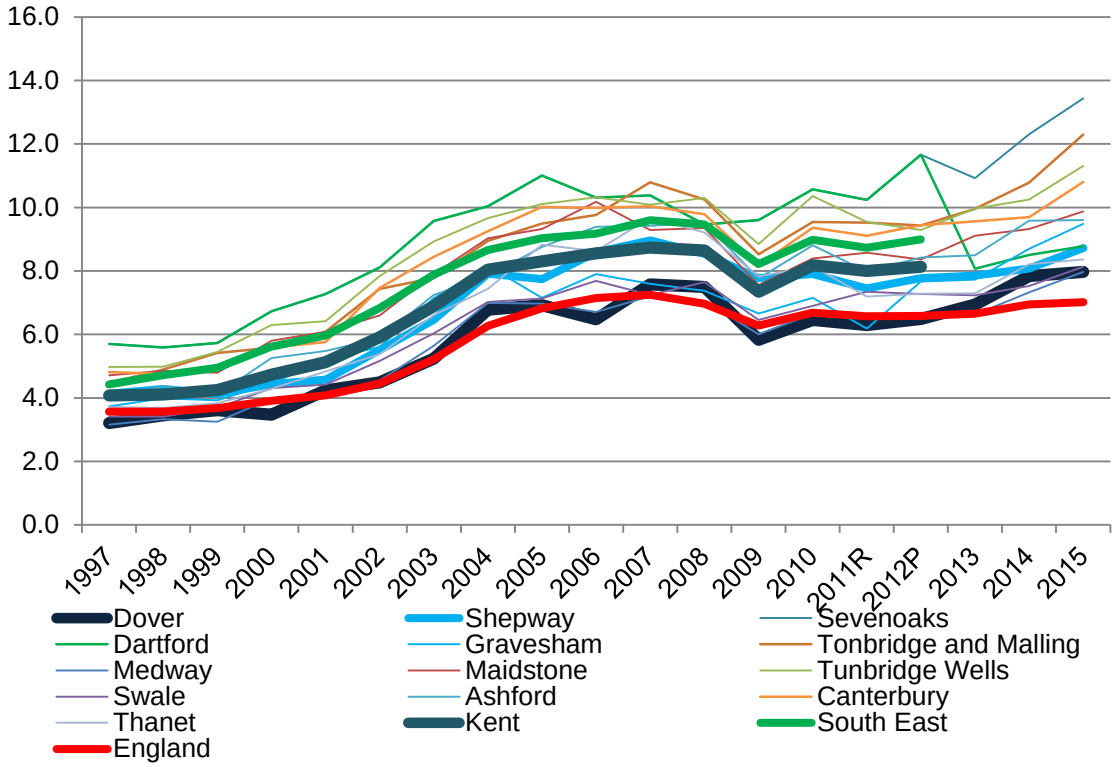
Affordability

6.16 Affordability, as defined by CLG, is the ratio of lower-quartile house prices to lower-quartile earnings. A high ratio indicates low affordability, where the cheapest dwellings are less financially accessible to people on the lowest incomes.

6.17 Figure 6.4 below shows Shepway's affordability ratio from 1997 against the region, county and national comparators. We note that CLG no longer publishes county or regional data in its new affordability tables. By way of comparison at the county level, we plotted the affordability ratios of all local authorities in Kent so the analysis extends beyond 2012 and covers the CLG trend period (09-14)

6.18 Affordability in Shepway has broadly tracked national, regional and other local comparators for many years. In the trend period used by CLG in the last round of official projections (2009-14), there has been no shift with affordability largely unchanged. The rapid deterioration in affordability seen in Dover post-2012, where the ratio moved from 6 to 8 between 2012 and 2014, has not been repeated in Shepway.

Figure 6.4 Ratio of lower quartile house prices to lower quartile earnings



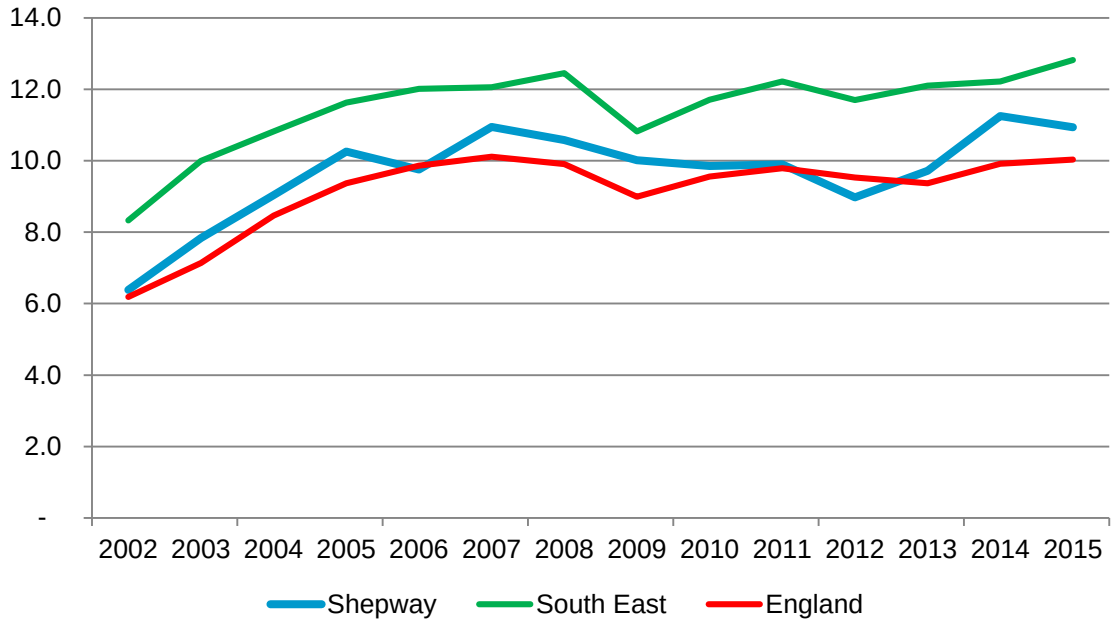
Source: CLG Table 576 and Table 576 (Discontinued) Ratio of lower quartile house price to lower quartile earnings.[2122]

6.19 In providing this analysis, we note that the PPG advises that the ratio between lower-quartile house prices and lower quartile earnings can be used to assess the relative affordability of housing. But as acknowledged by CLG, the table reflects the earning power of commuters rather than the earnings of residents living in a given local authority. As such, we have devised a table comparing the ratio of lower-quartile house prices to lower-quartile earnings by place of residence as shown in Figure 6.5 below.

[21] The new version of Table 576 (ratios for 2013, 2014 and 2015) is created using a different source of House Price data from the Discontinued Tables leading to slight differences in the distribution of affordability ratios. Since 2013, affordability ratios for counties and regions are no longer published by CLG.

[22] The updated Table 576 no longer publishes data at the County and Regional level

Figure 6.5 Ratio of lower quartile house prices to lower quartile resident earnings



Source: ONS, PBA[23]

6.20 This measure shows a broadly similar pattern, but with deterioration in 2014, right at the end of the CLG trend period.

Private rents

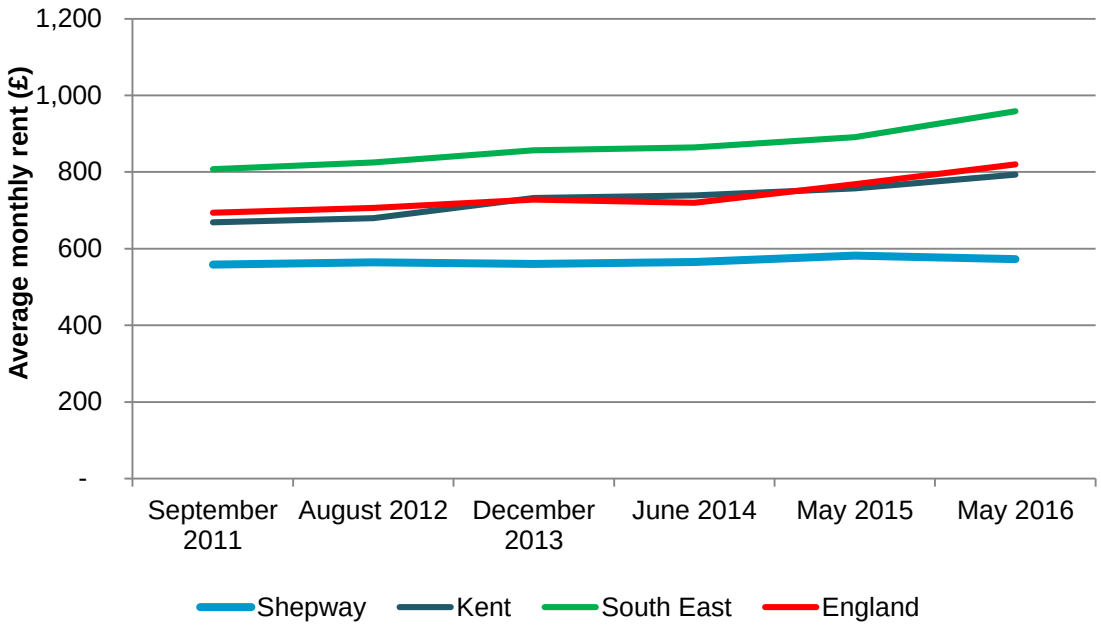
6.21 The PPG explains that rents provide an indication of the cost of consuming housing in a market area. Mix-adjusted rent information shows changes in housing costs over time. According to the PPG, longer-term changes may indicate an imbalance between the demand and supply of housing.

6.22 Data for market rents on a statistically consistent and comparable basis has only been available since 2011. Figure 6.6 compares average monthly rents between Shepway, county, regional and national rents.

6.23 The chart below clearly shows that average rents in Shepway have been consistently lower than the comparator areas. Average rents in Shepway have been flat since 2011, dipping slightly in 2016. The flat rent levels in Shepway largely point to an unconstrained private rental market and so an unconstrained housing market.

[23] Lower quartile gross annual earnings derived from Annual Survey of Hours and Earnings (ASHE); ASHE data from 2014/15 provisional. Lower quartile house prices by region and country, quarterly rolling year, year ending Q4-1995 to year ending Q4-2015. Both sets of data are published by ONS.

Figure 6.6 Monthly market rents



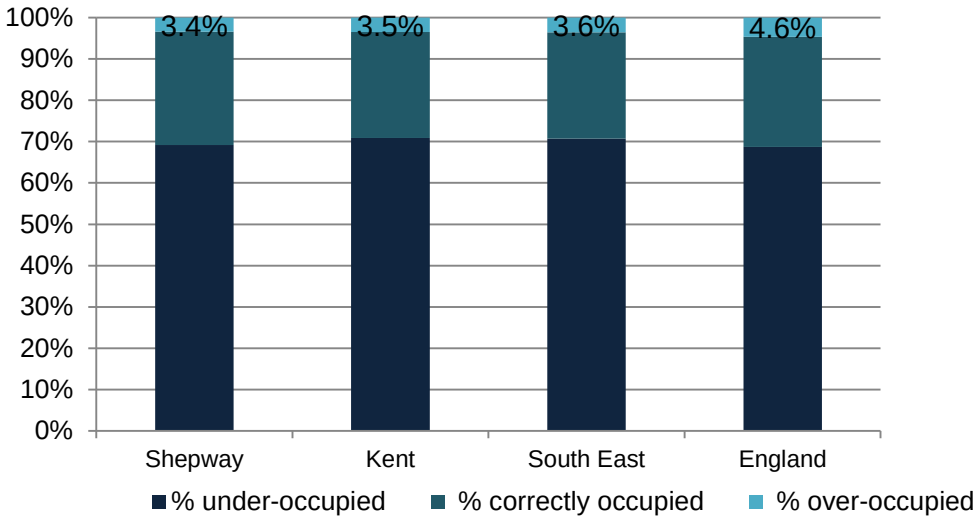
Source: VOA Private rental market statistics

Overcrowding

6.24 According to the PPG, indicators of overcrowding and concealed families could demonstrate unmet need for housing.

6.25 While overcrowding could be a symptom of relative unaffordability, it could also be related to the current stock being ill-suited to meeting the needs of the population. The presence of concealed families could be symptomatic of suppressed household formation rates but, in itself, it is not necessarily an indicator of unmet need because people could be choosing to live in households with more than one family.

Figure 6.7 Occupancy rating



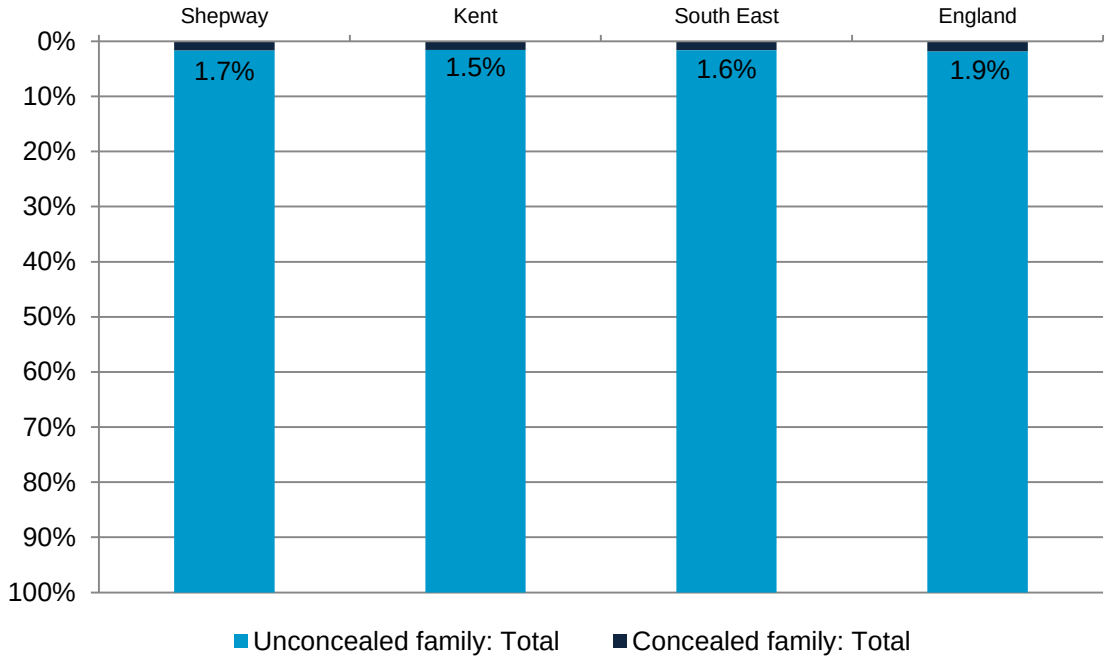
Source: ONS Table QS412EW

6.26 Figure 6.7 above uses 2011 Census data occupancy rating as defined by the ONS. The ONS base the rating on the number of occupied bedrooms in the household. Figure below shows the occupancy rating of Shepway against comparator areas.

6.27 The percentage of over-occupied housing in Shepway (3.4%) is below the percentage compared to Kent (3.5%), the South East (3.6%) and England (4.6%). In the context of the comparator areas, dwellings in Shepway are not over-occupied.

6.28 In addition to overcrowding, ONS also publishes data on concealed families based on 2011 Census data. ONS defines concealed families as households that do not include the Household Reference Person. The figure below compares the percentage of concealed households in Shepway and comparator areas.

Figure 6.8 Concealed families



Source: ONS Table LC1110EW

6.29 The proportion of concealed households in Shepway is higher than Kent (1.5%) but lower than the South East and England. In terms of overcrowding and concealed households, Shepway is less constrained that the regional and national average suggesting that the district does not have unmet housing need.

Conclusions

6.30 The PPG sets out a number of indicators which are relevant when considering whether an uplift based on market signals is required. In looking at these indicators, the PPG suggests that:

> *'comparison with longer term trends (both in absolute levels and rates of change) in the: housing market area; similar demographic and economic areas; and nationally. A worsening trend in any of these indicators will require upward*

adjustment to planned housing numbers compared to ones based solely on household projections.'[24]

6.31 In terms of the scale of a market signal uplift, the PPG states that any such adjustment should be 'reasonable'. Specifically, that:

'The more significant the affordability constraints (as reflected in rising prices and rents, and worsening affordability ratio) and the stronger other indicators of high demand (e.g. the differential between land prices), the larger the improvement in affordability needed and, therefore, the larger the additional supply response should be.'[25]

6.32 The market signals for Shepway do not point to a constrained housing market. While affordability worsened in Shepway, it did so across all other comparator areas. And the District is still more affordable than the South East average and majority of the districts in Kent.

6.33 So applying the PPG, looking at the market signals and especially those in the CLG 2014 trend period (09-14) there is no strong evidence that Shepway needs a market signal revision to its demographic OAN.

6.34 But, as we discuss in the next chapter, there is still merit in providing for some uplift to reflect the uncertainties in the data, the risk that should the local resident economy stabilise or migration flows be underestimated (I.e. UPC re-occur) then market demand for housing increase above the strict demographic need and market pressure re-emerge. As was the case in the early parts of the 2000's when migration flows into Shepway were higher and the resident economy tracking the region or national averages.

[24] Reference ID: 2a-020-20140306

[25] Reference ID: 2a-020-20140306

7 FUTURE JOBS

Introduction

7.1 This section examines whether housing provision in line with our preferred demographic projections would support enough workers to match the future job growth expected in the area.

7.2 If that were not the case, in line with the PPG, the projections should be adjusted upwards unless the labour market can be brought into balance by other means, such as transport infrastructure. The underlying principle is that planning for housing, economic land uses and community facilities / services should be integrated, so that the demand for labour is fulfilled and there is no unsustainable commuting.

7.3 For the OAN we only look at the 'baseline' or 'policy off' demand for jobs. This does not include any higher job target that SDC may choose to adopt for 'socioeconomic' or 'regeneration' reasons. As confirmed by the High Court[26], securing a 'policy on' regeneration led job target is outside the OAN.

7.4 To explore this, we have worked with Experian, one of the UKs main economic forecasting houses.

How many jobs?

Past trends

7.5 Before considering how many new jobs are forecast we briefly consider past trends. This is because the PPG suggests we look at past trends and/or forecasts. While there is no requirement to plan for past trends (or forecast growth), it is sensible to consider them.

7.6 Most historic economic data dates back to 1997 when the ONS introduced the Annual Business Inquiry. However, caution is needed when simply looking at the average 1997 onwards because this spans one or more economic cycles which distorts the data.

7.7 The most robust way to consider past trends is to look across an economic cycle. The Bank of England[27] considered that the previous economic cycle lasted from 1992 until 2007 ('peak to peak'). So the current economic cycle commenced in 2007 and while the end of the cycle is still not clear, the current day is a reasonable approximation, especially with the economic shock of Brexit.

7.8 Over the whole period where data is available (1997–2014), Shepway grew its stock of jobs: the district accommodated 37,500 workforce jobs in 1997 increasing to

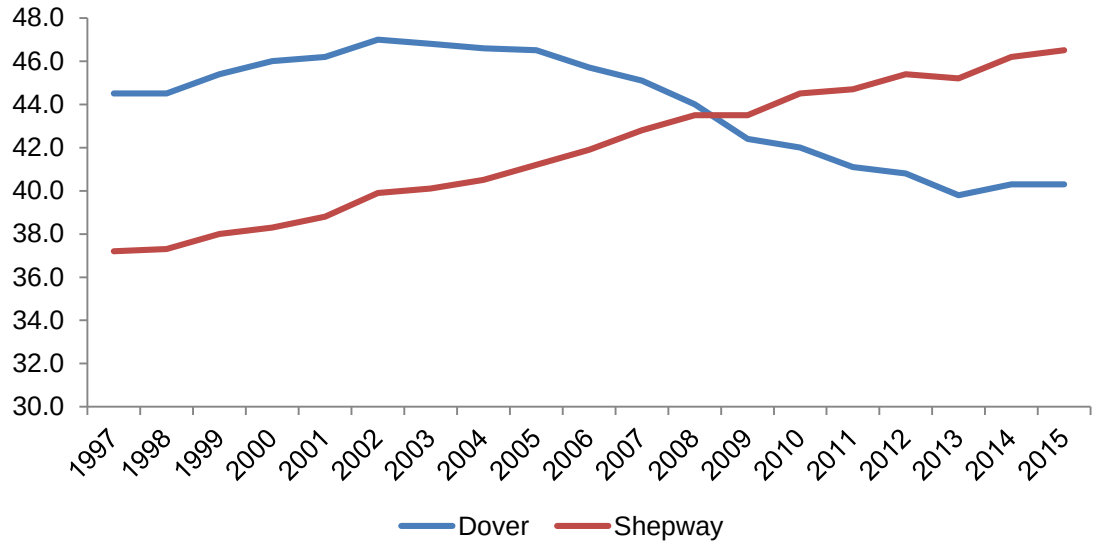
[26] Most clearly in Borough Council of Kings Lynn and West Norfolk v Secretary of State for Communities and Local Government, ELM Park Holdings Ltd. EWHC 2464.

[27] The UK recession in context — what do three centuries of data tell us? By Sally Hills and Ryland Thomas of the Bank's Monetary Assessment and Strategy Division and Nicholas Dimsdale of The Queen's College, Oxford. Bank of England Research and Analysis, February 2015

40,500 in 2014 (the last year of data in the Experian model). Jobs grew at a steady pace over the period with no noticeable dip between economic cycles.

7.9 This positive position contrasts sharply with Shepway's HMA partner Dover, which lost around 5,000 jobs between 2004 and 2014. The figure below shows past job change since 1997 for Dover and Shepway.

Figure 7.1 Workforce jobs (thousands) 1997-2015



Source: Experian, September 2016

7.10 Looking briefly at the sectors, the decline in Dover has been across a number of broad sectors and cannot be simply attributed to a single industry. Sectors where we normally see strong growth elsewhere declined in the Dover; for example, professional services, construction and retail. In Shepway the strongest growth sectors were public sector or office based sectors (finance, business and administrative services). Manufacturing and wholesale sectors declined.

7.11 In addition to jobs, it is also relevant to consider unemployment and the resident economy. Shepway is an exporter of labour to other districts and in the 2000s the data suggested the resident economy experienced a substantial shock.

7.12 In the early 2000s, Shepway's resident unemployment (as modelled by Experian) was comparably low and tracked that of the regional and national economy. However, by 2011, unemployment had departed from the regional and national rates and it was much higher – approaching 9%, despite the number of workplace jobs in Shepway growing.

7.13 Since its peak in 2011, Shepway's resident unemployment has fallen to just over 5% in 2015 buoyed by strong job growth in finance and professional services. The figure below shows this.

Figure 7.2 Unemployment (%) 1997-2015

Source: Experian (September 2016)

7.14 Two main factors appear to have contributed to this deteriorating resident economy. Firstly, the growth of the resident workforce increased at a faster rate than local jobs. As measured by Experian, the size of the 'state working age' population grew by nearly 7,000 people between 2001 and 2011 (6,800) but the number of Shepway jobs 6,000 (5,900). This meant that the local economy failed to absorb its own increase in labour supply.

7.15 Secondly, many of these people would normally commute out of Shepway to work. Shepway is a net exporter of labour. But as noted above, Dover, as their HMA partner lost jobs: 5,000 between 2001 and 2011. But this loss is not evident in the Dover unemployment data. Over the same period Dover gained an additional 3,500 working age people but their ILO unemployment count increased by only 2,000 people. The data suggests that the impact of job losses in Dover was felt in the wider sub-regional economy including in Shepway.

7.16 The ELR[28] provides more detail about the sectors and reasons for this, looking across the Functional Economic Market Area. For the OAN, the data suggests that the resident economy in Shepway experienced much harsher conditions than simply looking at past job growth would suggest.

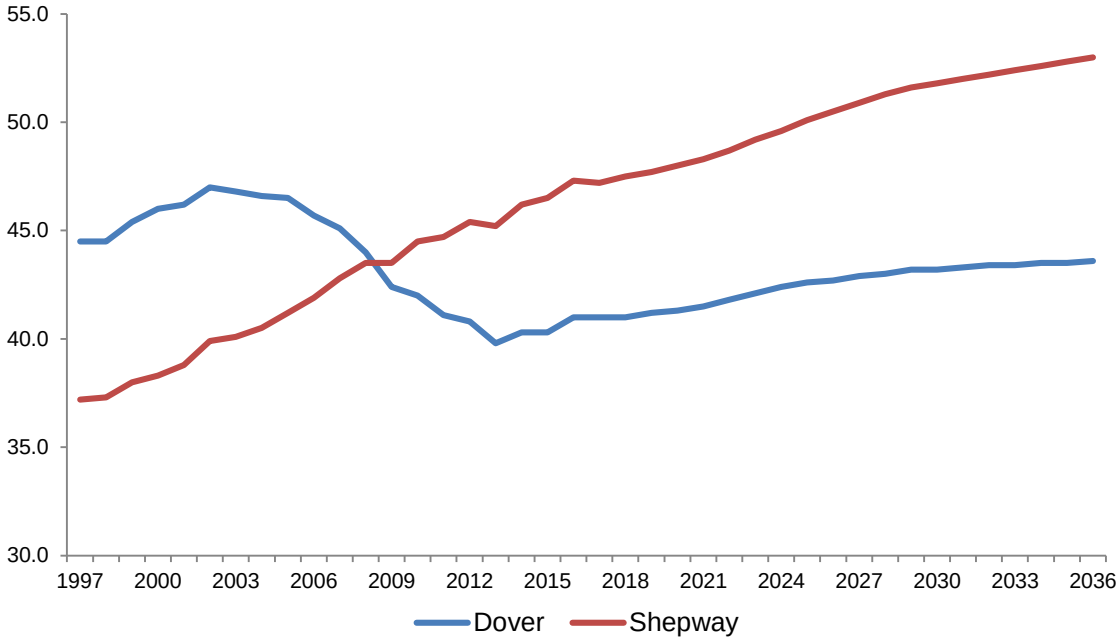
Future forecasts

7.17 Planning for past trends would suggest around 600 jobs per year with little variance across the cycle. But some of this growth was in sectors we would not expect to repeat; for example, the rapid growth in public sector employment and some finance sectors.

[28] Paragraph 2.8, Draft Shepway Employment Land Review, NLP

7.18 Figure 7.3 below shows the growth trajectory in the most recent (September 2016) Experian model run for Dover and Shepway. The decline in Dover is arrested and the forecast shows a small positive return to growth. For Shepway, the number of jobs grows to 53,000 by 2036.

Figure 7.3 Experian workforce jobs (thousands) 1997-2036



Source: Experian (September 2016)

7.19 In Shepway, the number of jobs in construction increases by 1,800 (58% increase on 1997). The number of jobs in professional services is projected to almost treble – an increase of 8,200 jobs; public service jobs are also expected to increase by 50% (5,000 additional jobs); jobs in Information and communication and the finance sector are expected to increase by 800 and 600 respectively.

7.20 A similar trend is seen in Kent where the number of construction jobs between 1997 and 2036 increases by 15,700 which is almost double the number of jobs in 1997. The number of professional jobs more than doubles to register an increase of 35,100 jobs. At the regional level, the number of construction jobs increase by 58%, and the number of jobs in professional services increase by 104%. In broad terms, Shepway appears to be performing better than the region in most office-based sectors.

How many homes?

7.21 Once the policy off job prospects have been established, the key question for the SHMA is whether the number of homes suggested by the demographic evidence provides a sufficiently large workforce. Or whether additional new homes (and higher inward migration flows) are needed.

7.22 We answer this question working with Experian. The first question is whether the economic forecasts are constrained by a lack of labour in the area. Any economic forecast needs to be realistic and achievable. There are parts of the UK where there

is a genuine shortage of labour in the local area and this means that the forecast does not represent the unconstrained economic potential of the area. Increasing the labour available would result in higher job growth because it releases this constraint.

7.23 Because of this risk we asked Experian to confirm what they consider to be the full, unconstrained, demand for new jobs in the district. That is before any possible labour supply constraint has been applied to the forecast. This 'demand for jobs' estimate looks at the economic structure of the district today and applies Experian's views of the sectors future growth potential.

7.24 In this case, Experian have confirmed that the unconstrained demand for labour is identical to that shown in their baseline model. There is no suggestion that a lack of labour is acting as any constraint on the number of jobs.

7.25 There is a suggestion that the number of homes in the CLG 2014 based projection, the 2014 SNPP is slightly too high for the economy to absorb – as with the past.

7.26 To understand how many homes this number of jobs requires and how the labour market adjusts we asked Experian to model the delivery the SNPP 2014 based population (and so CLG 2014 households) and provide additional data, not normally provided, showing how the labour market adjusted.

7.27 The SNPP 2014 is built into the Experian baseline and this shows how Experian expect the labour market to adjust should this number of homes (CLG 2014) be delivered in the district. The table below shows how the labour market balances demand and supply with this number of new homes delivered:

Table 7.1 Experian labour market balance

Variable	2014	2036	2014-36	%
Workforce Jobs	46.20	53.00	6.80	15%
Jobs Demand	46.20	53.00	6.80	15%
Economic Activity Rate (%) - 16+	61%	60%	-0.01	-2%
Economic Activity Rate (%) - 16 to 64	79%	83%	0.04	5%
Economic Activity Rate (%) - 65 Plus	16%	23%	0.07	44%
Net commuting balance (inflow)	-6.00	-8.00	-2.00	33%
Unemployment Rate	6.10	5.50	-0.60	-10%

Source: Experian (September 2016)

7.28 The table shows that over the period, workforce jobs are expected to grow at a rate that matches job demand. This entails an increase in activity particularly amongst the over 65s and a reduction in unemployment. There is also increase in out-commuting.

7.29 The data clearly points to a local economy which does not have a shortage of labour today, or should the SNPP 2014 be delivered in full.

Alternative economic activity rates

7.30 The analysis above uses Experian's own locally specific economic activity rates. This is because economic activity rates in a local economy are 'dynamic' and flex in line with market demand. Rates therefore depend on the demand for jobs and the supply of labour. Experian have confirmed that the rates used here are reasonable and sound to use.

7.31 The Experian job number quoted above is only valid providing all the other variables remain as per Experian. This includes the size of the resident population and the economic activity rate applied; should the size of the population increase the demand for jobs may change.

7.32 This also includes their national economic activity rates applied to the national population (of which the Shepway economy is a part). This is because, should alternative rates be preferred, for example those published by the Office of Budgetary Responsibility (OBR) or EU (which tend to be lower than Experian rates), then this reduces the number of jobs forecast (or projected) at the national and so local level.

Summary

7.33 The testing above has shown that in the past Shepway struggled to provide sufficient new jobs for the growth of the population. This was partly related to the low growth of jobs in Shepway but also wider sub-regional problems. Most obviously the contraction of workplace jobs in Dover.

7.34 Looking forwards there is no evidence of a labour market shortage in Shepway.

7.35 There is no economic reason to provide more new homes than the SNPP 2014 (CLG 2014) and sound justification to be very cautious about any additional new homes without 'policy-on' economic interventions. Such interventions would move beyond OAN into the housing target. Our reading of the data shows that should a high housing target be promoted then it is vital that the correct policy-on economic interventions are also put into place. It is the purpose of the ELR, not the SHMA, to evidence how these interventions may work.

8 SETTING THE OAN

Demographic starting point

8.1 In Section 2 we tested the demographic data for Shepway. We found that the CLG 2014-based population and household projections represent a reasonable demographic starting point for Shepway.

8.2 The 2014-based official projections are lower than the longer trend projections (PBA 01-14 and 04-14 Trends). This is unsurprising given the migration trends in Shepway, including higher gross flows out of the district and declining inflows. The ONS does not provide an explanation for the changes in migration patterns. But with reference to the headline economic data, the resident economy (as shown by the unemployment rate) experienced a 'shock' readjustment in the 2000s. This was then followed by the national recession.

8.3 We also noted that the ONS SNPP 2014, while starting from low migration data point, does not perpetuate this trend. In the official projections migration increases over time and migration exceeds what would be expected should past trends be continued, even if UPC is included (PBA 09-14 Trends). This is likely to reflect changing age structure and propensities to migrate in districts outside Shepway; so the projections allow more people to migrate to Shepway because past data shows that they choose to do so at a certain point in their life.

8.4 So, following paragraph 2a 01516 of the PPG, there is insufficient evidence to depart from the official projections.

Market signals

8.5 Following the PPG, we have looked to see whether there is evidence of market pressure in Shepway which would require a market signals uplift. Our analysis shows that while Shepway did not meet previous housing delivery targets they did maintain a supply of land.

8.6 Despite this low delivery there was no clear sign of market signal pressures in the data. The most likely reason is that Shepway was demand deficient i.e. market demand for housing was too weak to exert any market signal pressures which would trigger a market signal uplift.

Jobs and houses

8.7 The PPG advises that:

> *'Where the supply of working age population that is economically active (labour force supply) is less than the projected job growth, this could result in unsustainable commuting patterns (depending on public transport accessibility or other sustainable options such as walking or cycling) and could reduce the resilience of local businesses. In such circumstances, plan makers will need to*

consider how the location of new housing or infrastructure development could help address these problems.'[29]

8.8 To address this paragraph of the PPG, we used an independent and 'policy off' economic forecasts. The baseline Experian forecast does not suggest that Shepway is labour market constrained so that providing the number of new homes and population would not result in 'unsustainable commuting' or 'reduce the resilience of local businesses'.

8.9 We do not therefore propose any jobs-led adjustment as part of the OAN.

Implications for the OAN

8.10 Arriving at an OAN is not an exact science. All data must be considered 'in the round' and the final OAN includes a large amount of professional judgement.

8.11 While most of the data suggests that the OAN could remain at the demographic starting point, with no market signal or economic uplift applied, in Shepway there is reasonable evidence to suggest that SDC should take a cautious approach towards the OAN. The most obvious concern is whether the demographic OAN, which was informed by a period of declining net migration and record high resident unemployment, is a sensible starting point to inform the next local plan review. Should demand for new homes prove to be higher in the future, then the OAN would be too low.

8.12 The PPG[30] allows the OAN to be adjusted from the demographic assessment of need should 'unusual circumstances' apply in the area. These are circumstances which make the plan-maker query the migration flows into the district and encourages the use of 'sensitivity tests' to adjust for these risks.

8.13 Some parallels can also be drawn from the PPG to remedy adverse market signals. In this case we cannot see adverse signals today; but should migration be underestimated in the official projections, then adverse market signals may emerge and the PPG remedy – to increase the supply of housing by a 'reasonable' amount – would be relevant.

8.14 Here there are three reasons why we may question whether the underlying migration assumptions in the official projections are a prudent basis for future planning in Shepway.

- Firstly; the record unemployment rate for Shepway residents in the ONS trend period, coupled with a sharp contraction in jobs in Dover in the recent past (with strong commuting links to Shepway) may have suppressed inward migration and/or encouraged higher outward migration. Although the jobs appear to have been lost in Dover rather than Shepway, this decline had a much greater effect on the Shepway resident economy than Dover's. So the housing market impact on migration flows and the housing market in general was felt much harder in

[29] Reference ID: 2a-018-20140306

[30] Reference ID: 2a-017-20140306

Shepway. With this 'resident economy' shock embedded in the past, migration flows into or out Shepway may change in the future.

- Secondly; the impact of HS1 (domestic) is likely to take time to become evident in the migration or commuting flows data used to inform the demographic analysis. It will take time for the economic impact on the Shepway workplace economy i.e. if it makes Shepway a more attractive place for business to be reflected in the data. This includes the trend-based data used to inform the 'policy off' economic projections.
- Thirdly and related to HS1; Shepway is now much better connected to London. Historic migration flows may change over time. HS1 domestic links improved accessibility across Kent but especially for Folkestone. For the Folkestone stations, journey time savings were much greater and the travel time to London is now below an hour. At the moment the data shows that the London–Shepway links are reasonably weak. But how these may shift in future is uncertain; especially with the prospect of London not meeting its own housings needs in full.

8.15 None of these factors could on their own justify an OAN uplift, nor can they be fully quantified to arrive at a new demographic scenario.

8.16 For market signals the PPG is not prescriptive on the scale of uplift other than it must be 'reasonable'. The PPG states that: *'market signals are affected by a number of economic factors, and plan makers should not attempt to estimate the precise impact of an increase in housing supply. Rather they should increase planned supply by an amount that, on reasonable assumptions and consistent with principles of sustainable development, could be expected to improve affordability, and monitor the response of the market over the plan period.'*[31]

8.17 The PPG only suggests the use of '*sensitivity testing, specific to their local circumstances, based on alternative assumptions in relation to the underlying demographic projections and household formation rates*'[32]. The scale of any uplift is therefore a matter of judgement.

8.18 In this case, we have a run two sensitivity tests with higher net migration flows:

- Our 10-year projection (04-14 Trends) allowed for a 18% increase in migration above the SNPP 2014 and requires 633 dpa (12% uplift).
- The 01-14 Trends increases migration by 28% and dwellings 18% (666 dpa).

8.19 If considered as a market signal uplift, following other inspectors' decisions, a 12% would be 'modest' and 18% greater than modest (approaching severe). Given there is no sign of market pressure today, a 18% uplift in housing need would appear excessive. Given we are future proofing the market on the prospect of possible higher migration flows, a uplift closer to a 10% adjustment is more reasonable.

8.20 Planning for a 10-year projection (633 dpa) level of new homes would also mean that the OAN broadly complies with the GLA advice to plan for a longer than CLG trend,

[31] Reference ID: 2a-020-20140306

[32] Reference ID: 2a-017-20140306

projection. The GLA generally encourages local authorities related to London to plan for need based on a 10-year projection in preference to a more volatile five-year projection. This is most obviously seen in the GLA response to the ongoing Swale examination in public.

Conclusions and recommendations

8.21 The OAN for Shepway is 633 dpa over the period (14,560 dwellings). This number has been revised upwards to reflect a market signals adjustment. Furthermore, working with Experian, we have tested whether this number of homes provides sufficient labour to meet economic needs and concluded that there is no need for any adjustment. Additionally, we have concluded that this OAN is sufficient to meet needs flowing from London to Shepway district.

Relationship to an updated assessment of affordable need

8.22 The household projections, corrected for market signals, and if met in full, provide for the full market demand for all housing regardless of tenure. In the PPG this is sometimes referred to as the 'overall housing need figure' and is reached by paragraph 20 of the PPG method, assuming the PPG method of assessing housing need is followed sequentially.

8.23 But the PPG also requires a separate policy-on calculation of the housing needs for certain groups of people starting in paragraph 21. This flows from paragraph 20 and provides a 'breakdown' of the overall housing needs figure.

8.24 Because this is a policy-on assessment, not looking at the demand for housing but instead what people ought to be provided; affordable housing need is not a direct component of an OAN assessment. However, it can be used to evidence an upward policy adjustment to the housing target following paragraph 29 of the guidance.

8.25 Because affordable housing need is not a component of the OAN we do not show this updated calculation in this report. Instead experts in affordable housing (HDH Planning and Development) have provided this in a separate and self-contained Part 2 report. It is for SDC to consider whether more new homes, over and above the 633 dpa, should be provided in the plan target to address affordable housing need through policy adjustments.

APPENDIX A DEMOGRAPHIC DATA

	ONS/CLG 2008	ONS/CLG 2012	ONS/CLG 2014	2001-14 Trends	2004-14 Trends	2009-14 Trends
Population (k)						
2001	96.3	96.3	96.3	96.3	96.3	96.3
2011	102.1	108.2	108.2	108.2	108.2	108.2
2014	104.5	109.7	109.5	109.5	109.5	109.5
2016	106.3	110.9	110.7	111.2	111.0	110.7
2021	111.0	114.3	114.2	116.1	115.5	114.0
2026	115.6	118.0	118.1	121.4	120.4	117.3
2031	119.9	121.5	122.1	126.4	125.0	120.1
2037		125.3	126.5	132.1	130.2	122.9
2039			127.9	133.9	131.9	123.7
2001-14	8,155	13,379	13,107	13,107	13,107	13,107
2014-37		15,570	17,053	22,635	20,736	13,415
pa		677	741	984	902	583
Households (k)						
2001	41.3	41.3	41.3	41.3	41.3	41.3
2011	45.1	47.5	47.5	47.5	47.5	47.5
2014	46.8	48.9	48.9	48.9	48.9	48.9
2016	48.0	49.8	49.9	50.1	50.0	50.0
2021	51.0	52.2	52.6	53.2	53.0	52.6
2026	54.0	54.7	55.4	56.4	56.1	55.2
2031	56.7	57.2	58.2	59.7	59.2	57.7
2037		59.9	61.3	63.5	62.7	60.3
2039			62.2	64.7	63.9	61.1
2001-14	5,499	7,541	7,590	7,590	7,590	7,590
2014-37		11,026	12,367	14,562	13,822	11,359
pa		479	538	633	601	494
Homes						
2014-37		11,606	13,018	15,328	14,550	11,957
pa		505	566	666	633	520