

Critique of West Midlands Housing Needs Assessments

Final Report

To CPRE Warwickshire

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Urban & Regional Policy

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Executive Summary

I have examined the housing needs reports for Coventry/Warwickshire and Greater Birmingham prepared by GL Hearn and Peter Brett Associates respectively, related reports and relevant Government policy and guidance. My analysis, evidence and findings are contained in the following pages. Key conclusions I would particularly draw to readers' attention are summarised below, with links to the more detailed content of this report.

Chapter 2: National policy and guidance for estimating local housing needs

1. The headship rates in the household projections rely on much longer-term trends than the corresponding population projection (20 years compared with 5 years). A crucial judgement in estimating 'objectively assessed need' (OAN) is whether the recent reduction in household formation is a 'blip' or the 'new normal'. If the latter, the 20 year reference period becomes a source of weakness, not strength, and OAN will be over-estimated. (paras 2.8, 2.9).
2. This report is intended to assist contributions to discussion of housing at public inquiries. As Inspectors must apply national policy the report is careful not to criticise the National Planning Policy Framework (NPPF), but rather points out inconsistencies between the aims of NPPF and their application through the lower status Planning Policy Guidance (PPG). (paras 2.13, 2.14)
3. PPG gives DCLG's household projections overwhelming influence, though these are merely trend projections. The implication is that the trends are either desirable or immutable. This is at odds with a central tenet of NPPF: the active role of planning in securing sustainable development. The approach also lacks robustness in the context of economic and social volatility. (paras 2.15-2.18)
4. PPG interprets the aim of housing policy as being equality between net growth in housing need and new housing provision. Since the real relationship between people and their homes is in terms of much larger numbers of people making choices from the whole stock of housing, there is a high risk of drawing false conclusions, in particular (para 2.19):
 - Newly-forming households can very seldom afford to occupy new houses;
 - Additional local housing will not necessarily accommodate more of the local workforce;
 - The volume of commuting does not depend on the balance between job and housing growth.

Chapter 3: Coventry/Warwickshire SHMA

5. Starting from the 2012-based DCLG household projections, consultants GLH arrive at an OAN of 4,272 dpa. This increase of 600-700 dpa above their own estimate a year earlier, is mainly from higher household formation rates, for which there is little evidence either way. (para 3.3)
6. The scale of the difference that has arisen within a single year, raises doubts about the reliability and robustness of the OAN as a basis for Local Plans with a 20-year time horizon. (para 3.5)
7. The OAN does not directly depend on employment growth, but is consistent with an optimistic view of job growth. If economic growth is lower than forecast that will have implications for affordability, for the retention of population, and so for the realism of OAN. (para 3.11)
8. The OAN implies a requirement for housing output 34% above the boom years 2001/2-2007/8, and more than double the 7 years since 2008. (para 3.12)
9. Viability of the OAN level of output cannot be judged site-by-site, as each and every housebuilder requires purchasers with funds (public or private) to buy their output, but they are all 'fishing in the same pond' for such buyers. (paras 3.13, 3.14)
10. From the late 1950s to 2008 private sector building in England has been in the range 125-150,000 pa, with only brief exceptions. Since 2008 this has stuck at around 90,000 pa. (para 3.15)
11. Rising house prices have made homes less affordable, in spite of low interest rates and support to mortgage lending. Shortages of land are not responsible for rising house prices: supply of housing land has been a government priority since 2007, permissions have exceeded starts by around 50,000 dpa since then and the current land banks of major builders exceed 800,000. (para 3.16)
12. Low output is symptomatic of the long-term changes in the distribution of incomes, particularly the disadvantages suffered by younger household forming age groups. (para 3.16)

13. 90% of the annual flow of housing needs is met by turnover of existing stock ('churn'). New households are mostly young and can seldom afford to buy or rent new, but depend on churn, particularly in cheaper areas. (paras 3.23 - 3.28)
14. First time buyers in the West Midlands pay on average £152k, while the average price of new homes is £229k and 'pre-owned' homes £202k – 51% and 33% higher respectively. (para 3.30)
15. 'Affordable housing' through planning obligations (up to 80% of market price/rent) is not affordable to many new households. Proposed starter homes in the recent Spending Review do not change that, and other measures (eg Right to Buy) are likely to make it worse. (para 3.31)
16. Planning Obligations and Community Infrastructure Levy unlikely to be adequate to finance services and infrastructure in locations not accessible to existing provision. (para 3.32).
17. There is likely to be a major gap between the OAN proposed in the SHMA and the capacity to deliver both market and affordable housing. (para 3.34, 3.35)

Chapter 4: Greater Birmingham Strategic Housing Needs Study

18. Consultants PBA propose an OAN of 10,524 dpa for the Greater Birmingham HMA. This is 62% above the average housing output over the last 14 years, 33% above 2001/2-2007/8 (7,895 dpa) and more than double that achieved 2008/9-2014/5. (paras 4.7-4.9)
19. The same conclusions (5-16 above) apply to the Greater Birmingham HMA as to Coventry/Warwickshire, and as in that case, the likelihood (17) of a major gap opening up between housing needs and the capacity to deliver housing. (para 4.13)
20. The impact on Coventry/Warwickshire is increased by PBA's conclusions on distribution that the increase of 200,000 houses over 20 years will require large scale urban extensions, and rolling back Green Belt. (paras 4.14, 4.15)

Chapter 5: Conclusions: OAN and sustainable development

21. A large gap between OAN and capacity to deliver is not compatible with the sustainable development requirements of NPPF because builders will choose the most profitable sites, generally greenfield (paras 5.1, 5.2), leading to:
 - A more dispersed pattern, more personal travel and increased car-dependency (para 5.3a);
 - High service and infrastructure costs once local capacity thresholds are exceeded (para 5.3b);
 - Diversion of limited public resources and attention from renewal of infrastructure and services within existing settlements (para 5.4);
 - Environment, services and infrastructure of existing communities deteriorating, leading to selective out-migration and further decline. This is particularly crucial for newly forming households depending on existing entry-level homes. (para 5.5)
22. Rising prices limit access to owner-occupation, and ensure that new housing will tend to be bought by people who are already housed, primarily those trading up. Only some of those most likely to buy new houses are relevant to meeting the labour needs of the local economy (para 5.6).
23. OAN at a level that is not supported by effective demand is particularly destructive of the housing opportunities available to newer, younger and less well-off households. Meanwhile, the housing that does get built in such circumstances is least likely to be conducive to 'sustainable development' as defined in NPPF. (para 5.7)
24. Allocation of land for housing is a one-way process; only *under-provision* can be corrected later, by making further allocations if the projection turned out to be too low. If there was *over-provision*, either because the projection was too high, or because land came forward more quickly than expected, no corrective action is possible. (para 5.9)
25. As well as being more difficult to correct, the risks associated with over-provision of housing land are very much more serious than for under-provision. (para 5.9)
26. 'Windfall' sites are continually being identified in urban areas, both through small-scale renewal of the urban fabric and large-scale shifts in the needs of industry, services and infrastructure. Planned allocations of new land are in addition to processes that continually recycle 'old' land. It may be easier to over-allocate than is general appreciated. (para 5.11)

27. OAN projections cover a 20 year period, but the mechanism set out in NPPF requires a 5-year supply at that rate immediately, and continuously. If set at too high a level the resulting damage is also immediate and continuing: penalties kick in for under-delivery against an unrealistic target, and the more unrealistic the target, the larger the penalty. (paras 5.13-5.14)
28. It is in the overwhelming interest of builders and landowners that the OAN should be as high as possible. *'People in communities'* are being crowded out by the esoteric nature of this discussion^{3.4n}, by the lack of consideration of measures to enhance the contribution of existing housing to meeting needs, and by the sheer number of bodies. (paras 5.15-5.19)
29. Rigid adherence to forecasts gives only the illusion of certainty, inhibiting necessary adaptations to new problems and unforeseen opportunities. The present system for setting OANs is the worst of all worlds: volatile projections within a rigid and unresponsive framework. (paras 5.20-5.24)

1 Introduction

This commission

- 1.1 G L Hearn (GLH) has carried out a Strategic Housing Market Assessment (SHMA) for the five Warwickshire districts plus Coventry. This is a critical input to Local Plans in the area and to a 'Memorandum of Understanding' on housing between the Coventry and Warwickshire local authorities and the coterminous Local Enterprise Partnership (LEP).
- 1.2 Peter Brett and Associates (PBA) are the consultants for a strategic Housing Needs Study commissioned by the Greater Birmingham & Solihull LEP and the Black Country local authorities, for an area approximating to the Greater Birmingham HMA. Although not formally a SHMA, it fulfils a similar function in terms of identifying needs, though going further in the direction of considering where development should be located. There are similar close relationships between the LEP and the local authorities concerned.
- 1.3 I have been commissioned to provide a critique of the estimation of Objectively Assessed Need (OAN) in both these studies, and of local authority proposals for housing provision. The main focus of the commission is on Coventry and Warwickshire, but there are strong economic and social linkages between these areas. There are Local Plans at varying stages of preparation in all of the local authority areas, and the critique is intended to provide input to CPRE's and other parties' contributions to local plans throughout.

Structure of this report

- 1.4 The remainder of this report is in four Chapters:
 - a) Chapter 2 explains the methodology of the current national projections of population and households, as the context for considering the validity of adjustments proposed in the relevant housing needs studies. It comments on the inherent tensions between the aims of the National Planning Policy Framework and the Planning Policy Guidance on housing that directs the content of SHMAs and determines the methodology of OAN estimation.
 - b) Chapter 3 examines in detail the application of the most recent official household projections to the estimate of OAN in the Coventry-Warwickshire SHMA. It goes on to consider the deliverability of the proposed OAN in the likely economic and social circumstances, local and national.
 - c) Chapter 4 considers the same issues in relation to the Housing Needs Study for the Greater Birmingham HMA, with particular reference to how its proposals for meeting needs impinge on local planning in the Coventry and Warwickshire local authorities.
 - d) Chapter 5 considers the compatibility of the OANs for Coventry-Warwickshire and Greater Birmingham with the principles of sustainable development set out in the National Planning Policy Framework.

2 National policy and guidance for estimating local housing needs

From national projections to local needs

National Planning Policy Framework (NPPF)

- 2.1 The introductory sections of NPPF make clear that purpose of the planning system is to further the economic, social and environmental dimensions of ‘sustainable development’ (paras 6 and 7). It stresses (para 8) that because of their mutual dependence, *‘to achieve sustainable development, economic, social and environmental gains should be sought jointly and simultaneously through the planning system’* which *‘should play an active role in guiding development to sustainable solutions’*. NPPF headlines the five ‘guiding principles’ of sustainable development from The UK Sustainable Development Strategy:
- a) living within the planet’s environmental limits;
 - b) ensuring a strong, healthy and just society;
 - c) achieving a sustainable economy;
 - d) promoting good governance; and
 - e) using sound science responsibly.
- 2.2 Within this general strategic orientation, policy for provision of land for housing through the local planning process is set out in Chapter 6 of NPPF. This requires Local Plans to:
- a) Make provision for *‘full, objectively assessed needs for market and affordable housing in the housing market area’* (usually abbreviated to OAN and HMA respectively);
 - b) Identify and annually update a supply of *‘specific deliverable sites’* sufficient for 5-years’ worth of housing at the required annual rate, and a supply of specific, deliverable locations for years 6-10 and (where possible) years 11-15;
 - c) Set out an *‘implementation strategy for the delivery of land for the full range of housing’*, and *‘a housing trajectory for the plan period’* illustrating the expected rate of delivery.

Planning Policy Guidance (PPG)

- 2.3 NPPF requires a Strategic Housing Market Assessment (SHMA) to determine an appropriate Housing Market Area (HMA) – generally covering a number of Local Plan Areas – and to estimate OAN in relation to this. Planning Policy Guidance (PPG) on housing sets out the process for estimating OAN. Unlike NPPF, PPG does not have the status of national policy, and can change from time to time by administrative decision¹.
- 2.4 PPG specifies the latest official household projections by DCLG as the baseline for estimating OAN. These in turn are based on subnational population projections (SNPPs) for local authorities by the Office for National Statistics (ONS). The ONS and DCLG projections are intended to be ‘policy neutral’: they take past trends and project them forward on the assumption that the same policies and processes are in place in both the past ‘reference’ period and the future ‘projection’ period. They do not estimate the impact of policies yet to take effect. Local adjustments may be proposed to the official projections but PPG states that they must be *‘reasonable...consistent with the principles of sustainable development and ... be expected to improve affordability’*.

ONS subnational population projections (SNPPs)

- 2.5 SNPPs are produced every 2 years, based on mid-year estimates of population by local authority area (MYEs), and going forward incorporate trends in fertility, mortality and migration over the previous 5 years. These local estimates are added up and adjusted pro rata (‘controlled’) to the estimated totals at national level. Crucial points for the present purpose are:

¹ The version current at the time of writing is at www.planningguidance.planningportal.gov.uk ‘Methodology: assessing housing need’ (revised 6 March 2014)

- a) The current SNPP are 2012-based and go forward 25 years to 2037. The population of England is projected to grow by 7% by 2022;
- b) The migration trends used in MYEs and SNPPs are based on international travel statistics, Higher Education student statistics and NHS registrations over the reference period (2007-2012);
- c) The smaller the area, the more significant local migration becomes as a proportion of population change. NHS and Higher Education statistics are used to study local migration, but it is recognised as the most difficult component of change to estimate;
- d) Provision of housing is a particularly important driver of local migration, meaning there is a danger of circularity. A projection of households based on past population trends will be influenced – up or down – by housing provision during the reference period;
- e) The 2011 Census provided an opportunity to check MYEs of population against its counts, showing significant differences in many areas, including the present case. These unattributed population changes (UPCs), were the subject of many creative adjustments to the 2011-based series. However, they have been the subject of a study by ONS², which concluded that because the 2012-based SNPPs are fresh forecasts, with reference period MYEs adjusted for the 2011 Census, they should *not* be adjusted for UPCs.

DCLG local household projections

- 2.6 DCLG publishes household projections for each local authority district. These take the corresponding population projection (2012-based SNPP) as their base and applies local ‘headship rates’ to each 10-year age cohort. The reference period for headship rates is 20 years, with trends for each age, sex and marital status group projected forward from 1991, 2001 and 2011 Censuses and Labour Force Survey data, and applied to the SNPP projected local population.
- 2.7 Where students are a significant part of the local population their effect on household projection depends on how they are currently accommodated. If in purpose-built student accommodation they are treated as ‘institutional’ and not counted for household projection purposes – otherwise they are. Unless specific policies exist to increase student accommodation in line with higher and further education intakes past trends in household formation will be assumed for the non-institutional element of this age group.
- 2.8 The headship rates in the household projections rely on much longer-term trends than the corresponding population projection (20 years compared with 5 years). This reflects an assumption that trends in changing headship with age are less volatile than changes in patterns of migration. However, the 2011 Census marked a significant turning point in household formation: the long-term decline in average household size appeared to have ended, at least temporarily³. While the projection takes account of the reduction in new household formation following the global economic events of 2007/8, this is only about a quarter of the 20 year reference period.
- 2.9 A crucial judgement in the estimation of the number of future households is whether this recent experience is a ‘blip’ or the ‘new normal’. If the latter, the very long reference period becomes a source of weakness, not strength, and household formation (and so OAN) will be over-estimated.

² ONS (2014) *Report on Unattributable Population Change*

³ It is important to note that ‘average household size’ is a mathematical construct, not an independent statistic. While it can be projected, this is only useful for descriptive purposes, and has no explanatory power. The ‘lower than trend’ result of the 2011 Census is a single number, and does not of itself tell us the direction of any future trend

Guidance on the use of projections

- 2.10 PPG implies a cautious approach to local adjustments of the official household projections: *'The household projections produced by DCLG are statistically robust and are based on nationally consistent assumptions. However, plan makers may consider sensitivity testing, specific to their local circumstances, based on alternative assumptions in relation to the underlying demographic projections and household formation rates. Account should also be taken of the most recent demographic evidence including the latest Office of National Statistics population estimates.'*
- 2.11 PPG identifies a number of headings under which adjustments may be considered, to reflect:
- Sensitivity testing against alternative assumptions about underlying demographics, though any local changes are supposed to be clearly explained and justified;
 - Employment trends for the housing market area, with implications for cross-boundary migration and commuting considered under the duty to cooperate;
 - Projections may be adjusted to reflect a range of 'market signals', including land prices, house prices, rents, affordability, past over- or under-delivery against plans, and overcrowding.
- 2.12 PPG states that market signals indicating worsening affordability trends will require upward revision relative to the official projection (and the larger the problem, the larger the adjustment). However, plan makers should *'set this adjustment at a level that is reasonable'*. Plan makers *'should not attempt to estimate the precise impact of an increase in housing supply'*, but rather should *'increase planned supply by an amount that, on reasonable assumptions and consistent with the principles of sustainable development could be expected to improve affordability, and monitor the response of the market over the plan period'*.

Some comments on current Planning Policy Guidance

PPG versus NPPF

- 2.13 The remit of the Inspector in a local public inquiry (LPI) is to report to the Secretary of State on whether the Local Plan is consistent with national policy. For this purpose the Inspector must (in the unusually graphic legal phrase) 'stand in the shoes of the Secretary of State'. There is no point, in the LPI context, in disagreeing with national policy as such – the Inspector cannot take that into account. Since one of the main purposes of the present report is to provide CPRE and other local interests with evidence that they can make use of in Local Plan public inquiries, this report is careful not to criticise the aims of national planning policies for housing as set out in NPPF.
- 2.14 The current NPPF⁴ was approved in March 2012, and the foreword was signed personally by the present Secretary of State, Greg Clark, in his then role as Minister for Planning. We therefore have an unusually clear indication that NPPF as whole has his endorsement, and in particular that the points made in the Foreword reflect his personal views. Thus where there is conflict with NPPF in the way that PPG is applied, the Secretary of State's personal commitment may be worth drawing to Inspectors' attention.

Trends versus policies

- 2.15 Several such conflicts arise from my detailed examination of the housing needs assessments for the Coventry/Warwickshire and Greater Birmingham HMAs, and these are dealt with at the appropriate points in subsequent chapters. However there is broader issue arising directly from the status given by PPG to DCLG household projections, and their technical provenance as described in this chapter. The conflict here is with PPG itself, which (though not having the status of NPPF) still akes it more difficult for an Inspector to handle.

⁴ On 8 December 2015 the government published consultation proposals for changes to NPPF. Most of these are aimed at implementing proposals for 'starter homes' announced in the November 2015 Spending Review, and will be discussed later in this report. None of the changes affect the assessment of housing needs.

- 2.16 The DCLG household projections show what happens if the trends in the relevant reference periods (the previous 20 years for household formation and the previous 5 years for local population change) were to continue throughout the projection period (10 years for the 2011-based series and 25 years for the current 2012-based series). While these projections are not themselves policy, they have an overwhelming influence on what local policies can be adopted:
- NPPF makes clear that housing land provision below the projected increase in need would require exceptionally strong justification (such as physical lack of space, or national designations such as AONB), and would also require agreement with other neighbouring local authorities to accommodate the shortfall.
 - For housing interests seeking increases in provision of housing land the projections are the starting point. In virtually all cases that have been through LPI increases above the projections have in fact been approved.
- 2.17 The implication is that these past trends are either regarded as the minimum desirable, or (if undesirable) incapable of reduction by any feasible policy means. This poses a significant difficulty for realisation of a central tenet of NPPF: that *'economic, social and environmental gains should be sought jointly and simultaneously through the planning system'* which *'should play an active role in guiding development to sustainable solutions'*. Unless past trends have been in a direction favourable to sustainable development, trend planning is likely to be the negation of the active role for planning espoused in principle by NPPF.
- 2.18 In addition to this point of principle, there is a methodological objection to giving past trends such strong influence. At a time of volatile social, economic and environmental changes, such as has been the case over the last decade the past may not be particularly helpful guide to the future. This point will be returned to in the more detailed critiques that follow.

Net changes versus real people

- 2.19 There is a further feature of PPG for housing that exacerbates the problems of trend planning. Targets for housing provision are based on the premise that the increase in housing provision (achieved mainly through new building) should be equal to the projected net gain in the numbers of households. However, 'net households' (like 'net migrants' and 'net commuters') are mathematical abstractions, typically the difference between much larger flows of real people (in and out of the area and through life-stages respectively). False conclusions may be drawn by treating these abstractions as though they are actual people, in particular:
- a) *That an increase in housing needs is met by new homes.* In fact 90% of all housing transactions (and virtually all of those involving newly-formed households and lower-paid workers) are accommodated by existing homes changing hands,. New homes provided by private house builders are targeted mainly on existing home owners and higher-paid workers because they are more able to afford the market price.
 - b) *That new local housing will accommodate an equivalent increase in labour demand.* In fact lower-paid workers will depend largely on buying or renting cheaper existing homes. Higher paid workers can choose from the whole stock (new and existing), and the level of new housing provision makes comparatively little difference to the choice available to them. Whether they will be attracted depends more on factors like environment, schools and social cohesion than the numbers of new houses.
 - c) *That an increase in local jobs that is greater than new local housing capacity will result in more commuting.* In fact, though net commuting (the difference between in- and out-flows) may increase, the volume of travel depends on the sum of these flows. Both in- and out-flows will independently be affected by the match with all workers' housing needs offered by the whole stock of housing. As noted above, new housing is a relatively minor factor in this.
- 2.20 The consequence of these considerations is that the numbers of new houses only weakly and indirectly affect whether the needs of newly-arising housing are met, the supply of labour

and volume of travel demand. Far more significant in all these respects are the nature of new housing provision (particularly its price), and the nature of the much larger range of choices offered by the turnover of homes in existing settlements and neighbourhoods. These observations form the backdrop to the specific critiques of the Coventry/Warwickshire and Greater Birmingham housing need assessments in the two chapters that follow.

3 Coventry/Warwickshire SHMA

Estimation of ‘objectively assessed need (OAN)

- 3.1 This Chapter critically examines how the SHMA has applied the PPG. For this purpose I have relied primarily to the ‘Updated Assessment of Housing Need: Coventry & Warwickshire’ (GL Hearn, September 2015, para references in this report are prefixed ‘GLH’). This takes account of DCLG’s 2012-based household projections (Feb 2015) and up-dated economic forecasts by Cambridge Econometrics (March 2015). The previous version predated current PPG, and relied on earlier evidence, particularly 2011-based household projections and Experian employment forecasts (both 2013). This resulted (GLH 2.26) in a projected housing need (OAN) for 3,700-3,800 dwellings per year (dpa)⁵.
- 3.2 GLH accept that the 2012 DCLG projections provide a sound basis for estimating OAN. In the revised SHMA, starting from the 2012-based DCLG household projections, GLH arrive at an OAN of 4,272 dpa. The main adjustments proposed to the 2012-based projections are set out in Figure 1 below.

Figure 1: GLH adjustments to DCLG projections of housing need 2011-31

Estimation of OAN	Housing needs dpa ¹
Start: 2012-based DCLG household projections (GLH 2.2)	3,946
• Add 3% for vacancy and second homes (GLH 2.2)	+125
• Adjust for higher household formation (mainly in Coventry (GLH fig 57)	+151
• Adjust for improvement in affordability (GLH 7.45-48, Table 51)	+75
End point: OAN (GLH 7.50)	4,272²
Notes: 1. Housing need = net additional projected households + allowances for vacancy and second homes, expressed as dwellings per annum (dpa) 2. Sum of adjustments identified is 4,297 (27 dpa above stated OAN)	

- 3.3 This is an increase of 472-572 dpa above their previous estimate, in spite of the fact that the difference between the DCLG 2011- and 2012-based projections for the HMA is equivalent to a 127 dpa decrease. Without a detailed analysis of the now superseded SHMA and 2011-based projection, it is not clear how such a large discrepancy (600-700 dpa) could have arisen, but it seems likely that it is mainly the result of a less expansionary view at the earlier date about the recovery of household formation rates (as discussed above, para 2.8, 2.9). As pointed out there, there is little further evidence at the present time about the future direction of these crucial household formation trends⁶.
- 3.4 It is worthy of notice that the 2012-based SNPP for Coventry includes significantly high net international migration of about 4,100 persons pa, right through to 2037 (ONS Table Z7). This is essentially a speculation: trends in migration from past locations may or may not continue; on the other hand the refugee crisis in the Middle East may have repercussions here. If the net figure is considered unrealistically high, the baseline of the 2012-based household projection would also be affected.
- 3.5 The scale of the difference that has arisen within a single year, largely on matters of opinion rather than evidence, clearly raises doubts about the reliability and robustness of this OAN as a basis for Local Plans with a 20-year time horizon.

OAN compared with employment forecasts

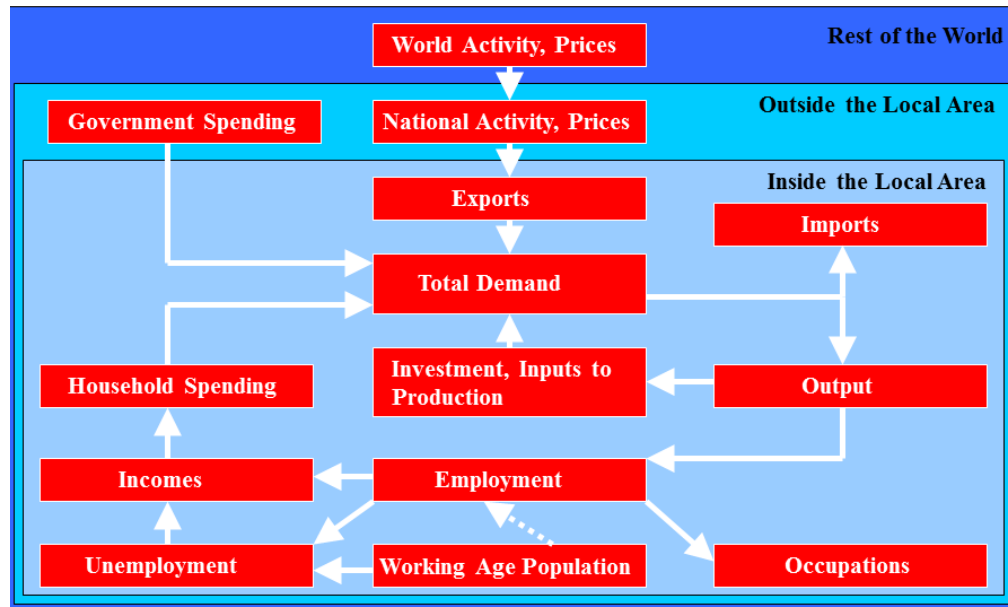
- 3.6 The SHMA draws on a range of models, from Experian and Cambridge Econometrics, for an examination of the relationship between population and housing growth and jobs growth.

⁵ GLH add allowances for second homes and vacancy (generally about 4%) to the household projections to arrive at housing need

⁶ For Warwick the ONS 2014 population estimate, when related to housing stock, suggests household formation is not recovering at the rate assumed in the 2012-based projections (R Bullen, personal communication)

Though none of these is described in technical detail, the middle of the range Cambridge Econometrics model was used contemporaneously in the Oxfordshire SHMA to produce a 'Baseline' forecast of jobs on the basis of trends embedded in inter-sector relationships over the preceding 15 years. The structure of this model is illustrated in Figure 2, and it can be reasonably assumed that similar rationale and assumptions were applied in this case.

Figure 2: Cambridge Econometrics Local Economic Forecasting Model



3.7 As with the population and household projections, we must note that the major economic discontinuity of 2008 took place towards the end of the 15 year reference period. There must be serious concerns about how well a model which is based upon continuation of relationships over this period can represent the future, particularly as the repercussions are still being played out. The assumptions built into the model are:⁷

- In the medium term, global growth is expected to accelerate slowly from the historically low levels of 2012 and 2013, with strong growth in China, India and the oil-producing countries making a greater contribution to the global economy. GDP growth in Europe will accelerate very slowly, with the EU15 economies expected to a return to modest growth (¼%) in 2015;
- Over the long term, world GDP growth is expected to accelerate to 4½% pa, with emerging Asia, the EU12 and the economies of some other developing countries leading the way. The US will be just behind, growing at 2-2¼% pa, with the EU15 and Japan much further behind;
- Within the UK employment is expected to fall until 2016 as a consequence of public spending cuts;
- Productivity (output per head, and so indirectly, wages) are expected to grow in line with historic trends.

3.8 The growth in employment estimated by the local economic models ranges between 0.6 and 0.8% pa – similar to national projections using parallel methodologies (0.7%, GLH 4.52). While the aspiration this represents can only be applauded, the result seems surprising in the context of past lower than national growth rates and the skills shortages that dog the region.⁸

⁷ information received by e-mail from Cambridge Economics on 19 May 2014

⁸ See R Martin, A Pike, P Tyler, B Gardiner (2015), *Spatially rebalancing the UK economy: the need for a new policy model*, Regional Studies Association

The underlying assumptions set out above about the international economic context also seem unduly optimistic.

- 3.9 A large proportion of employment in Warwickshire is ‘population-related’ (such as retail, leisure, education, personal services and health) so the adjustments made to the baseline population projections feed through into increased employment. However, much of this employment is in the public sector, which is undergoing contraction.
- 3.10 Surprisingly, none of the growth rates quoted above is compared with actual past performance. While the LEPs are playing an active role in promoting economic development, it must be remembered that they are doing so with much less money and other resources than the former Regional Development Agencies, and in a tougher economic context, globally and nationally.
- 3.11 The OAN applies to the HMA as a whole, rather than on employment at District level, but if more local job growth is lower than forecast it will have implications for local affordability and retention of population, and ultimately therefore the realism of the OAN at HMA level. The distribution of growth is also important to the provision of services and infrastructure (especially transport), and to the sustainability of the pattern of development. These issues will be discussed in Chapter 5.

OAN compared with past output

OAN in the context of local housebuilding

- 3.12 Housing output by District over the last 14 years is shown in Appendix Table A1. In the 7-year period 2001/2-2007/8 (boom years) average annual output was 3,182 dwellings, while in the 7 years 2008/9-2014/5 output averaged 1,849 dpa. At 4,277 dpa, the OAN for housing is 34% above the former and more than double (130%) the latter.
- 3.13 The level of housing output needed to meet the OAN is thus challenging in term of past performance, but is it so far beyond the bounds of probability as to breach the NPPF requirement for deliverability? This question is usually posed on a site by site basis when considering the selection of sites from within (or beyond) the Strategic Housing Land Assessment (SHLA).
- 3.14 However, regardless of such site-specific issues, housebuilders all require purchasers with funds to buy their output, whether they are public bodies or private individuals (with or without support of public funds). In these terms they are all ‘fishing in the same pond’. New building in the national context, and the role of existing stock in meeting housing needs and aspirations, are both relevant and are dealt with next.

OAN in the context of national housebuilding

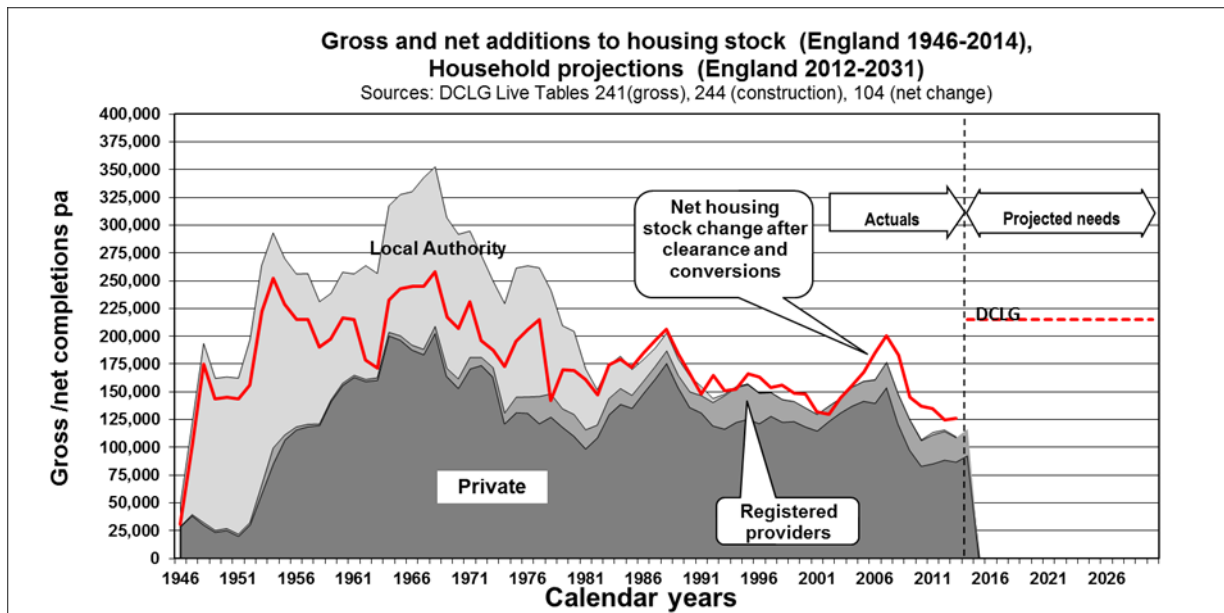
- 3.15 The DCLG 2012-based household projection gives a net increase in housing needs for England of 215,000 pa over the period 2011-31. Figure 3 puts this into the perspective of housebuilding since 1947. It can be seen that for 50 years (the late 1950s to 2008) private sector building has (apart from the mid-60s and a much briefer period in the mid-80s) been in the range 125-150,000 pa. Since 2008 private completions have been stuck at around 90,000 pa.
- 3.16 This lower level of effective demand for new homes has persisted in spite of low interest rates and measures to support mortgage lending, and is reinforced by the continuing general rise in house prices making them less affordable. There is no evidence that shortages of land are responsible for high and rising house prices. An increased supply of housing land has been a priority for successive governments since 2007, and permissions have exceeded starts by around 50,000 dpa since at least then⁹. A recent analysis of the company reports of the

⁹ Housing Vision and Tibbalds (2015) *Smarter SHMAs*, DCLG Planning statistics analysed for CPRE

nine largest builders showed land banks with capacity of over 600,000 units¹⁰. New homes are in any case too small a part of the market for low output to drive prices (see paras 3.233.22-3.243.24 below). Rather than low output driving higher prices, effective demand for higher output is inadequate because prices are too high to be affordable.

- 3.17 There are good reasons for believing that low output is symptomatic of the long-term change that has taken place in the distribution of incomes. The particular disadvantage of younger household forming age groups is discussed in greater depth later (paras 3.25-3.28). Unless the root cause of low effective demand is tackled, adding to land supply will have little effect on output.

Figure 3: Housing provision (England, 1947-2014 and projected needs 2011-31



- 3.18 The periods of highest overall housing output were between 1950 and 1980, and depended upon very active programmes of social housing, mainly by local authorities. Far from 'crowding out' private housing, as suggested by the then Government, these went hand-in-hand).
- 3.19 New building is only part of the supply picture. The red line on Figure 3 shows the net effect on housing stock after clearance and conversions. Large scale clearance programmes took place until the 1980s, reducing the overall housing gain; but these came to a close and since 2000 comparison of stock estimates with new build suggests a net gain nationally from conversions and subdivisions of up to 20,000 pa over remaining clearance. This is a significant contribution in the context of current levels of new building, but is not referred to in the housing studies considered here.
- 3.20 It is clear that a realistic response to OAN, at whatever level is estimated, will require substantial programmes of subsidised housing. Planning obligations are under pressure, very little direct public housing provision is proposed, and Housing Associations and local authorities are to be required to dispose of their best quality stock. This issue will be returned to in the next section, together with the Chancellor's announcement of a 'starter home' programme in the Comprehensive Spending Review of November 2015 (para 3.31d).
- 3.21 The issue of adequacy of the (mainly public) resources required to provide local services and infrastructure is dealt with later on (Chapter 5).

¹⁰ Guardian 30 Dec 2015 – a further 18,000 acres (enough for around 200,000 units) held by Persimmon is not included, nor strategic reserves (eg land under option) nor land holdings of other house builders (including housing associations and public bodies)

The role of existing housing in meeting needs

- 3.22 Until the Housing White Paper of 2007 the ‘key goal’ of housing policy was expressed in terms of the whole stock *‘to ensure that everyone has the opportunity of living in a decent home, which they can afford, in a community where they want to live’*¹¹. Much of the discussion of housing since then has focused on the much narrower issue of the output *new homes* relative to the *net increase* in households. NPPF and the current housing PPG belong to this school, and the SHMA is its apotheosis¹².
- 3.23 Figure 4 below presents new housing in the context of the total stock and the annual flow of sales. It can be seen that although the volume of transactions has changed, the turnover of existing stock (‘churn’) has been almost 90% of the private market, both before and since the financial crisis that began in 2008. The rented sector (private, Council and Housing Associations) is even more dependent on churn to meet needs, since new output is proportionately lower and patterns of occupation more volatile, especially in younger age groups.

Figure 4: Housing stocks and flows, England, 2006 and 2011

	2006	2011
1. Total, all tenures (m)	22.07	22.98
2. Private/owner-occupied (m)	15.05	14.82
3. Annual private sales (m)	1.22	0.625
4. Of which, new houses (m)	0.140	0.085
5. Annual sales as % of stock	8.11%	4.22%
6. New as % of all sales	11.5%	13.6%
7. Existing as % of all sales (‘churn’)	88.5%	86.4%
Sources: 1, 2 & 4 – DCLG Housing Live Tables 104, 213, 244; 3 – Council of Mortgage Lenders; 5 = 3÷2; 6 = 4÷3; 7 = 100-6		

- 3.24 A useful shorthand is that across all sectors churn accounts for around 90% of annual housing choices, and that is used as a rule of thumb in this report. This has important, but often neglected, implications for the provision of land through the planning system:
- Because only 10% of the annual flow of housing onto the market is new, prices are very insensitive to the volume of new build
 - Although 90% of the market is second-hand, the expectation is that values will increase.
 - Making more finance available both directly (eg ‘Help to Buy’) and indirectly (eg Quantitative Easing) fuels further rises in prices and encourages sub-prime lending.
 - The attraction to builders of increasing allocations of land is the freedom this gives them to develop the most advantageous sites for these markets. More land has been accompanied by declining output of houses, while house prices have resumed their former rise.
 - The divergence between net growth in housing needs (as expressed by official projections based on past trends in household formation) and effective demand for new houses (demand backed by funds, including from public and private landlords) has exacerbated these tendencies.

Housing needs and affordable housing

How housing needs arise

- 3.25 The process of estimating housing needs set out in PPG and followed by the SHMA has been in use by DCLG and its predecessors for at least 40 years. In essence it compares the

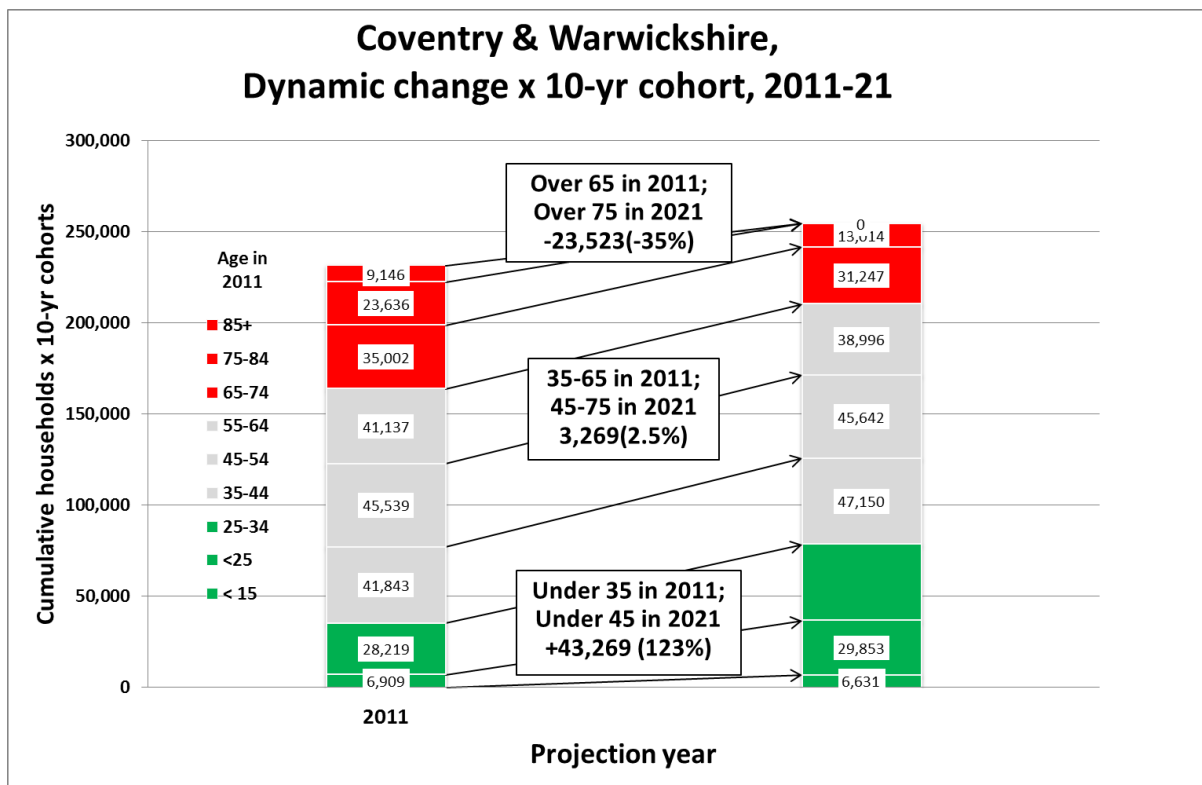
¹¹ DCLG (2006) *‘Planning Policy Statement 3: Housing (PPS3)’* para 9

¹² The whole stock approach lingers in the PPG’s approach to affordable housing. This considers flows such as re-lets, perhaps dating from when SHMAs were mainly about estimating needs for social rented housing.

projected *net increase* in households with the supply of *new housing*, on the premise that for needs to be met these two numbers ought to be in balance. In the long run, and at a national or regional scale that may be true, but the implicit assumption that the new houses in some way meet the needs of the new households is not true (as discussed earlier paras 2.19-20).

3.26 The net change approach, outlined above, effectively compares ‘snapshots’ of need at start and end dates, and examines the net changes between them. This does not illuminate the dynamics of household formation, any more than snapshots of a river at two dates tells us anything about how rainfall or drought upstream will affect the water level. Figure 5 below examines the flow of age groups through household formation in the Coventry and Warwickshire HMA, so as to display the dynamic processes (the detailed numbers are given in Appendix 2).

Figure 5: Household formation and aging – HMA 2011-21 (DCLG 2011-based series)



3.27 This analysis uses the 2011-based series because an age-group breakdown has not been published for the 2012-based series¹³. However, though the detailed figures might be slightly different, the pattern will be much the same:

- a) The major driver of household formation is (not surprisingly) younger people growing up – ‘household representatives’ under 35 in 2011 are projected to increase by over 120% (43,000) as they become the under-45s of 2021;
- b) The over 65s of 2011 decrease by a third (23,000) as they become the over 75s of 2021;
- c) By comparison, the numbers of the in-between group – 35-65 in 2011, 45-75 in 2021 hardly change (+2.5%).

3.28 New households are thus mostly young and can seldom afford to buy or rent new, but depend rather on turnover of existing stock, particularly in cheaper areas. Builders’ rhetoric is about meeting housing needs, but their practice (reasonably enough) is to sell to people with money to pay – overwhelmingly those with a house to sell. Newly forming households are very seldom in this market.

¹³ This information was published on 3 December 2015, too late for this report, but a preliminary analysis at national level reveals no differences affecting the broad conclusions drawn here.

House prices and new households

- 3.29 Following the PPG process, the SHMA projects a net need for affordable housing of 1,462 dpa (GLH 7.32, Table 50), stating that “*This represents the level of housing provision which would be needed if all households who required some form of financial support were to be allocated an affordable home.*” However, they consider that household formation in the post 2008 part of the reference period for the 2012-based DCLG projection will have been suppressed by low incomes, thus understating potential future growth, particularly in the 25-34 age group. The adjustment they propose would add a further 75 dpa to the OAN, representing bounce-back of affordable housing needs ‘supressed’ by lower household formation during the economic downturn (GLH 7.35-7.48). These become 4,272 and 1,537 dpa respectively, with affordable housing needs at 36% of the total.
- 3.30 The previous section of this Chapter demonstrated that ‘new households’ are overwhelmingly the youngest age group. This is the age group that has suffered most from shifts in the distribution of incomes over the last decade, as recognised by GLH. They form the bulk of ‘first time buyers’, and this is reflected in the prices they pay, summarised in Figure 6. The average price of new dwellings in the region is £229k and ‘pre-owned’ homes £202k – 51% and 33% respectively above the average price paid by first time buyers (£152k). Thus new households seeking to meet their needs by purchase will primarily be looking at the lower end of the market generated by churn, rather than at new housing.

Figure 6: Average house prices, 2015 Q2 (£k)

Area	New	Pre-owned	First-time buyer	Previous o/o
England	294	280	212	336
West Midlands	229	202	152	250
South East	373	343	248	409

Source: ONS House Price Index, July 2015, Table 11

Meeting needs for housing not met by the market

- 3.31 The conventional response has been to seek quotas from housebuilders for provision of affordable housing by way of Planning Obligations under s106 of the Planning Act. In the present case the average quota would have to be 36%, and this is comparable with what has been proposed in a number of Local Plans across the country. However, there are other factors to take into account:
- ‘Affordable housing’ is defined for planning obligation purposes as up to 80% of market price or rent (and builders would clearly seek to be as close to this upper limit as possible). It is clear from the house price figures above, as well the analysis of local incomes, prices and rents in the original SHMA (GLH, 2013, Ch 8) that the 80% level would not in fact be affordable to many of the newly-forming households that are the target of such provision.
 - The government has for some time been encouraging negotiated reductions in affordable housing requirements in new developments in order to increase output. Although a recent Court judgement has suggested the ending of the exemption of small developments from affordable housing quotas, which might lead to an increase in such provision, this is being appealed by DCLG.
 - The recently published Housing and Planning Bill would require local authorities and Housing Associations to sell off their better stock – and the general ‘Right to buy’ continues. This may help meet some demands for owner-occupation that would not otherwise be met, but would increase the need for subsidised rental housing, making a credible delivery mechanism even more crucial.
 - The Housing and Planning Bill also proposes a requirement for ‘starter homes’ to be provided in Local Plans. The Chancellor announced in his Comprehensive Spending Review that the housing budget would be doubled from 2018/9 to over £2 bn pa, to

deliver 400,000 affordable homes (including starter homes) by the end of the decade¹⁴. However, the total implied cost to the Exchequer of about £8 bn (£1bn pa 2017/7 to 2017/8; £2 bn pa 2018/9 to 2020/1), gives a cost per unit of some £20k. It is clear that actual output will continue to depend, to a very major extent, on other existing sources such as Planning Obligations.

- e) From within this budget, direct provision is proposed by government of some 13,000 dwellings at Thamesmead. Though the timing, price, tenure and target market are still unclear, this is perhaps indicative of (well merited) unease about whether the private sector is willing or able to deliver the amounts of housing required by national household projections (still less the higher numbers in SHMAs).

Services and infrastructure for new housing areas

- 3.32 A further issue concerns the financing of provision for additional services and infrastructure associated with new housing, particularly in locations not easily accessible to existing provision. Transport is the most obvious example, but local education and health services also come under pressure. Research by Sheffield University¹⁵ showed that in 2007/8 s106 contributed about £60k per dwelling towards infrastructure and affordable housing. However, that was almost certainly the peak: since then the declining viability of housing development has put these sources under increasing pressure. The amounts raised by way of Planning Obligations, Community Infrastructure Levy and central support since then have not generally met these needs¹⁶ (a major reason for ‘NIMBYism’), and both market and public fiscal pressures are in a downwards direction.
- 3.33 In the light of the summary above, most of the need for affordable housing will not be met by any of the measures currently proposed. No information about the level of affordable housing provision that has been achieved in the past is given in either the original or the updated SHMA. The former merely states *“Where it is feasible to do so, the Councils should aspire to meet these needs. However, it should be recognised that the Councils’ abilities to do so will be influenced by the available funding for affordable housing and what level of affordable development is achievable through other routes, including through Section 106 Agreements. The private rented sector may continue to play some role in accommodating households with an affordable housing need, as it does today”*.

Summary

- 3.34 This Chapter has demonstrated the likelihood of a major gap opening up between the OAN proposed in the SHMA and the capacity to deliver both market and affordable housing. Overall housing output would have to more than double from an average of 1,850 dpa over the last 7 years to 4,272 dpa over the next 20 years, which is also 34% more than achieved during the relative boom conditions of 2001-8. 36% of the output would need to be in the form of non-market housing (social rented, or for sale or letting below 80% of market value). There is no evidence that these levels of output will be forthcoming for either market or non-market housing.
- 3.35 Even on the assumption that ‘business as usual’ will return over the next few years, a 20 year forward view would cover at least two complete economic cycles. A more implementable (though still aspirational) level of provision on the ‘business as usual’ assumption would be somewhere between that achieved in the boom conditions of 2001-8 (3,182 dpa) and the relatively lean years since then (1,856 dpa) (Appendix Table A1). The midpoint of that range (c 2,500 dpa) has some prospect of being supported by effective demand (public or

¹⁴ These figures come from the Chancellor’s speech and the text of the DCLG’s CSR settlement.

¹⁵ Crook et al (200)

¹⁶ The Local Plan documentation for Horsham proposed £25k per dwelling, and at the Horsham LPI this was suggested to be a fairly typical level now, even in the relatively prosperous South East.

private). Any higher level would mostly have to take the form of social housing, and if proposed would need to be accompanied by realistic measures for financing such provision.

- 3.36 The implications for sustainable development are considered in the final Chapter, following a brief discussion of the significance for Warwickshire of the Greater Birmingham Housing Needs Study.

4 The Greater Birmingham Strategic Housing Needs Study

Estimation of 'objectively assessed need (OAN)

Housing market areas

- 4.1 Peter Brett Associates (PBA) was commissioned by the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) and the Black Country Authorities. These commissioning bodies jointly cover the local authority areas of Birmingham, Bromsgrove, Cannock Chase, East Staffordshire, Lichfield, Redditch, Solihull, Tamworth, Wyre Forest, Dudley, Sandwell, Walsall and Wolverhampton.
- 4.2 Compared with the commissioning group of local authorities, the 'true HMA' centred on Birmingham would *exclude* East Staffordshire and Wyre Forest (members of GBSLEP) and *include* South Staffordshire, North Warwickshire and Stratford-on-Avon. This is the area (the *Greater Birmingham HMA*) that the Inspector for the Birmingham Development Plan asked should be covered, and to which most comments in the present report relate. However, further points to note are;
- a) A Birmingham sub-market comprises Birmingham, Bromsgrove, Cannock Chase, Lichfield, Redditch, Solihull, Tamworth, North Warwickshire, and Stratford-on-Avon; and a Black Country sub-market comprises Dudley, Sandwell, Walsall, Wolverhampton and South Staffordshire. These submarkets have no status in terms of the NPPF.
 - b) North Warwickshire and Stratford-on-Avon, though forming part of the *Greater Birmingham HMA* were not part of the commissioning group. They are part of the Coventry/Warwickshire HMA (discussed in Chapter 3) as well as the Greater Birmingham HMA¹⁷.
- 4.3 Although the PBA study is not called a SHMA, it appears to meet at least some of the specifications of a SHMA as described by NPPF, and to have been accorded similar status by the Birmingham DP Inspector. The main difference from the Coventry/Warwickshire SHMA is that no attempt is made to adjust the demographic projections of need by reference to labour supply or affordable housing requirements. Given that the Coventry/Warwickshire study proposed only a 75 dpa adjustment within an OAN of 4,200 dpa, this does not raise major issues of comparability.

Relationship to official projections

- 4.4 As with the Coventry/Warwickshire SHMA it adopts the most recent DCLG household (2012-based) projection as its baseline. However, PBA note that age-specific headship rates will be further re-calibrated (using 2011 Census data) for the next iteration (2014-based, due in 2016). This underlies the concerns expressed in relation to the Coventry/Warwickshire SHMA about the stability and robustness of policy based upon such material.
- 4.5 PBA accept that the 2012 DCLG projections provide a sound basis for estimating OAN, however they continue to use their own slightly different figures in order to avoid re-running their previous analysis. These are based on 2012 SNPPs and their own headship rate analysis. The differences are very small, except for Redditch, Walsall and Wolverhampton where the DCLG figure is 10-12% higher. As they point out, this is unlikely to make a large difference to the analysis, and in any case the 2012 set will be replaced during 2016. However, it again draws attention to the short shelf life and misleading air of precision attaching to these projections.
- 4.6 Using their variant of 2012-based DCLG household projections, PBA arrive at an OAN of 10,524 dpa for the Greater Birmingham HMA¹⁸. This comprises counter-balancing adjustments for the conversion from households to dwellings, and for the more bullish

¹⁷ The OAN thus forms part of the wider (HMA) context for Local Plans in both areas, and it is for LPAs to sort out shares under the Duty to Cooperate

¹⁸ This allows for 3.1% vacancy/second homes above the net increase in households (PBA Table 2.1)

household formation rates in the 2012-based DCLG projections, as presented in Figure 7 below.

Figure 7: PBA adjustments to DCLG projections of housing need 2011-31

Estimation of OAN	Housing needs dpa
Start: 2012-based DCLG household projections	10,621
• Add 3.1% for vacancy and second homes (PBA Table 2.1)	+329
• Adjust for difference in household formation (PBA Table 2.1)	-426
End point: OAN (PBA)	10,524
Note: adjustments implicit in PBA Table 2.1, spelled out here for comparison with Figure 1	

OAN compared with past output

OAN in the context of local housebuilding

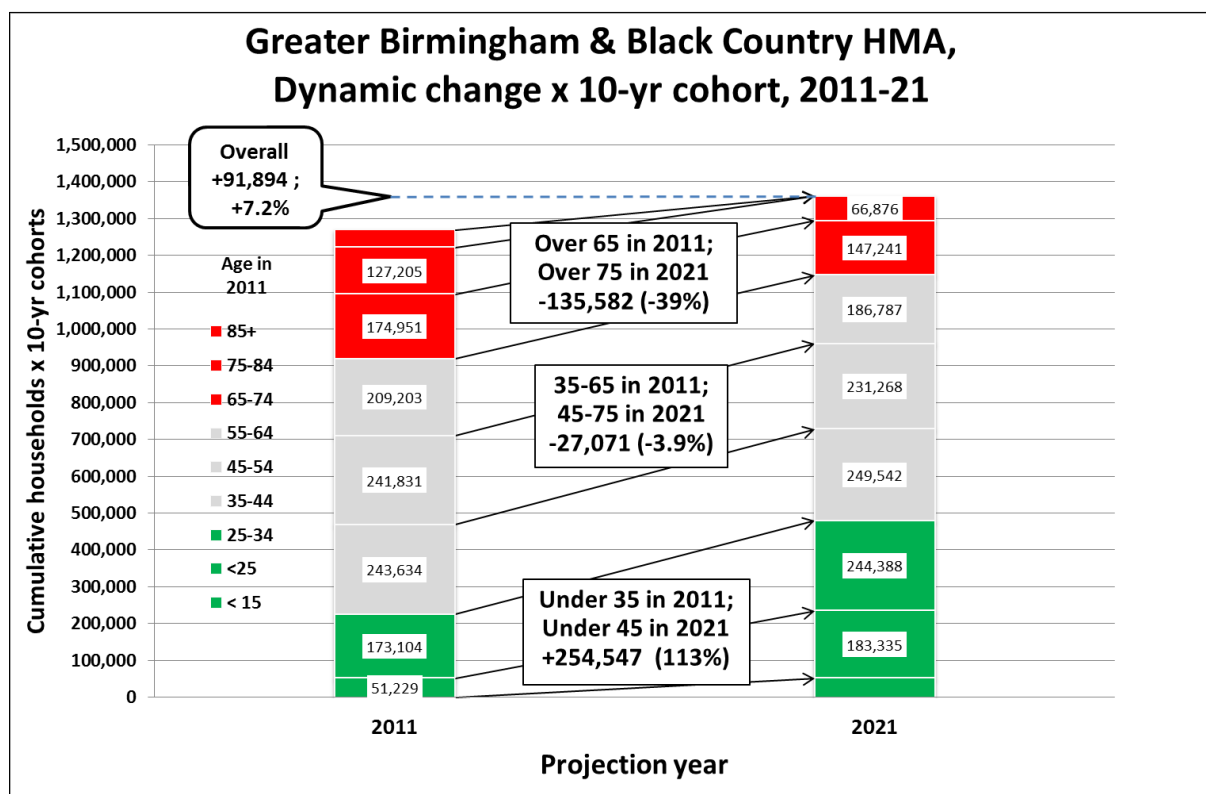
- 4.7 At 10,524 dpa, the housing OAN for the Greater Birmingham HMA is 68% above the average levels of output achieved over the last 14 years, as shown in Appendix Table A2 (6,264 dpa). It is also 33% above average annual output in the 7-year period 2001/2-2007/8 (7,895 dpa) and more than double that achieved in the 7 years 2008/9-2014/5 (4,634 dpa).
- 4.8 These contrasts between past and projected levels are even more marked in the Birmingham subarea, where output crashed from 5,314 dpa in the period 2001/2-2007/8, to 2,493 dpa in 2008/9-2014/5. The decline to less than half pre-crash levels in the Birmingham subarea is greater than for the Coventry/Warwickshire SHMA, and much more than for the Black Country subarea (from 2,760 to 2,141 dpa).
- 4.9 This is significant because it is the Greater Birmingham subarea that relates most closely to Coventry/Warwickshire (indeed North Warwickshire and Stratford are in both). The comments about realistic chances of delivery of such a large increase in output going forward made in relation to Coventry/Warwickshire (paras 3.12, 3.13, 3.35) apply with even more force here. The discussion on the importance of existing stock in meeting needs also applies (paras 3.22-3.24).

Affordable housing needs

How non-market housing needs arise and are met

- 4.10 The conventional process of estimating housing needs has been discussed in relation to Coventry/Warwickshire (paras 3.25-3.28). A similar analysis of the flow of age groups through household formation process in the Greater Birmingham HMA has been carried out, and the results are illustrated in Figure 8. In the context of a net increase of just over 90,000 households (7.2%) over this 10-year period,
- Households under 35 in 2011 are projected to increase by over 254,000 (110%) as they become the under-45s of 2021.
 - The over 65s of 2011 decrease by nearly 40% (135,000) as they become the over 75s of 2021;
 - By comparison, the numbers of the in-between group – 35-65 in 2011, 45-75 in 2021 hardly change (-3.9%).
- 4.11 Thus, again, new households are overwhelmingly the young. They can seldom afford to buy or rent new, but depend rather on turnover of existing stock, particularly in cheaper areas. Builders' rhetoric is about meeting housing needs, but their practice (reasonably enough) is to sell to people with money to pay – overwhelmingly those with a house to sell. Newly forming households are very seldom in this market.

Figure 8: Household formation and aging – HMA 2011-21 (DCLG 2011-based series)



4.12 As discussed in relation to Coventry/Warwickshire (paras 3.30- 3.33) ‘affordable housing’ delivered through planning gain, even at the 80% of market price/rent allowed by current rules is already under pressure. It does not meet the needs of the large proportion of new households that could not afford housing that costs as much as this. The PBA work for Greater Birmingham¹⁹ suggests a need (for Birmingham alone) of 19,400 affordable homes (38% of the total housing requirement to be provided within the City), of which about half would need to be social rented (Council or Housing Association), renting below the 80% level. This would appear optimistic, both in the light of the Chancellor’s recent statement funnelling central support towards subsidies averaging £20k for starter homes, and the proposals in the current Planning and Housing Bill to force Councils and Housing Associations to sell off their better stock.

Conclusion – Greater Birmingham

4.13 Overall housing output would have to more than double from an average of 5,066 dpa over the last 7 years to 10,524 dpa over the next 20 years, which is also 33% more than achieved during the relative boom conditions of 2001-8. There is no evidence that public or private resources to support these levels of output will be forthcoming for either market or non-market housing. As for Coventry/Warwickshire, there is thus the likelihood of a major gap opening up between housing needs and the capacity to deliver housing. The implications for sustainable development are considered in the final Chapter.

4.14 The PBA report goes further than the Coventry/Warwickshire SHMA, in that it reviews possible patterns of the distribution of provision. The key points to note in this connection are PBA’s views that provision within the HMA of over 10,000 dpa for 20 years would:

¹⁹ PBA (March 2015) ‘Examination of Birmingham Development Plan: OAN Supplementary Report’ Chapter 6

- a) Exhaust the capacity of brownfield land to accommodate the high proportion of development that it has accommodated in the past²⁰;
 - b) Require large scale urban extensions around Birmingham;
 - c) Require rolling back of Green Belt.
- 4.15 These conclusions are perhaps an inevitable consequence of the sheer scale of the OAN – implying some 200,000 new homes over the next 20 years (roughly two whole Coventrys). In terms of strategic choices, it might be important to know at what level of OAN such radical choices would become necessary. Given the uncertainties surrounding the numbers, and their scale, the ‘fire and forget’ approach lacks credibility. PBA raise, but do not consider the option of ‘exporting’ to neighbouring areas (Stratford and North Warwickshire which might offer destinations are in both HMAs, so the term ‘export’ does not apply). In the context of such numbers export elsewhere may well come back into play under the ‘Duty to Co-operate’.

²⁰ This does not appear to give due weight to the evidence that brownfield land is a flow not a stock. Over the period of the brownfield first policy (2000-2007) not only was housebuilding at the highest level achieved in the last 20 years, but the proportion of development on brownfield sites increased from 60% to 78%, and the stock of brownfield land suitable for future housing also increased R Bate (2011) *Building in a small island: why we still need the brownfield first approach*

5 Conclusions: OAN and sustainable development

The significance of the gap between OAN and practical delivery

- 5.1 NPPF requires local authorities to make provision for OAN in their Local Plans, either in their own areas, or through Duty to Co-operate, in neighbouring areas. However, the core policy of NPPF is sustainable development. In this Chapter it will be argued that making available much more land than can viably be developed is incompatible with achieving sustainable development. An OAN that is not compliant with NPPF in this respect cannot form the basis of a sound Local Plan. Something has to give, and NPPF outranks the SHMA and its OAN.

The risks of over-provision of land for housing

Effects on the location of new houses and demands for services and infrastructure

- 5.2 Brownfield land is a flow of sites arising from urban change processes which are not necessarily predictable in detail and in advance. The effect of the PPG requirement that the 5-year land must comprise immediately identifiable land is that any large increase in housing need must mostly be greenfield, not brownfield sites²¹.
- 5.3 Unsurprisingly builders will choose the easiest and most profitable sites from those offered by the planning system – generally greenfield sites. The consequences include:
- a) A more dispersed pattern of new development, likely to lead to more personal travel and increased car-dependency; and
 - b) Additional service and infrastructure costs once local capacity thresholds are exceeded.
- 5.4 While planning obligations may make contributions to some such costs, there are many other calls, not least affordable housing. Developers have been seeking (and getting) reductions in all such obligations on viability grounds. The further effects of this include diversion of limited public resources and attention from renewal of infrastructure and services within existing settlements.
- 5.5 This has crucial housing, social and economic impacts. As noted previously, 90% of the housing market is churn, so the continuing attractiveness of existing stock is the dominant factor in the quantity and quality of housing choice in the HMA as a whole. The environment, services and infrastructure of existing communities need renewal and reinvestment to maintain their attractions, or they will suffer selective out-migration, leading to further deterioration. This is particularly crucial for newly forming households who depend overwhelmingly on existing entry-level homes.

Housing market segments served by excess provision of land

- 5.6 Chapters 3 and 4 have shown that the limiting factor determining housing output is not land but finance. Rising prices limit access to owner-occupation, and ensure that new housing will tend to be bought by people who are already housed, primarily those trading up. This will include commuters to better-paid jobs elsewhere and those retiring to the country from urban areas. Only some of those most likely to buy new houses are relevant to meeting the labour needs of the local economy, and the further that new housing moves up-market, the smaller this proportion will be.
- 5.7 Far from helping new households, setting OAN at a level that is not supported by effective demand is particularly destructive of the housing opportunities available to newer, younger and less well-off households. Meanwhile, the housing that does get built in such circumstances is least likely to be conducive to ‘sustainable development’ as defined in NPPF.

²¹ This is explicit in the PBA report on the Greater Birmingham HMA, where the scale of OAN is such as not only to exhaust any brownfield supply but to also require rolling back Green Belt.

Wider implications of the scale of the SHMA projections

Managing risk and uncertainty

- 5.8 It must be regarded as highly likely that projections of housing need in Warwickshire will vary widely during the period covered by the SHMA. NPPF and PPG as presently interpreted give these projections such overwhelming weight that the distinction between a *policy-neutral projection* (as ONS describes the underlying SNPPs, and as the description of future household formation implies) and a *minimum policy requirement* is lost. Allocations of housing land made in response to the present very high projections of OAN will have the effect of giving builders *carte blanche* in their choice of which sites to develop. While this might lead to some more new housing output than with lower housing land allocations, past experience and research on the issue suggests strongly that any such increases will be modest. The main effect is likely to be on where market housing is built and for what market sector.²²
- 5.9 Allocation of land for housing is essentially a one-way process; once included in a development plan, there is no going back – only *under-provision* can be corrected later, by making further allocations if the projection turned out to be too low. If there was *over-provision*, either because the projection was too high, or because land came forward more quickly than expected, no corrective action is possible. As well as being more difficult to correct, the risks associated with over-provision of housing land are very much more serious than for under-provision, as summarised in Figure 9 below.

Figure 9: Summary of risks of over- and under-provision of housing land²³

Risks of over-allocation	Risks of under-allocation
<ul style="list-style-type: none"> • Diversion of investment in renewal of service and infrastructure in existing settlements • accelerating vacancy, dereliction, and decay in most marginal existing areas • removing decent entry point housing in all tenures • dispersed development, leading to increased travel demands and loss of countryside • inability to take corrective action 	<ul style="list-style-type: none"> • reduction of land banks and less certainty about long-term pattern of development • higher land prices and increased pressure on marginal sites • possibility of ‘town cramming’ • upward pressure on the price of new housing, especially in areas of high demand and high restraint • corrective action is possible

- 5.10 Ever since the policy guidance on Transport (PPG13, 1994) planners have relied on co-location of housing and employment land to reduce travel needs. However, there is no evidence that this has more than very limited influence on actual travel behaviour. By far the greater part of the locational choices available to households and businesses premises comes from churn of existing stock. The main constraint on labour availability in any likely employment growth location is house price inflation and lack of affordable non-market alternatives, housing rather than the volume new housing. These issues are not susceptible to influence through provision of land for new houses.
- 5.11 Within urban areas, so-called ‘windfall’ sites are continually being identified, both through small-scale renewal of the urban fabric and large-scale shifts in the needs of industry, services and infrastructure. Thus a medium-term surplus can (and does) coexist with a projected longer-term shortage. Planned allocations of new land are in addition to processes that continually recycle ‘old’ land. It may be easier to over-allocate than is general appreciated.

²² David Ritchie (Bovis Chief Executive) stated on BBC ‘Today’ (24 Feb 2014) that they expect to increase output by 20% in 2014/5, but expect also to realise 15% higher prices.

²³ A Wenban-Smith (2002) ‘A better future for development plans: making ‘plan, monitor and manage’ work’, Planning Theory and Practice Volume 3 No1, pp 33-51

Implications for sustainable development

Preventing sustainable development through the local planning process

- 5.12 The OANs presented in the Coventry/Warwickshire SHMA and Greater Birmingham Housing Needs Study rest on a number of dubious assumptions, reviewed in Chapters 2, 3 and 4. Together with the issues discussed in this Chapter this adds up to a formidable set of reasons for avoiding irrevocable commitments on the basis of the OAN proposed:
- a) *Housing need projections do not have long-term stability and reliability* – official projections are revised every two years, and the large increase between the current set and its 2008 predecessor shows how volatile they can be.
 - b) *The assumption that land is the most critical constraint on housing output is false* – the experience of recent years has demonstrated that availability of finance is far more important, both in increasing effective demand when sub-prime credit is easily available, and reducing effective demand in a credit crunch.
 - c) *The related assumption that house builders will make timely use of all the land that is allocated through the development planning system is also false*; in reality they will only build when profitable to do so, and are heavily constrained in this regard by option agreements with land-owners that build in large increases in house prices. The admitted land banks of the nine largest builders add up to over 600,000 plots (plus another 18,000 acres held by Persimmon capable of accommodating around 200,000 more). Their combined sales in 2014/5 was 66, 481 homes.²⁴
 - d) *The ability to buy or rent is not directly related to the overall level of employment in the local economy* – affordability depends critically on the distribution of income and the availability of family money to help with deposits – and both are rapidly changing in the direction of greater inequality, with the younger age groups particularly disadvantaged.
 - e) *The output of new housing is not the most significant component of the price and affordability of housing* – 90% of the market is supplied by the churn of existing stock, and this is the major determinant of the price at which new stock can be sold.
 - f) *Over-provision of land in the short- and medium-term is not a no cost option* – in reality, the order in which land is developed is hugely significant for investment in infrastructure and services (public and private), and so for the evolution of towns, villages and neighbourhoods.
- 5.13 While the projections cover a 20 year period, their effect is immediate. The housing land delivery mechanism set out in NPPF requires a 5-year supply at the rate implied by meeting ‘full, objectively assessed needs’. The very large increases of the annual rate means that most Districts are likely to be in the position of not meeting this criterion, and therefore faced with the choice of either:
- a) Accelerating adoption of Local Plans which include such provision (the government’s aim); or
 - b) Losing appeals against refusal of planning permissions for housing.
- 5.14 Either way, they are not in a position to carry out the overriding directive of NPPF in favour of sustainable development. As noted earlier (paras 2.1-2.2) the mutual dependence of economic, social and environmental gains requires that they are sought jointly and simultaneously through the planning system. In effect the housing requirement has been allowed to pre-empt this central requirement of NPPF. If OAN is set at too high a level the resulting damage is also immediate and continuing – indeed, penalties kick in for under-delivery against an unrealistic target, and the more unrealistic the target, the larger the penalty. The force of these punitive provisions is proposed to be further increased in the current Housing and Planning Bill.

²⁴ Guardian research reported 30 December 2015

The effect on public involvement

- 5.15 Greg Clark, currently Secretary of State for DCLG, was (as Minister for Planning) the signatory of the National Planning Policy Framework. In relation to the public involvement in planning the Foreword makes the following comments:

“... in recent years, planning has tended to exclude, rather than to include, people and communities. In part, this has been a result of targets being imposed, and decisions taken, by bodies remote from them. In part, people have been put off from getting involved because planning policy itself has become so elaborate and forbidding – the preserve of specialists, rather than people in communities.”

- 5.16 The direct representation of property interests clogged the 1947 Act development planning process. Following major reforms in the 1968 Planning Act, the primary purpose of a Local Plan Examination became the exploration of planning issues, rather than the representation of property interests. Though developers and landowners continued to seek ‘place at the table’, this pressure was largely resisted by the Inspectorate. However, this was overturned by the 2004 Planning Act which required that anyone making representations on a Local Plan must be allowed a hearing.
- 5.17 Most participants in current Local Plan Examinations would probably agree that the practices described in the Ministerial Foreword to NPPF continue, and if anything have intensified. A possible cause of this is the over-representation of house builders and landowners. It is in the overwhelming interest of builders and landowners that the OAN should be as high as possible. They demand representation and since the Inspectorate no longer has discretion in the matter of representation, now typically comprise 70% or more of participants in the discussion of housing issues. They are usually represented by consultants and/or counsel, as well as their trade body, the Home Builders Federation.
- 5.18 Discussion is consequently dominated by technical arguments about the level of the OAN, and this single number sets the terms for most other issues of significance in a Local Plan. However the participants and the structure of the discussion of OAN means the practical exclusion at this critical juncture of other considerations important to local communities, such as pressures on infrastructure (especially roads), services (especially schools) and environment.
- 5.19 ‘People in communities’ are being crowded out by the esoteric nature of the discussion, by the lack of consideration of measures to enhance the contribution of existing housing to meeting needs (although 90% of annual demand is met this way), and by the sheer number of bodies round the table. This will require legislation to correct, but a simple amendment to the present Housing and Planning Bill, to repeal the 2004 provision, might allow the Secretary of State’s admirable aspiration for community involvement to be realised.

‘Predict and provide’ versus managing uncertainty

- 5.20 Strategic planning requires long-term forecasts for context, but should not depend upon them. Undue rigidity in the treatment of initial forecasts gives only the illusion of certainty, and can inhibit necessary adaptations to new problems and unforeseen opportunities. It is important that a strategic sense of policy direction can be maintained in the face of varying circumstances, unless departures from forecast are so large as to require a strategic re-think. In contrast to this we have seen how the projections used to set OAN vary wildly from year to year as a result of statistical quirks rather than changing policy intentions.
- 5.21 As pointed out several times in this report PPG mandates a very powerful and rigid role for DCLG’s household projections. Local authorities and authors of SHMAs are not encouraged to consider the trends and policies that underlie the projections, unless these are in an upward direction (an option they have generally seized upon). However other trends are also possible and a full assessment of needs would consider these too. For example -
- a) How will policies towards institutional care and care in the community affect the proportion of the elderly living in institutions?

- b) How might medical advances and the resources available for health services affect death rates?
 - c) How might future economic circumstances, such as changes in the distribution of income between social groups and between generations, affect whether households choose to share dwellings?
 - d) How might future circumstances affect birth-rates (ranging from degrees of optimism about the future to future rates of child benefit)?
 - e) How might government policy and/or economic circumstances affect future international migration?
- 5.22 It is not for CPRE (or others) to promote any particular view on these possibilities in the context of a Local Plan, but changes affecting them could be made by the government of the day, and would impact significantly on population and household projections. For the validity of projections to be properly understood, the impact of such changes should be assessed in SHMAs and debated at local plan examinations.
- 5.23 Central government has relied for the last 30+ years on ‘predict and provide’, with household projections built into development plans, requiring a review of the plan itself to vary. Ironically, the 5-year land supply now featured in NPPF started life as a way of ensuring that the release of housing land through the planning system was sensibly related to real-world pressures and uncertainties such as those discussed above, and those reviewed in Chapters 3 and 4 summarised in Figure 9.. This principle was supported by CPRE in its response to the South East Plan²⁵. This proposed rolling release of a 5-year forward supply from planned provision, in the light of annual monitoring of *both* land supply *and* housing needs.
- 5.24 ‘Plan, monitor and manage’ was briefly adopted by Government in the late 1990s, but in a form hamstrung by continued reliance on an initial set of household projections, to guide land release in 5-year blocks. The 5-year supply in NPPF is a remnant of this approach, as is the PPG requirement to monitor the response of the market to measures to improve affordability. Both aspects need to be revived and built on to create a more responsive and less risky approach to land allocation. The present system for setting OANs is the worst of all worlds: volatile projections within a rigid and unresponsive framework.

²⁵ Wenban-Smith, A. (1999), *‘Plan, monitor and manage: making it work’*, CPRE, London).

Appendix 1: Housing output by Districts

Table A1: Housing completions by District 2001/2 to 2014/5, Coventry/Warwickshire

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2001/2-7/8 Average	2008/9	2009/10	2010/11	2011/2	2012/3	2013/4	2014/5	2008/9-14/5 Average
Coventry	542	626	334	418	691	1,165	1,149	704	560	360	480	660	900	790	660	630
N Warks	172	100	120	104	106	167	142	130	106	93	98	75	20	30	140	80
Nun & Bed	515	646	601	442	682	308	303	500	301	146	331	239	300	170	220	244
Rugby	522	193	531	273	494	1429	701	592	360	412	420	328	320	400	330	367
Stratford	472	436	602	806	649	454	401	546	196	240	109	147	280	290	410	239
Warwick	844	946	709	702	733	465	580	711	410	177	77	144	130	180	160	183
HMA	3067	2947	2897	2745	3355	3988	3276	3,182	2053	1564	1740	1854	1950	1860	1920	1,849

Sources: 2001/2 - 2011/2: GLH Joint SHMA, Nov2013, Table 14; 2012/3-2014/5: DCLG Live Table 253, accessed 2 Dec 2015

Table A2: Housing completions by District 2001/2 to 2014/5, Birmingham subarea

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2001/2-7/8 Average	2008/9	2009/10	2010/11	2011/2	2012/3	2013/4	2014/5	2008/9-14/5 Average
Birmingham	2,208	2,120	2,208	2,208	2,770	1,880	2,060	2,208	1,990	1,520	940	1,020	730	790	660	1,124
Bromsgrove	420	590	400	410	490	310	160	397	120	110	60	230	160	130	220	147
Cannock chase	490	384	384	350	290	410	380	384	250	200	250	110	200	190	120	189
Lichfield	540	478	478	540	570	300	440	478	180	130	250	240	170	180	200	193
Redditch	90	280	410	280	50	310	270	241	120	130	170	90	60	150	230	136
Solihull	470	380	500	410	810	680	480	533	320	380	230	330	330	310	430	333
Tamworth	240	290	290	320	310	290	290	290	130	120	40	80	50	30	60	73
N Warwicks	130	100	0	60	60	0	0	50	60	0	90	50	20	30	140	56
Stratford	553	490	570	780	650	470	360	553	230	180	130	180	280	290	410	243
Birmingham subarea	5,141	5,112	5,240	5,358	6,000	4,650	4,440	5,134	3,400	2,770	2,160	2,330	2,000	2,320	2,470	2,493

Source: DCLG Housing Live Table 253 (some missing data – italicised figures interpolated)

Table A2 (cont'd): Housing completions by District 2001/2 to 2014/5, Black Country subarea and Greater Birmingham HMA

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2001/2-7/8 Average		2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8 Average
Dudley	680	680	680	680	680	740	620	680	450	410	520	440	420	790	390	489
Sandwell	470	824	824	890	910	860	990	824	600	580	720	580	490	380	370	531
Walsall	300	630	640	800	720	720	600	630	570	660	830	430	400	830	670	627
Wolverhampton	210	260	360	200	510	470	470	354	240	290	210	280	410	430	450	330
South Staffs	270	380	272	272	230	190	290	272	260	260	120	130	130	120	130	164
Black Country subarea	1,930	2,774	2,776	2,842	3,050	2,980	2,970	2,760	2,120	2,200	2,400	1,860	1,850	2,550	2,010	2,141
Greater B'ham HMA	7,071	7,886	8,016	8,200	9,050	7,630	7,410	7,895	5,520	4,970	4,560	4,190	3,850	4,870	4,480	4,634
Source: DCLG Housing Live Table 253 (<i>some missing data – italicised figures interpolated</i>)																

Appendix 2 Household projection by age group

Table A2.1: Coventry/Warwickshire HMA – net changes 2011-2021

The conventional analysis focuses on the net increase in households and equates this with the number of new dwellings required (at national level 220,000 per year). The same reasoning tends to identify the increase in elderly households as the major source of need for new housing (about two-thirds of the net increase aged 65+).

Net changes 2011-2021				Broad age group changes	
	2011	2021	Net changes	Nos	%
<25	6,909	6,631	-278	1,356	3.9
25-34	28,219	29,853	1,634		
35-44	41,843	41,913	70	6,186	4.8
45-54	45,539	47,150	1,611		
55-64	41,137	45,642	4,505		
65-74	35,002	38,996	3,994	15,473	22.8
75-84	23,636	31,247	7,611		
85+	9,146	13,014	3,868		
TOTALS	231,431	254,446	23,015		9.9

However, a ‘net household’ is a mathematical abstraction, not a social reality. Examination of the same figures from the perspective of gross flows of actual households shows a quite different picture. In Table A2 the 2011 households in each age-group are compared with the 2021 age-groups that are 10 years older, approximating what happens to each group through elapse of time – dynamic change.

Table A2.2: Coventry/Warwickshire HMA – dynamic changes 2011-2021

Dynamic changes 2011-2021				Broad age group changes		
	2011	2021		Dynamic change	Nos	%
< 15	0	6,631	Under 25	6,631	43,269	123.2
<25	6,909	29,853	25-34	22,944		
5-34	28,219	41,913	35-44	13,694		
35-44	41,843	47,150	45-54	5,307	3,269	2.5
45-54	45,539	45,642	55-64	103		
55-64	41,137	38,996	65-74	-2,141	23,523	-34.7
65-74	35,002	31,247	75-84	-3,755		
75-84	23,636	13,014	85+	-10,622		
85+	9,146	0	[95+]	-9,146		
Totals	231,431	254,446		23,015		5.40%

Source: 2011-based DCLG household projections, published April 2013, Table 414

Table A2.3: Greater Birmingham HMA – net changes 2011-2021

The conventional analysis focuses on the net increase in households and equates this with the number of new dwellings required (at national level 220,000 per year). The same reasoning tends to identify the increase in elderly households as the major source of need for new housing (about two-thirds of the net increase aged 65+).

Net changes 2011-2021				Age group changes	
	2011	2021	Net changes	Nos	%
<25	51,229	51,157	-72	10,159	4.5
25-34	173,104	183,335	10,231		
35-44	243,634	244,388	754	30,530	4.4
45-54	241,831	249,542	7,711		
55-64	209,203	231,268	22,065		
65-74	174,951	186,787	11,836	51,205	14.6
75-84	127,205	147,241	20,036		
85+	47,543	66,876	19,333		
TOTALS	1,268,700	1,360,594	91,894		7.2

However, a 'net household' is a mathematical abstraction, not a social reality. Examination of the same figures from the perspective of gross flows of actual households shows a quite different picture. In Table A2 the 2011 households in each age-group are compared with the 2021 age-groups that are 10 years older, approximating what happens to each group through elapse of time – dynamic change.

Table A2.4: Greater Birmingham HMA – dynamic changes 2011-2021

Dynamic changes 2011-2021					Age group changes	
	2011	2021		Dynamic change*	Nos	%
< 15	0	51,157	Under 25	51,157	254,547	113.5
<25	51,229	183,335	25-34	132,106		
25-34	173,104	244,388	35-44	71,284		
35-44	243,634	249,542	45-54	5,908	-27,071	-3.9
45-54	241,831	231,268	55-64	-10,563		
55-64	209,203	186,787	65-74	-22,416		
65-74	174,951	147,241	75-84	-27,710	-135,582	-38.8
75-84	127,205	66,876	85+	-60,329		
85+	47,543	0	[95+]	-47,543		
Totals	1,268,700	1,360,594		91,894		7.24%

Source: 2011-based DCLG household projections, published April 2013, Table 414