

Yorkshire Land Limited

Barnsley Local Plan Examination

Hearing Statement – Stage 4, Main Matters 16 and 17

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1 INTRODUCTION

- 1.1 Within this hearing statement, we address questions relating to Main Matter 16 and Main Matter 17. This statement should be read in conjunction with our Stage 4 hearing statement covering Main Matters 18 to 21, which relate to other strategic matters, as well as our previous submissions.
- 1.2 In this statement, we focus on two key technical issues. Firstly, the reduction in jobs in the new evidence base and secondly the re-calculated housing need figure; where the same consultant team now appears to suggest that more jobs can be supported from a given population than they reported at the previous stages of the Examination.
- 1.3 In conclusion we can find no robust evidence to support the reduction in jobs (Matter 16) and even accepting this reduction the new housing evidence fails to evidence why the OAN should be lower than earlier evidence suggested (Matter 17). Conversely, as with previous demographic work provided to the examination, this also suggests the OAN is at least 1,389 dpa.
- 1.4 In this statement we mainly address the Council's new evidence, but we understand that the Council still considers earlier demographic work, including suggesting that a minimum need of 1,389 dpa remains sound. As discussed in our Stage 1, Main Matter 4 hearing statement, we consider that a housing need figure of 1,452 dpa remains robust.

2 RESPONSE TO THE INSPECTOR'S QUESTIONS – MAIN MATTER 16

Introduction

- 2.1 The refreshed job number appears to be a core component of the new housing assessment. As we outline below, however, the evidence trail for this change appears to directly contradict evidence provided to the Examination last year, including the opinions expressed by the Council's consultants. It is unclear what weight, if any, can be placed on the Council's published evidence base.
- 2.2 Moreover, the Council's Background Paper 8 does not appear to provide robust evidence for the changed approach. Instead, the Background Paper appears to simply report the product of (unevidenced) discussions with officers.
- 2.3 One very obvious shift in approach is that, contrary to the submitted plan which intended to enable and deliver the Council's Economic Strategy, the Council has resolved to update the strategy to align with the development plan. It is very difficult to view this as positive planning.

The Background Paper (8)

- 2.4 Before trying to understand the audit trail, it is first useful to consider to what extent the Background Paper can be relied on as evidence to support the plan and the reduction in the economic led housing need estimates.
- 2.5 The dictionary definition of a background paper is: *'a report or other piece of writing that is intended to provide contextual and historical information that will help people understand a particular topic or situation.'*¹
- 2.6 In this case, however, the Council's Background Paper appears to go much further. It appears to present new primary evidence – although on close inspection this primary evidence is little more than unevidenced assertion – directly contradicting formal evidence base documents previously presented to the Examination. It is clear that in regards to the Background Paper there is very little economic evidence presented to support the reduction in jobs now proposed.

The [lack of] rationale for reducing the number of jobs

- 2.7 The rationale for a reduction in jobs, no longer promoting 17,500 'policy on' jobs, in addition to 'business as usual' and multiplier jobs, can only be found at paragraph 4.16 of the Background Paper.
- 2.8 Paragraph 4.16 appears to recite a reservation from Mott MacDonald in relation to office demand (which places a new emphasis on evidence available last year, and

¹ Collins Dictionary definition

the statements provided to the Examination by its *confident* consultant team). But in substance the paragraph reports that the changed approach is the product of:

‘discussions [that] have taken place amongst officers as to whether or not it will be possible or desirable for the Council and its partners to prioritise interventions that specifically target the sectors that would produce jobs in the B1a use class. These discussions have led us to conclude that the Council’s resources and those of its partners need to focus on the infrastructure requirements to deliver the employment land rather than seeking to intervene to promote specific sectors not least because of uncertainties as to whether such interventions would be state aid compliant.’

- 2.9 We would suggest that given the critical importance to the submitted plan that the Council should not be relying on unevidenced discussions. Nor simply a ‘guess’ (as suggested at paragraph 4.20) of what Mott MacDonald actually meant in their evidence. Given the significance of the new assumptions for jobs, housing and employment land it is very difficult to see any weight of planning evidence in the Background Paper – and certainly nothing sufficient to change the emerging development plan.
- 2.10 We also note that the plan was previously partly based on delivering the Council’s published Economic Strategy; so the plan was a product and enabler of this strategy. It now appears that the Economic Strategy is being redrafted to retrofit the development plan. The Council has now ‘resolved’ that the Economic Strategy should be:

‘reviewed and updated to align with the Local Plan (as modified)’

- 2.11 Therefore, it appears as though the Council is now drafting new supporting evidence with a pre-determined housing and employment number in mind. As opposed to the housing and job number being the product of sound evidence itself.

The impact of the changed assumption

- 2.12 From the limited information presented in the Background Paper we think (although would welcome clarification) that the key adjustment relates to the number of office jobs the Council now assumes will be delivered.
- 2.13 The submitted plan was based on an assumption that various interventions were expected to result in a demand for land / floorspace across the B Class Sectors, including offices industrial and warehousing.
- 2.14 For housing, which we discuss below, the number of office jobs assumed is critical because office floorspace employs people much more intensively than other business class uses. And so, for any given hectare of land (and associated floor space) requires more workers (and so homes).
- 2.15 To illustrate this, the changed assumption relating to B1 land provision between Table 1 of the Background Paper and the new ‘*most realistic split*’ presented at Table 3 has halved the assumed office take-up. This results in a reduction of nearly 4,200 office jobs² and so has a significant impact on the housing number in the plan.

² 19.9 ha @ 4,000 sq.m per ha & 1:19 job density = 4,189 jobs
March 2018

- 2.16 At the same time, the Council has assumed that land will be taken up by alternative uses (B2 & B8) which use land much less efficiently (in terms of jobs) and so employ fewer people; which requires fewer new homes.
- 2.17 It appears, although again we stand to be corrected, that, in keeping the quantum of land fixed, the Council has simply now assumed that the land will be taken up in line with the new mix.
- 2.18 As noted above, given the impact of this changed assumption on both the Council's employment and housing strategy, the absence of evidence is concerning.

Summary

- 2.19 The Council appears to rely on a Background Paper as its core economic evidence base document, supporting the quantity of land, mix of jobs and ultimately housing need.
- 2.20 Given the significance of the Council's new approach, we consider it inappropriate to rely on a largely unevidenced background paper to evidence the plan. That is especially the case when set against the weight of evidence, and expert support, the Council provided to the EiP last year.
- 2.21 We would suggest that only limited weight can be afforded to the new Background Paper job calculations and no evidence has been provided to justify a shift in the Council's published position that the plan should make provision for the delivery of 33,000 jobs.
- 2.22 We note, as per the Inspector's Question 16.3, that the Council's economic policies are being redrafted to fit the development plan, as opposed to the strategy informing the plan.
- 2.23 *(We address the use of the REM model when discussing housing, because it has primarily been used to derive economic activity rates – but as with the Economic Activity Rates the REM cannot be used to show the outputs are robust or credible because they are simply the product of external assumptions being superimposed on an economic model).*

3 RESPONSE TO THE INSPECTOR'S QUESTIONS – MAIN MATTER 17

Introduction

- 3.1 The Council has provided a comprehensive update of its demographic data; a new Edge Analytics report, dated October 2017. However, this report, as with the previous reports provided to the Examination, does not appear to justify or evidence the Council's preferred objectively assessed need (OAN) figure.
- 3.2 We do not consider that this new evidence provides sound justification to reduce housing need from that established at the Interim Stage. We note that the evidence leading to that conclusion does not appear to have been withdrawn and while the Council has updated its job number, other assumptions previously promoted in the evidence (including Economic Activity Rates) still appear to be accepted by the Council as sound alternatives.
- 3.3 In this section, we focus mainly on Economic Activity Rates – and the choice made by officers, in their Background Paper, to choose higher rates which result in lower housing need than other alternatives. We only briefly consider commuting assumptions.

Economic Activity Rates

- 3.4 A complication in understating the Council's new OAN is that despite the weight given to the Regional Economic Model (REM) and its demographic assumptions (including Economic Activity Rates) very limited (if any) information is presented about the model.
- 3.5 No information is provided as to what the model has assumed about the population of Barnsley. Nor that the outcomes, especially very high economic activity rates are plausible. For example, there is no equivalent of the extensive information provided on the operation and use of the East of England Forecasting Model³.
- 3.6 Without any information about the operation of the model, it is very difficult to see what reliance can be placed on the output.
- 3.7 To assist the Examination, in the absence of any detail from the Council, we have set out below what we think the modelling work has done, and importantly why the REM economic activity rates cannot be relied on without further testing and evidence. We also set out why so many of the scenarios presented in Figure 14 of the Edge work all appear to suggest an OAN around the DCLG household projections and cannot be relied on, as presented, to assist the examination.

³ <https://cambridgeshireinsight.org.uk/EEFM/>

Why can the REM Economic Activity Rates not be relied on?

- 3.8 PBA has long advocated that those preparing evidence need to maintain internal consistency between the assumptions made in the economic evidence base documents and adopted in their housing evidence; this applies to economic activity, population and commuting.
- 3.9 In this latest evidence update, Edge Analytics, working for the Council, appear to try and maintain this consistency. The Edge Analytics report suggests that they have adopted the Economic Activity Rates in the REM.
- 3.10 However, in practice, we do not think these rates are anything but a mathematical residual of a policy on job number, being applied to a constrained population. As an Experian based model, we understand that the REM only assumes that the Council delivers the official population and household projections. In this case the model has assumed that the 2014 based projections are delivered; which is why the policy on baseline is almost exactly the same as the DCLG scenario
- 3.11 The model output alone cannot be used to demonstrate that the rates are sound or even credible. To rely on the output requires further testing.**
- 3.12 It is fair to say that in evidence base work elsewhere, and defended at appeal, PBA has used Experian to test Economic Activity Rates. But when doing so we recognise that the model could produce implausible Economic Activity rates and so we always test the credibility of the resulting rates with Experian and against other sources. We have defended this approach at many appeals and examinations but on the rare occasion we lost (twice in 5 years) this was because this supporting evidence was not provided. As such we now always provide evidence to support the credibility and plausibility of our activity rates in evidence.
- 3.13 An example of this extensive testing is attached at Appendix A to this statement. In this case, evidence prepared for a planning appeal, we compared the Experian rates we were using to evidence the OAN with the OBR rates. Our testing, and the view of the forecasting house, was that the rates were robust and credible to use.
- 3.14 There is no supporting evidence to demonstrate that the Council's preferred economic activity rates are sound or credible. As such they cannot be relied on to evidence the new OAN.**
- 3.15 Given that there is limited scope with the traditional working age groups to increase Economic Activity rates significantly (the OBR considers the economy is roughly at full employment for these age groups) we can only assume that the Council's preferred rates are secured almost exclusively at the older age groups; but we do not know and cannot see how realistic this is because no testing has been undertaken.

The absence of a OBR CR scenario?

- 3.16 The Council's preferred scenario has assumed that commuting rates remain stable (the 'CR sensitivity tests'). No equivalent sensitivity appears to have been presented

for the OBR scenarios. We note that move from a non 'CR' to a with CR scenario increases housing need by around 200 dpa.

- 3.17 This means that the OBR scenarios, as presented, should be considered minimums. A OBR CR scenario is likely to be around 200 dpa higher.

The Council's choice of scenario

- 3.18 It is worth briefly considering the Council's rationale for setting aside the OBR scenarios. When deciding between the OBR rates and the alternative REM derived rates the Council appears to dismiss OBR because:

'...[the OBR rates are dismissed] largely down to a lack of evidence to substantiate the assumption that economic activity would reduce to 59% by 2033. Indeed, given that the overall objective of the plan is to increase job densities by creating almost 17,000 more jobs than would occur under the baseline scenario, it would be perverse to apply a lower rate of economic activity than current exists'

(paragraph 5.3 of the Background Paper)

- 3.19 Our opinion is that this is a deeply unsound and unevidenced conclusion to draw from the analysis.
- 3.20 Firstly, the Council provides no evidence to substantiate its very high Economic Activity Rates. As noted above they are simply the product of a constrained economic model. Whereas the OBR rates are published by an official body, the Office of Budgetary Responsibility. And are evidenced in their January 2017 Fiscal Sustainability Report. Of the two sets of rates available in the October 2017 demographic work, only the OBR rates have any supporting evidence or credibility.
- 3.21 Secondly; we do not understand what relevance 'job densities' are to the rationale given that job densities (as per the ONS dataset) relate to the population 16-64 and not the 16-89 age groups reported in the Council's evidence. From the Council's evidence, no conclusion can be drawn regarding 'job densities'.
- 3.22 Thirdly, and related to the above, the Council dismisses the OBR rates because they appear to fall (decline); whereas the REM rates increase. The Council therefore assumes that the higher rates are preferred. The Council suggests there is a *"lack of evidence to substantiate the assumption that economic activity would reduce to 59% by 2033"*.
- 3.23 However, this is a deeply unsound rationale and misrepresents the OBR rates. The reason the official Economic Activity Rates appear to reduce is that in the Edge Analytics work they have been presented as an aggregate rate for all people 16-89 years old. We do not understand, and cannot see, why the rates should be presented over this age group given that no one expects 80+ year olds to form a significant part of the labour supply. But in any event this falling aggregate rate is heavily influenced by the aging of the population.
- 3.24 As the population ages, and more people fall into the older age groups and outside the 'core' working age population, then the aggregate rate presented by Edge

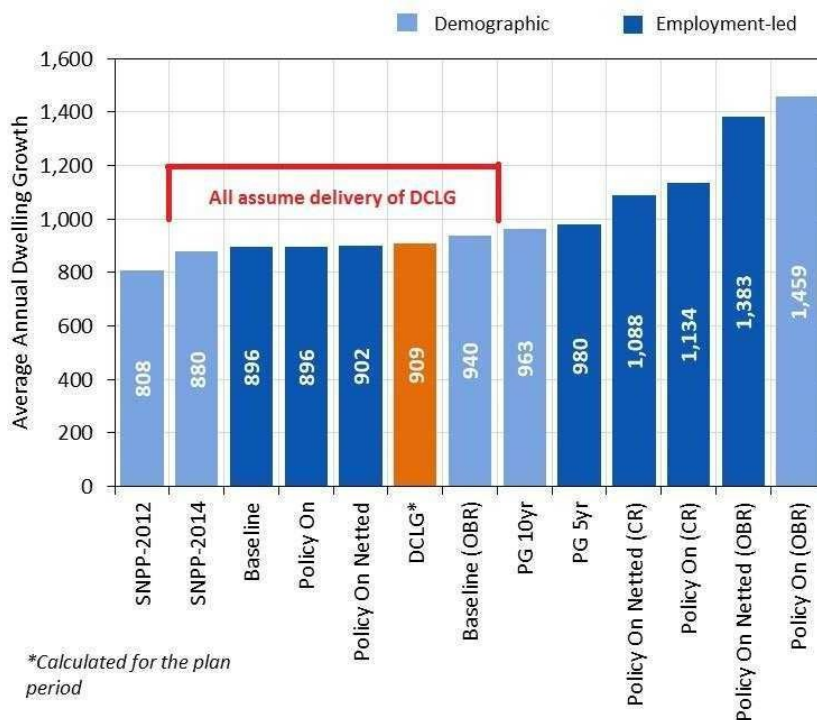
Analytics in its work falls. It is for sound reasons that the OBR rates, when presented in aggregate, over this unusual age band falls.

- 3.25 However, converse to that assumed by the Council; the OBR Economic Activity Rates, when considered by age/sex actually increase (as discussed in the paper attached at Appendix A). For the age groups 16-64, the OBR projects limited increase; partly because their view is that the economy is a roughly full employment. There is little potential to increase rates at these ages. But above 65 the OBR projects much greater increases in economic activity as pension ages increase and people live longer.
- 3.26 So the Council's rationale for dismissing the OBR rates, because they are (on aggregate) falling is deeply flawed. When understood correctly, the OBR rates for working age people are increasing over time.
- 3.27 To form any judgment over the competing merits (or plausibility) of the REM rates used by the Council some consideration needs to be made as to how the demographic profile is changing and how this may influence the age specific rates. This evidence is simply not provided. The same analysis is needed should the Council wish to set aside the OBR rates.

Why can six of the October 2017 Edge Analytics Scenarios not be used to evidence housing need?

- 3.28 Finally; it is worth noting that Figure 14 of the latest Edge Analytics work appears to report a number of different scenarios, all suggesting a OAN around 900 dpa. But this is deeply misleading given that the 'baseline', 'policy on', 'policy on netted' and DCLG scenarios all assume the same delivery of homes. They cannot be relied on as scenarios to evidence the number of homes needed because they all assume the delivery of the CLG projections. Any small difference between the scenarios is most likely to be a product of the data being transcribed into Popgroup.
- 3.29 This feature is also likely to apply to the Baseline (OBR) scenario because, as shown in the appendix to this statement, the OBR Economic Activity Rates are close to the default rates adopted by Experian. So we would expect the OBR baseline scenario, when applied to the [Experian/ REM] baseline jobs to show a similar number of new homes as in the DCLG projections.
- 3.30 In essence; six of the 13 scenarios shown in Figure 14 are reporting the same number of homes – simply because that was the starting assumption.

Figure 14 of the October 2017 Edge Analytics report



Summary

- 3.31 The Council has adjusted its job number to reduce economic housing need. We discussed this above.
- 3.32 Regarding the core demographic and housing need work we have considered the new evidence including the new Background Paper and the October 2017 Demographic Report (Edge Analytics report).
- 3.33 We still have concerns about commuting adjustments; and especially why no 'CR' sensitivity testing has been undertaken for the OBR scenarios. This suggests the OBR scenarios presented in the evidence under-estimate housing need once an allowance to keep commuting stable has been made.
- 3.34 Setting aside commuting, the main problem with Council's preferred scenario relates to Economic Activity Rates.
- 3.35 The Council's OAN is informed by Economic Activity Rates, derived from a population constrained economic model (REM). These are very high, compared to the alternative (OBR) rates and no evidence is available to show that they are realistic or even plausible. No testing of these rates has been undertaken to support their use.
- 3.36 In any event the Council's rationale for dismissing the OBR scenario, is simply that they do not consider that aggregate rates falling for the whole 16-89 population, is backed up with evidence. But both statements are factually incorrect.

- 3.37 The OBR rates are evidenced, by the Office of Budgetary Responsibility in its Fiscal Sustainability Reports⁴ (unlike the REM rates), and contrary to the Council's understanding the OBR rates do increase.
- 3.38 The OBR rates only appear to decrease because of the unusual, and possibly misleading, way they have been presented in the Edge Analytics work. For reasons, unknown the evidence base only reports the aggregate rate for all people 16-89 years old.
- 3.39 Given the Council's preferred economic activity rates are significantly different to the OBR rates they cannot be relied on without further supporting evidence. In the absence of this no weight can be given to them.
- 3.40 In summary, the Council's new evidence, especially the new REM based Economic Activity Rate adjustment, provides no support to show that the OAN should be materially different to that established at the Interim Stage.
- 3.41 Once the REM economic activity rates are set aside because there are either erroneous or simply not evidenced, then the only credible scenarios are the OBR scenarios. Both appear to endorse the interim findings; that the OAN is at least 1,389 dwellings per annum. As discussed in our Stage 1, Main Matter 4 hearing statement, we consider that a housing need figure of 1,452 dpa remains robust.**

⁴ <http://obr.uk/fsr/fiscal-sustainability-report-january-2017/>
March 2018

APPENDIX A TECHINICAL NOTE: ECONOMIC ACTIVITY RATES



Appeal by Persimmon Homes Ltd and BPT Ltd
Land to the East of Bell Lane, Kesgrave
PINS ref APP/J3530/W/16/3160194

Technical Note: Economic Activity Rates **by Cristina Howick on behalf of the local planning authority**

August 2017

Introduction

- 1 This note provides additional evidence to supplement my rebuttal proof on behalf of the local planning authority (July 2017), on the matter of economic activity rates. At para 5.50 of that rebuttal proof I note that it makes no sense to take future jobs (labour demand) from a forecasting model, such as EEFM or Experian, and then use activity rates from another source to calculate the population and housing required to fill those jobs. That is because the job numbers in each forecast already incorporate view of future activity rates, for the UK as a whole. If such national activity rates were lower than those expected by the forecasters, their predicted job demand would also be lower, both for the UK and for each local authority area.
- 2 In this technical note I illustrate this by example, using the Experian forecast that was also used in the SHMA. The SHMA shows Experian's standard scenario, which is based on the forecaster's own view of future UK activity rates. For the purpose of this note I have commissioned from Experian an alternative scenario, which tests the impact on housing need of expecting lower activity rates than assumed in Experian's standard (or baseline) forecast.

The alternative scenario

- 3 In the alternative scenario, Experian has replaced its baseline assumption on future UK activity rates with the rates forecast by the Office of Budget Responsibility (OBR) in the 2017 Fiscal Sustainability Report. These OBR rates are the only available official view of future economic activity, and they are lower than Experian's. (The appendix to this note gives more detail on these differences.)
- 4 In the forecasting model, as in real life, change in activity rates for individual local areas broadly parallels national change, because local and national change are driven by the same factors, such as the continuing rise in State Pension ages and life expectancies. These factors cause people to retire later, although local activity rates are also driven by the local balance of labour demand and supply, which is why they do not parallel national rates exactly).
- 5 The charts and table below compare the alternative scenario, based on OBR activity rates, with the Experian baseline. Both sets of activity rates are provided by gender and detailed age group; this is how they have been applied in the model, using the age and gender profile

shown in the 2014-based sub-national population projection (SNPP 2014), which underpins the CLG 2014 household projection. All other inputs and relationships in the alternative scenario are the same as in Experian's baseline (standard) forecast. As well as the plan period, the charts show historical data since 2004.

Figure 1 Economic activity rates, ages 16-64, %

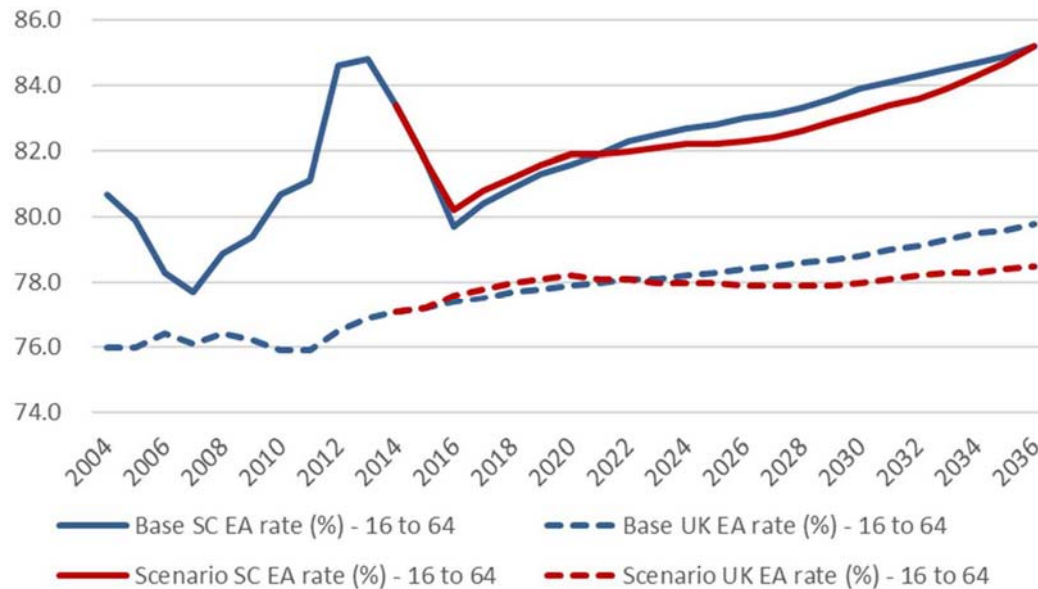
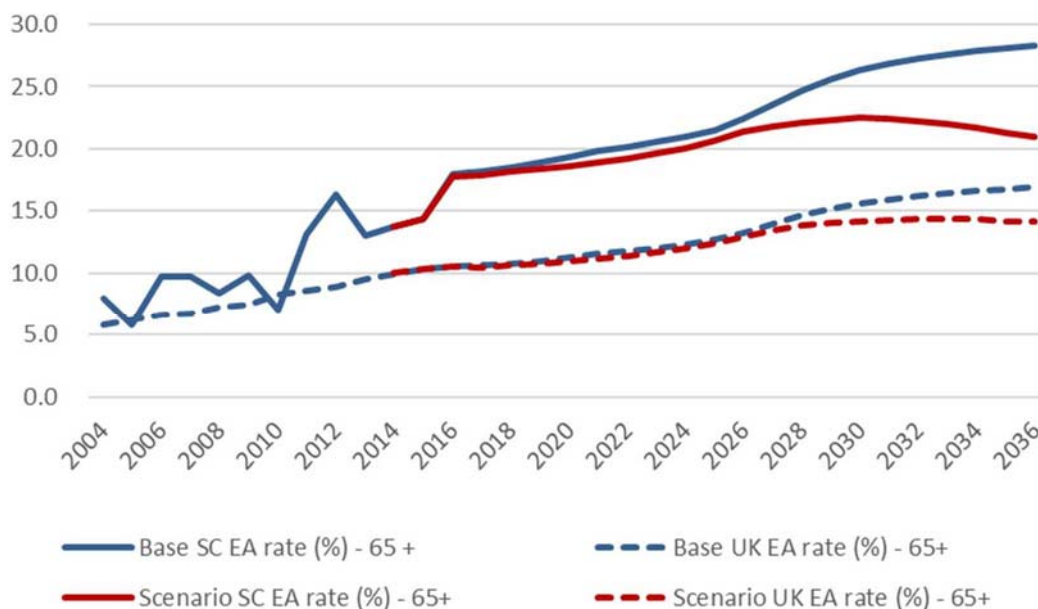


Figure 2 Economic activity rates, ages 65+, %



- 6 For people aged 16-64, Experian and OBR take similar views of future UK activity rates. Both expect UK rates to be virtually unchanged over the plan period, with growth of 3.5% (Experian) and 1.8% (OBR). For Suffolk Coastal, in terms of absolute levels activity rates are

higher, but the forecast change in rates parallels the UK trend. For this age group, the Experian baseline and alternative (OBR) scenarios show identical change in activity rates from 2014 to 2036 (although the trajectory in intermediate years is not exactly the same).

- 7 Thus, applying the OBR view of future activity rates makes no difference to the size of labour supply that would result from population change in line with SNPP 2014 for Suffolk Coastal. With regard to this age group, Experian and OBR forecast the same labour supply.
- 8 By contrast, as regards the 65+ age group the two forecasts are quite different. For the UK as a whole, both Experian and OBR expect rising activity rates in this age group, as people retire later. But Experian predicts a larger increase – 70.7% over the plan period, against 42.0% for OBR. In both scenarios Suffolk Coastal starts from a higher activity rate than the UK, and also shows faster growth. The main reason for this faster growth is that the over-65s in the district are younger than in the UK: a higher proportion are in the 65-69 group, who are at the forefront of postponed retirement as State Pension ages rise towards 68 (Table 2).

Table 1 Labour market scenarios compared

Area	Variable Thousands unless otherwise stated	2014	2036 baseline	2036 scenario	Scenario less baseline
Suffolk Coastal	Labour Force	64	68	64	-4
Suffolk Coastal	Labour Force - 16 to 64	59	53	53	0
Suffolk Coastal	Labour Force - 65 Plus	4	14	11	-4
Suffolk Coastal	Population - 16 Plus	104	113	113	0
Suffolk Coastal	Population - 16 to 64	71	63	63	0
Suffolk Coastal	Population - 65 Plus	32	51	51	0
Suffolk Coastal	Total Population	125	133	133	0
Suffolk Coastal	Economic Activity Rate (%) - 16+	61.6	59.8	56.5	-3.3
Suffolk Coastal	Economic Activity Rate (%) - 16 to 64	83.4	85.2	85.2	0.0
Suffolk Coastal	Economic Activity Rate (%) - 65+	13.7	28.3	21.0	-7.3
Suffolk Coastal	Workforce Jobs	59	68	65	-3
Suffolk Coastal	Jobs Demand	59	68	65	-3
Suffolk Coastal	Excess Jobs	0	0	0	0
Suffolk Coastal	FTE jobs	45	53	50	-3
Suffolk Coastal	Workplace based employment	55	61	58	-3
Suffolk Coastal	Residence based employment	62	66	62	-3
Suffolk Coastal	Unemployment	2	2	2	0
Suffolk Coastal	Net commuting balance (inflow)	-7	-5	-4	1
Suffolk Coastal	Unemployment Rate	3	3	3	0
UK	Economic Activity Rate (%) - 16+	62.5	61.4	59.8	-1.6
UK	Economic Activity Rate (%) - 16 to 64	77.1	79.8	78.5	-1.3
UK	Economic Activity Rate (%) - 65+	9.9	16.9	14.2	-2.7

Source: Experian, OBR, PBA

Table 2 Proportion of total population in selected age groups 2036

Age group	Proportion Suffolk Coastal	Proportion UK
65-69	8%	6%
70-74	8%	6%
75-79	7%	5%
80-84	6%	3%
85-89	5%	3%
90+	4%	2%
Total 65+	38%	24%

Source: SNPP 2014

- 9 As both the 65+ population and the activity rate of that population rise, both scenarios show considerable growth in the district's 65+ labour force. Table 1 above shows that in the Experian baseline this growth in 65+ labour supply over the plan period is 10 thousand. In the alternative (OBR) the growth is 6 thousand – so there are 4 thousand fewer people in the labour force. In proportional terms this is a small, around 5% of the resident labour force.
- 10 In summary, the OBR takes a more pessimistic view of future activity rates than Experian, but only for the 65+ age group. If the OBR is right, the model predicts that the district's workforce at 2036 will be lower by 4 thousand (5%) than if Experian is right. But if OBR is right about future activity rates job demand in the district will also be lower, because with lower national rates the whole UK economy will be smaller.
- 11 As shown in Table 1, applying OBR activity rates reduces the demand for additional jobs by 3 thousand – close to the reduction in labour supply of 4 thousand. The labour market remains in balance, as the small gap of 700 between demand and supply is closed by small reductions in unemployment and out-commuting (the gap, and the balancing adjustments, are insignificant, well within the margin of error).
- 12 As explained in the SHMA, the Experian local forecasting model compares local labour demand with supply, to determine whether the SNPP 2014 population would provide enough labour to meet demand. If the answer is positive, the model shows 'excess jobs', or 'unfilled jobs' – indicating that job growth will be constrained by lack of labour. For Suffolk Coastal district:
 - As discussed in the SHMA and shown in Table 1, the Experian baseline shows no such unfilled jobs – indicating that the official demographic projection will provide enough or more than enough workers to fill the jobs on offer.
 - The alternative scenario, also shown in the table, does not show any unfilled jobs either. This predicts that, if OBR is correct in its more pessimistic view of future activity rates, SNPP 2014 will still provide enough or more than enough workers to meet demand.

- 13 The housing need assessed in the SHMA is 15% above the official demographic projections, due to the market signals uplift. Therefore, if housing is provided to meet that assessed need the evidence suggests that the resulting labour supply will be more than enough to meet demand, whether Experian or OBR are right about future activity rates.

Conclusion

- 14 The Pegasus report (para 5.16 and 5.39 onwards) maintains that the SHMA is based on over-optimistic expectations regarding future activity rates, and this results in a too-low housing needs figure. Through the alternative scenario we have tested the impact of the economic activity rates forecast by the Office of Budget Responsibility, which is the only view of future activity rates available from an official body. The OBR is more pessimistic than Experian about future activity rates, though only for the 65+ age group. The modelling predicts that, if housing is provided in line with the official demographic projections, the resulting labour supply will be enough or more than enough to meet demand - whether Experian or OBR are right about future activity rates. Therefore, there is no justification for a 'future jobs' uplift to the demographic projections. If housing is provided in line with the need of 460 dpa assessed in the SHMA, it will provide more than enough labour to meet demand over the period 2014-36.



Appendix

Experian activity rate comparison

Comparison between Experian and OBR Participation Rate Projections

by Callum Cartwright
& Sunil Joshi
July 2017



We compare the methodologies used by the Office for Budget Responsibility and Experian in deriving participation rate projections, and assess the results.

Introduction

As part of their January 2017 Fiscal Sustainability Report (FSR), the Office for Budget Responsibility (OBR) published updated participation rate projections to 2066 by gender and five-year age band. As in 2015, following the release of the previous FSR, we will compare and evaluate the latest OBR projections with our own, with particular focus on what has changed since 2015.

- We will compare Experian's most recent projections with those of the OBR;
- We will explain Experian's projections; and
- We will offer an assessment of OBR's projections.

Comparison

Firstly, Experian's projections have a different purpose to those in the FSR. The purpose of the FSR paper is to "...assess the long-term sustainability of the public finances". Experian's projections are intended to produce a realistic forecast for the labour market in order to drive our macro, regional and local forecasts.

Secondly, Experian's horizon reaches out to 2040⁽¹⁾ whereas the FSR projects as far as 2066.

In Appendix A, we set out Experian and the FSR's projections of activity rates for people aged 16-64 and 65+, as well as the overall participation rate for the population aged 16+.

Experian's projection for participation rates for those aged 16-64 reaches 80.3% by 2037, compared with the FSR projection of 78.6% by 2037. Meanwhile, for those aged 65+, the FSR forecast reaches 14.1% and Experian's rises to 17.7% by 2037. When comparing the latest FSR projections with the previous edition, the forecasted participation rate for those aged 16-64 is now two percentage points higher by the end of the forecast period. Over the same period, Experian projections have generally remained stable relative to the previous set of forecasts, with an increase of less than one percentage point from old to new. In addition, the FSR projections

⁽¹⁾ The initial forecasts contained in this report reach out to 2037, but it has been deemed necessary to extend this to 2040 in some cases.

for those aged 65+ plus have changed from 13.7% for 2035 previously to 14.1% for 2037, with Experian's projections similarly shifting from 16.7% for 2035 previously to 17.7% for 2037. The main cause of this increase in the case of our own forecasts is our incorporation of the recently announced State Pension age increase to 68 between 2037 and 2039, as outlined in Appendix B below.

	Previous forecast end points (2035)		Latest forecast end points (2037)	
Age Band	OBR	Experian	OBR	Experian
16-64	76.5%	79.6%	78.6%	80.3%
65+	13.7%	16.7%	14.1%	17.7%
16+	58.3%	61.4%	59.7%	62.0%

Source: Experian, OBR

Both Experian and the FSR's 16+ participation rates decline throughout the forecast due to the aging of the population. The FSR projections fall more sharply than Experian's, due mostly to the different 16-64 participation rates. Experian's projection declines to 62% in 2037, while the FSR's falls to 59.7%.

In each case, the OBR's projections have shifted towards our own throughout the forecast period.

Experian's Projections

The full rationale for Experian's projections is set out in Appendix B below, which takes into account the 2014 national population projections and more recent data on participation rates by age and gender.

In summary, Experian projects forward activity rates for each age and gender group taking into account:

- Announced changes to public policy (in particular the change in State Pension Age (SPA));
- Expected changes in the participation of females in older age groups as evidenced by today's participation rates of younger cohorts (who will age into those older groups);
- Expected changes in behaviour connected with improved longevity and health; changes to patterns of work (allowing older people to continue working under more flexible arrangements); and changes in the industrial composition of the economy (especially the shift to services.)

These activity rates are applied to the population projections to produce activity rates for the 16-64, 65+ and 16+ age groups. The full breakdown by age and gender is set out in the note.

Assessment of the OBR's approach

The model used in the FSR is based on a cohort approach. The key distinction between this and Experian's approach is that Experian's starting point for the behaviour of an age-gender group is the behaviour of the same group today. FSR on the other hand, takes as its starting point the current behaviour of the people who will age into that age-gender group in the future.

The consequence for this approach is that if a younger cohort today has – for some reason – a reduced participation rate, this reduction in activity rates will be perpetuated throughout its life-cycle. This means that reduced participation rates in a younger age group today will lead to a permanent decrease in comparison to older generations.

This trend was particularly prominent in the supplementary tables to the FSR 2015 (published 05/11/2015), especially for males. Although participation rates differ consistently between age bands throughout the forecast, the 2015 FSR model forecast a permanent decrease in the activity rate of the cohort that was aged 25-29 in the medium term.

The effect is still apparent in the supplementary data of the FSR 2017 (published 17/01/2017), with staggered declines of approximately two per cent over a 12-year period for males aged 40-44, 45-49 and 50-54, but the trend is far less pronounced this time. The new history available since the FSR 2015 is presumably a key factor in the OBR's revised forecasts, with participations rates of 91.08% and 90.47% for males aged 25-29 in 2015 and 2016 respectively turning out as 91.5% and 91.7%. The higher turnout for these figures, among other factors, has evidently reduced the extent to which the 'cohort effect' is carried forward over time. The result of these revisions is that the OBR's forecasted participation rates for males aged 25-54 are higher than they were previously. The same effect is similarly diminished for females of the same 25-54 age groups, resulting in an upward shift in all of the forecasts.

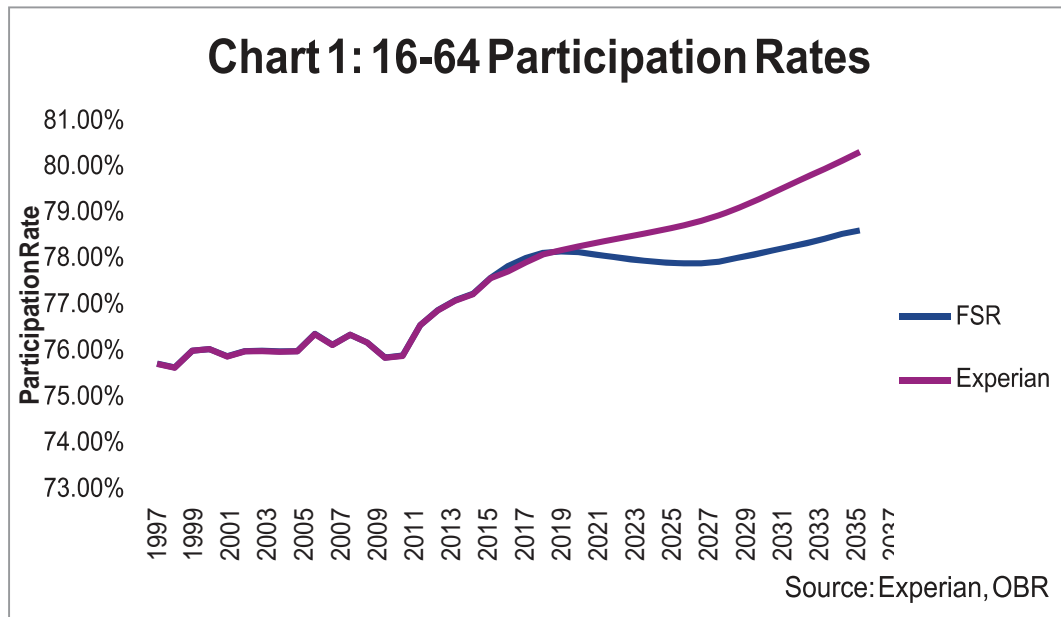
The permanent decline in participation rates in each age band arising from the cohort approach still leads to a slight decline in the participation rate for all people aged 16-64 over the next ten years (Chart 1 in Appendix A), albeit by a significantly smaller margin compared with the 2015 forecasts. In the FSR, the 16-64 participation rate now reaches at 78.05% in 2020 before falling to its lowest value of 77.79% in 2028. This 0.26 percentage point decrease compares with a fall of 0.92 percentage points in the 2015 forecasts (between 2017 and 2028). By 2037, Experian's projection is only 1.8 percentage points higher than that of the FSR, compared with the previously estimated difference of 3.1 percentage points by 2035. The overall 16+ activity rate from the FSR falls by 3 percentage points over the 20 year forecast period (compared with 4 percentage points previously), while Experian's is still set to decline by less than one percentage point.

Conclusion

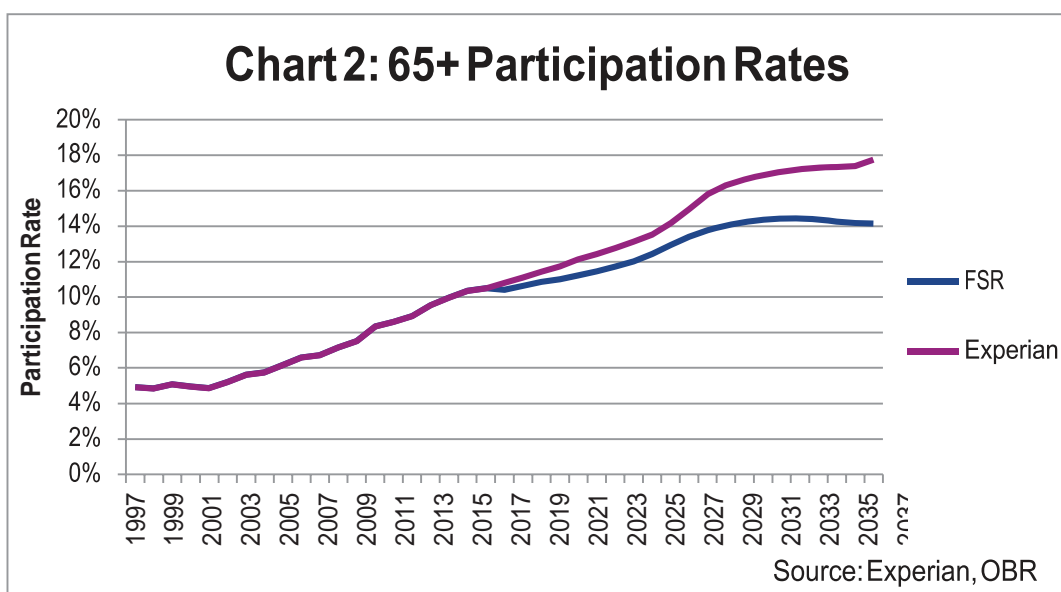
While the magnitude of the 'cohort effect' has been reduced, it is still evident in the OBR's forecasts. The changes made in the current FSR projections have shifted their forecasts closer to the Experian baseline. The Experian participation rate projections have remained stable, with the same assumptions applied and when incorporating the latest data points, there have been minimal changes. As such, we consider these projections credible and given the FSR projections have updated their view to be closer aligned to our outcomes, we will continue to adopt Experian own projections in our forecasting models.

Appendix A

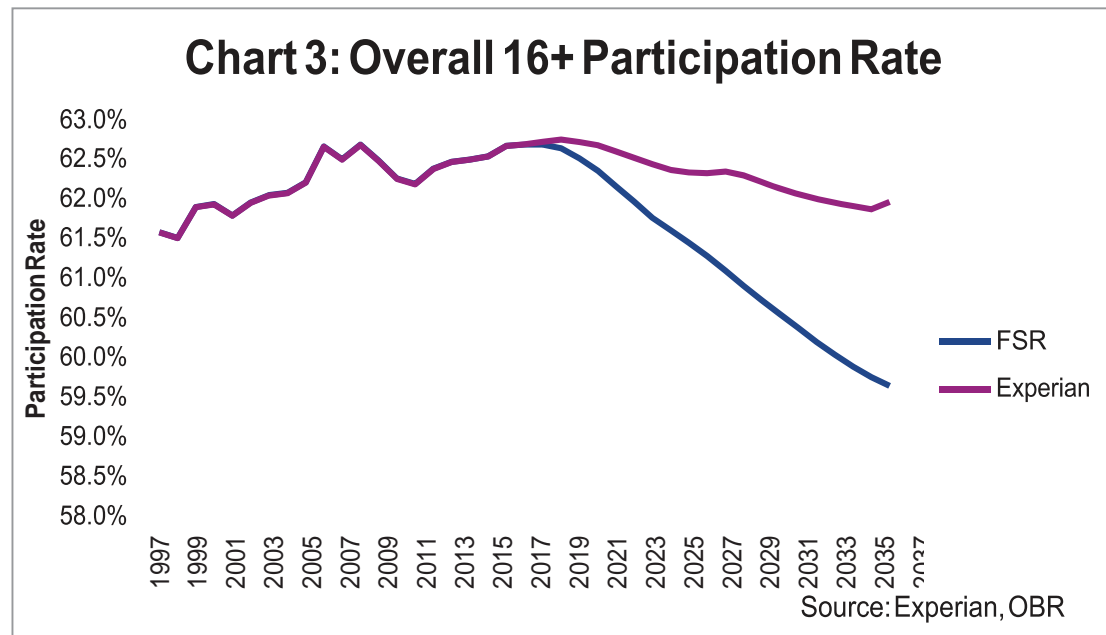
The following charts apply the growth rates of participation rates by age and gender to Experian's participation rate history. Both Experian and the FSR's grouped participation rates are calculated by using the ONS 2014-based National Population Projections.



When calculating the participation rates for those aged 16-19 for both genders, Experian has attempted to fill in the FSR participation rates for period 2009-2021, which are not provided in the supplementary tables. The proportion of the working age population aged 16-64 averages 7.4% over the 2017-2037 forecast period.



The OBR does not provide projections for participation rates for those aged 90+. Experian assumes that there is no participation by those aged 90+.



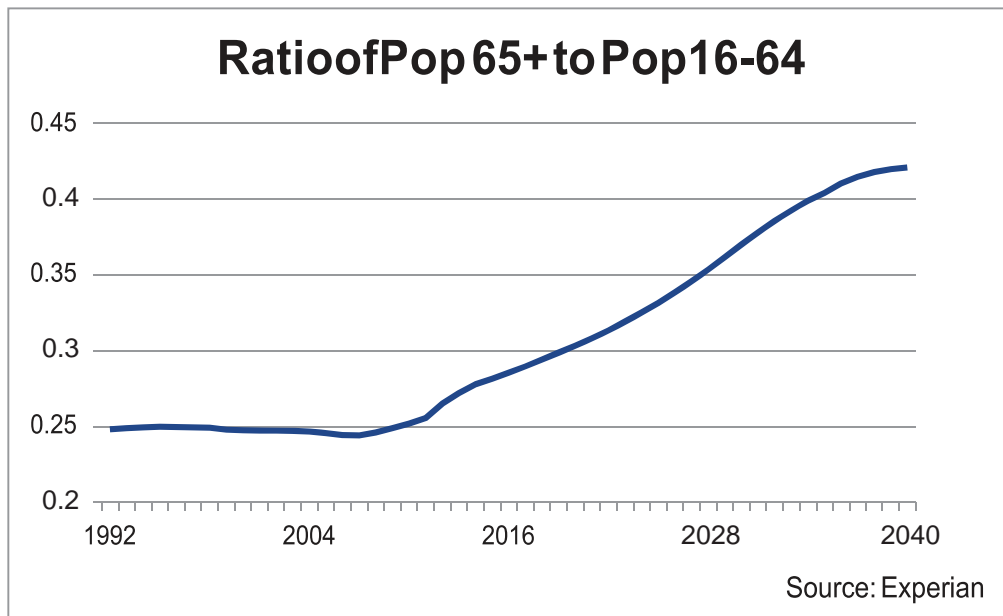
Appendix B

In 2037, there will be nearly 18 million people in the UK aged over 65; this contrasts with around 12m in 2017. Moreover, they will make up nearly a quarter of the entire population compared with around 18% in 2017. This change in the age-composition of the population will have a significant economic impact. Older workers will make an increasing proportion of the potential labour force. In this note, we consider the impact of different labour force participation rates for older workers and explain the participation assumptions we will use in our UK suite of models in future.

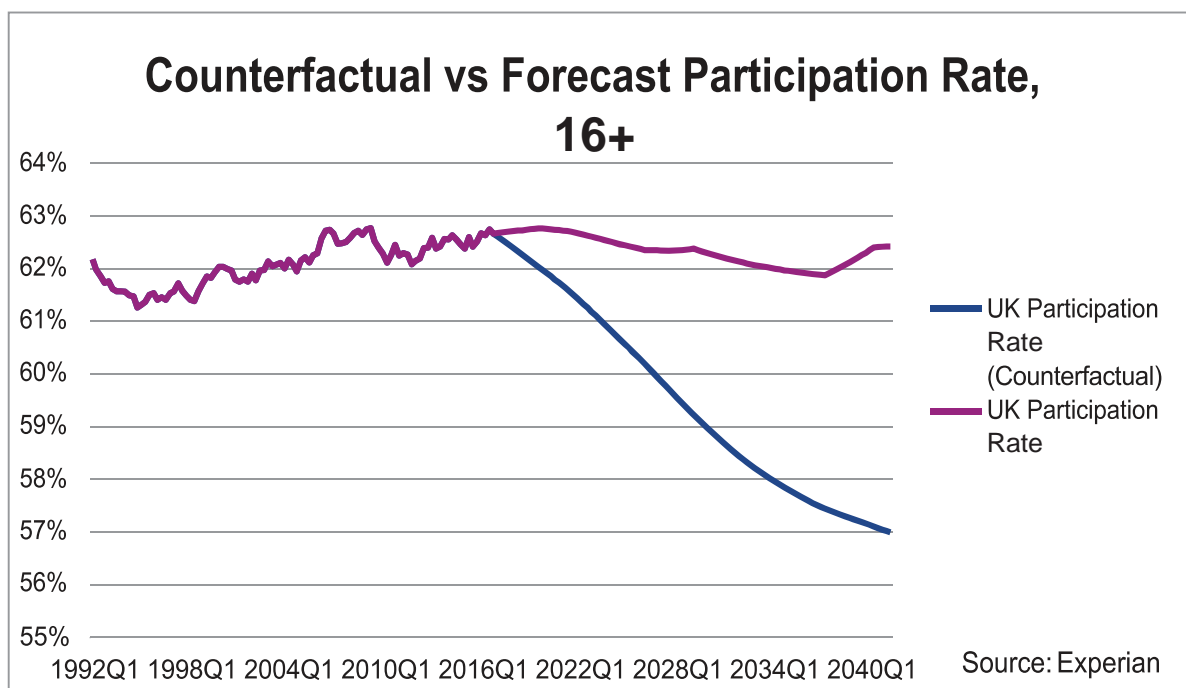
It will be convenient at this point to set out some key definitions:

- Participation Rates / Activity Rates: the proportion of the population either in employment or searching for employment.
- Working Age Population: the population above the age of 15 but below the current state retirement age for their gender.
- Subnational Population Projections: population projections set out by the Office of National Statistics using 2014 mid-year population estimates.
- Labour Force Survey: survey of the employment patterns of the UK population. It provides official measures of employment and unemployment.

Over the last few years, the ageing of the population has begun to markedly change the demographic profile of the UK. According to the 2014 Subnational Population Projections, the proportion of the population aged 16 and over that was older than 65 remained at around 20% between 1997 and 2010. However, baby boomers entering retirement has caused this ratio to increase rapidly from 2011. Longer life expectancy will sustain the rising proportion, projected to reach 30% by 2040.

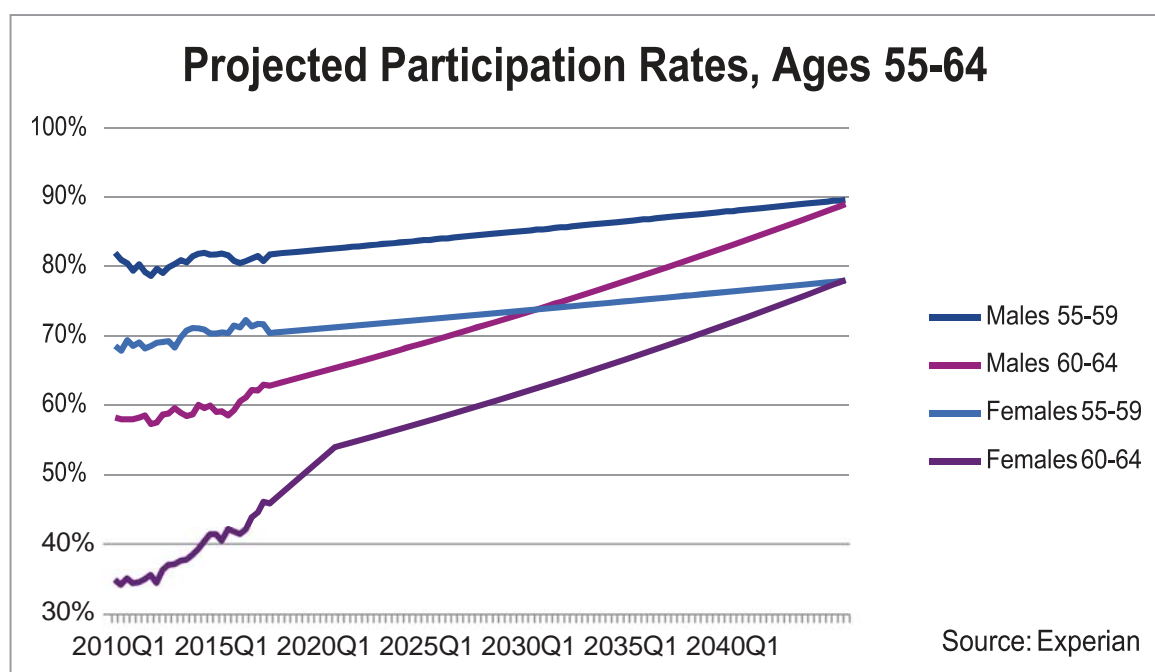


The impact of the ageing population can be seen in the participation rate chart below. The counterfactual (the blue line) is based on the assumption that older people will have the same participation rate in the future as they have in 2017. The overall participation rate for the population aged 16+ falls dramatically as older people – who have lower participation rates – make up an increasing part of the population. Such a scenario would lead to very slow labour force growth, growing at an annual average rate of only 0.19%. This would seriously limit the economic growth potential of the UK.



Based on our analysis of LFS economic activity rates by 5-year age bands below, we instead forecast that the overall UK participation rate will fall to just below 63% by 2040. The labour force is 5% larger than in the counterfactual scenario by the end of the forecast, reaching over 38 million people by 2040.

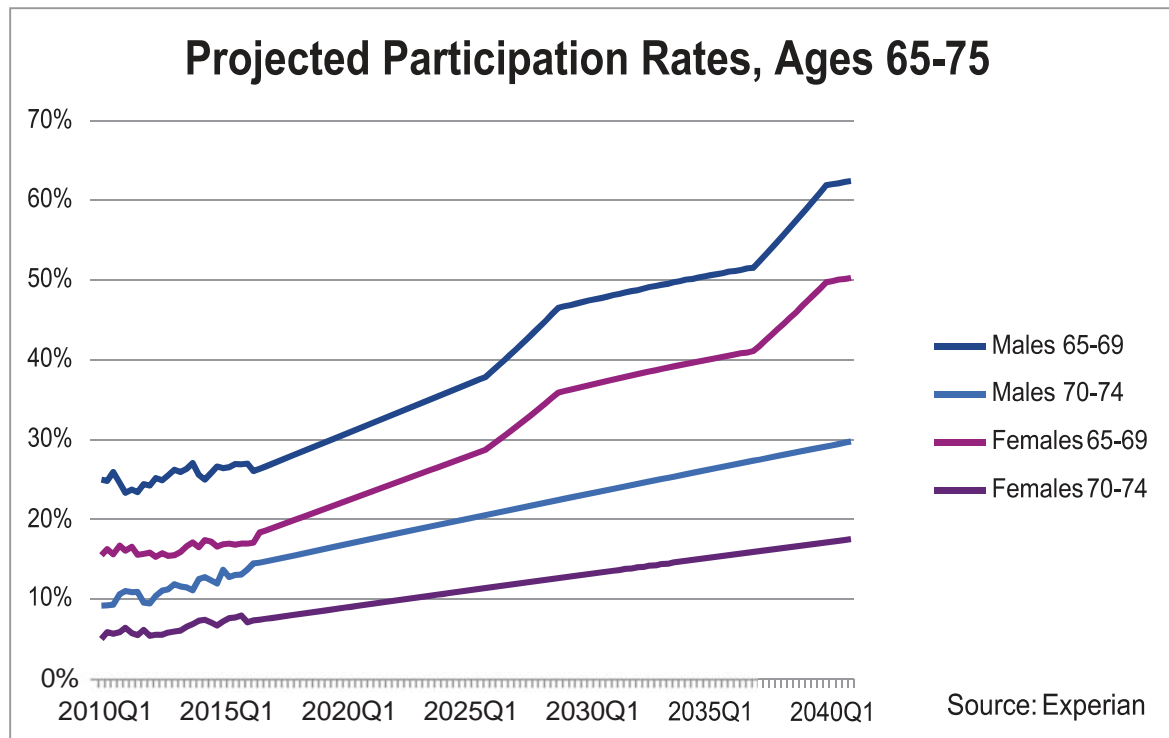
We expect to see increasing participation rates across all older bands for both men and women. As the UK economy becomes increasingly service-oriented, older people are inclined to continue working. Improving health standards also mean that people are able to participate in the labour force for longer and need to build up enough savings ahead of longer retirements. The option to receive pensions as a lump sum may even leave people needing to return to the labour force at a later stage should they fail to adequately manage their finances.



Policy changes have also begun to influence participation rates. The default retirement age has already been phased out and the State Pension Age (SPA) is gradually being increased. The SPA for women began to increase from 60 to 65 in 2010. An increase in the female participation rate for those aged 60-65 can be seen in the historical LFS data from around 2011. We have forecast that the rate will grow such that the gender gap in this age band approaches the corresponding gap for the 55-59 age band. The female participation rate also grows because cohorts displace one another over time and women born in later generations have had a higher propensity to work. As the SPA for both genders reaches 67 by 2028 and health standards improve, we see fewer people leaving the labour force between the ages of 60-64. The impact of the SPA policy changes can also be seen on the 65-69 age band.

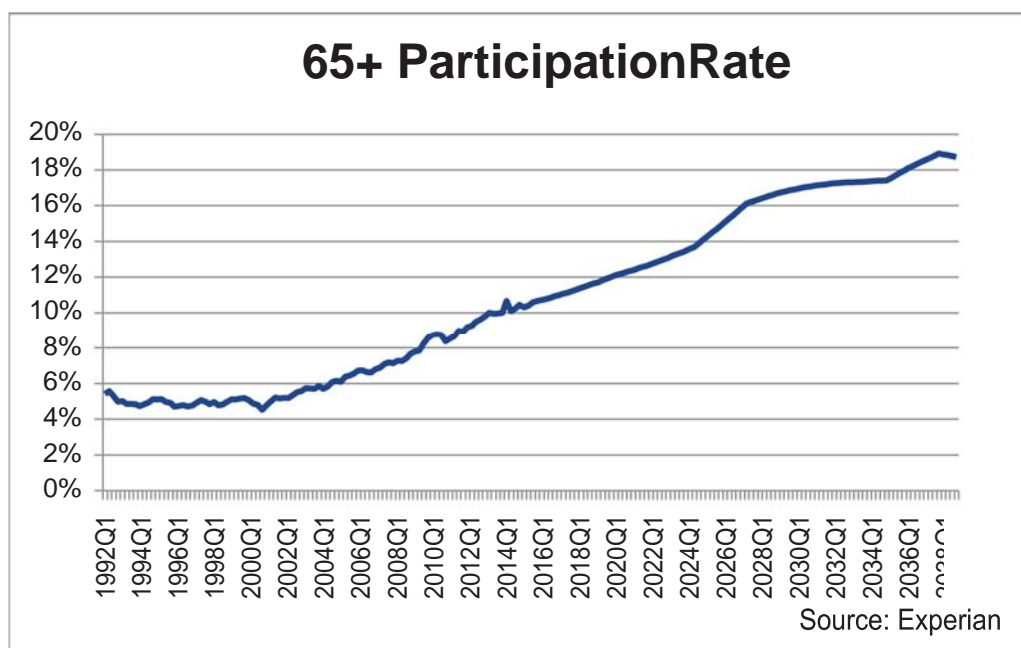
Under the current law, the State Pension age is due to increase to 68 between 2044 and 2046. Following a recent review, however, the government announced plans to bring this timetable forward. The State Pension age is now set to increase to 68 between 2037 and 2039. The policy change was announced as of July 2017, after the release of the OBR's forecasts, but before the publication of this report. As such, we have incorporated

this change into our forecasts for the 65-69 year age groups, as seen below, but it does not currently feature in the OBR's projections.

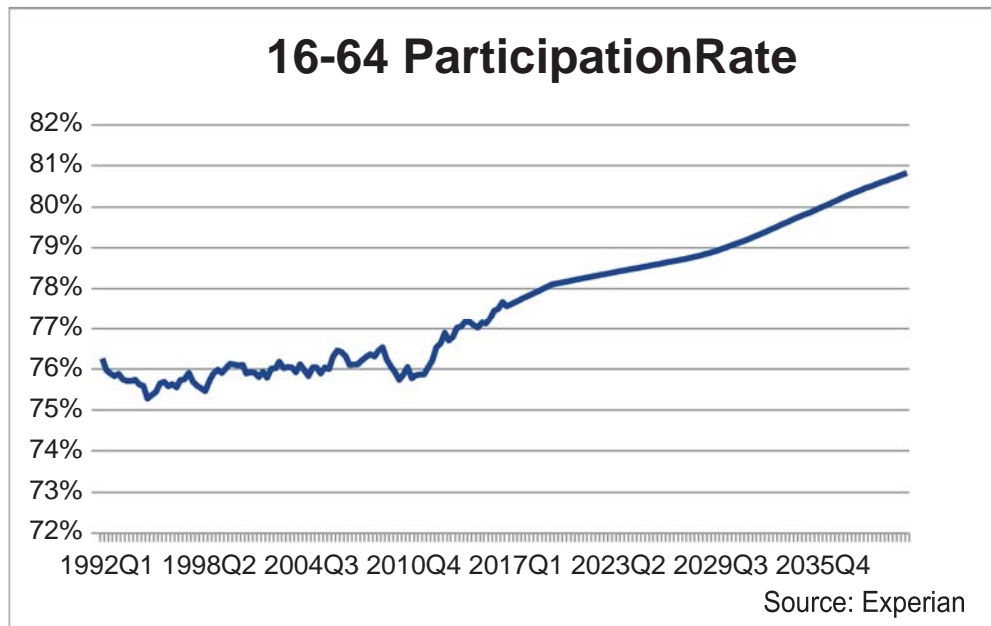


Our participation rates grow such that, by the end of the forecast, the rate for each age band by gender approaches that of the age band below at the beginning of the forecast.

There is ageing within the 65-plus population group. For example, the population older than 90 will more than triple by 2040. We forecast that the overall 65-plus participation rate will increase to 19% by 2040, with growth rates fluctuating mainly due to policy changes and population growth across age bands.



The increase in the activity rate of those aged 16 to 64 is due largely to the growing participation rate of those aged 55-59 and 60-64. It also accounts for policies designed to encourage more people to take part in the labour force.



We can apply this analysis to the regional and local level as well. The impact on our regional forecasts is that Greater London is the only area without a consistently falling participation rate between 2017 and 2037. Greater London has the youngest population of the UK regions. By 2037 only 24% of the population in London will be 65 or over, while all other regions will see this proportion rise to above 40%.

Overall Participation Rate (%) by Region	2017Q1	2022Q1	2027Q1	2032Q1	2037Q1
UK	62.7	62.4	61.9	61.6	61.5
East Midlands	61.3	60.8	60.2	59.7	59.5
East of England	63.4	63.2	62.8	62.7	62.6
Greater London	68.6	68.7	68.6	68.7	68.6
North East	59.5	58.9	58.0	57.5	57.3
Northern Ireland	59.0	58.3	57.5	56.8	56.2
North West	61.4	61.0	60.4	60.0	59.8
Scotland	61.0	60.6	59.9	59.4	59.1
South East	64.1	63.7	63.2	62.9	62.7
South West	62.5	62.1	61.6	61.3	61.2
Wales	59.5	59.1	58.5	58.2	58.1
West Midlands	60.2	60.0	59.6	59.5	59.4
Yorkshire and The Humber	61.6	61.2	60.6	60.2	60.0

Source: Experian