APPENDIX A

DETAILED ANALYSIS OF THE REVISED OAN FOR NORTH HERTFORDSHIRE

QUESTIONS 21.1, 21.2 AND 21.3 FROM THE INSPECTOR

The new projections by Opinion Research Services (ORS) for North Hertfordshire – 'Review of the Official Projections for North Hertfordshire' July 2020

Introduction

1) The new projections from ORS based on the Office of National Statistics (ONS) 2018 population and household projections, carried out on behalf of NHDC, show an objectively assessed housing need across North Hertfordshire of 11,500 dwellings which NHDC considers a 'meaningful change'. It is also a further reduction from the previous work in October 2019 by ORS (covered in ED171) which showed an OAN of 12,900.

2) So the new OAN produced by ORS is a reduction from the draft Local Plan figure of 14,000 houses required to meet NHDC's needs (13,800 houses from within the Stevenage HMA and 200 falling within the Luton HMA in the area around Cockernhoe). The new reduction is 2,500 houses across the Local Plan period (2011-2031).

3) NHDC states that this reduction from 14,000 – 11,500 (a drop of 2,500) or just under 18% represents a 'meaningful change'.

a) **But is this new ORS projection proportionate and robust? I believe not.**

4) The ONS 2018 household and population projections give several variations, the major difference being how the ONS treats migration – both migration to the UK from overseas and also inter-UK migration.

5) The Principle Projection covers a 2-year trend (2016-2018); the 5-year migration trend is (2013-2018) and the ONS 10-year migration trend (2008-2018). ORS has chosen the 10-year migration trend.

6) This 10-year trend gives the highest projected household numbers. But, fundamentally, this trend averages migration data over the past 10 years. Thus, for example, the year 2009 (11 years old) adds as much weight to the average as the latest year 2018. Consequently, if migration is changing rapidly towards the end of the trend period, the 10-year average will not reflect that change to the extent necessary.

7) By comparison, the ONS 2018 Principle Projection, of only two years old, cannot include events which have occurred since and which now (in 2020) are thought to be likely to occur in the near future. These changes may have a significant effect on housing need beyond 2018 and through to the end of the Local Plan period in 2031. Evidence currently known of housing need in 2021 and beyond is obviously much more significant than what happened 13 years ago in 2008, particularly considering the huge changes likely due to the effects of Covid-19, the Lockdown, economic

recession, rising unemployment and increased house buying difficulties for younger people.

8) Therefore such large present and future changes should not be reduced in their impact by averaging in data from well before these significant events.

9) An additional negative aspect of the 10-year trend is that it gives higher numbers for migration when lower migration is expected for a number of reasons.

10) Air travel into the UK is down significantly from 4.2 million in January 2020 to just around 100,000 in April after Lockdown (source: Forbes.com). This must affect migration particularly as most migrants enter the UK by air. Gatwick Airport recently stated that air travel might not return to pre-pandemic levels until 2025. Many aviation analysts predict that the air travel downturn may never recover to pre-Covid-19 levels. With stronger border checks, quarantines, longer check-in periods and higher prices it is inevitable that lower passenger numbers will result. Thus future international immigration levels will remain low.

11) With the downturn in the economy it seems also clear that inter-UK migration will also drop.

12) Thus the 10-year migration trend chosen by ORS is the most ill-suited of all the variants to project forward beyond the year 2020. The ORS assertion that the 10-year trend data should be employed is not proportionate or indeed relevant to the evidence and is not methodologically robust.

13) The better ONS variants to employ are either the Principle Projection (2-year migration trends), or the 5-year migration trend. For the Local Plan period the outline figure for North Herts is 6,393 (2-year trend); and 7,433 (5-year trend). This compares to the ORS calculation (10-year trend) which shows a much higher outline figure of 8,638.

b) But what does ORS then calculate and why this is wrong?

14) To their figure of 8,638 houses ORS adds a further 1,470 for the following reasons that are fundamentally flawed.

15) ORS states that 797 of the 1,470 were missing from the period 2001-2011 as insufficient houses were built in that decade and that therefore these houses should be provided for in the current Local Plan.

16) But if houses had not been available in that decade resulting in people then not being able to buy/rent in North Herts, in all probability they have moved on. If a household couldn't form because of a lack of housing 10 – 20 years ago it doesn't follow that houses should be provided for them now.

17) To support this calculation ORS gives an assessment of the impact of declining household rates between 2001-2011 for age groups from 16-40 only (figure 13). They have ignored the effects of age groups higher than 40 (though they have, inconsistently, included all age groups - 16-80s - in a similar study in Luton). It is very well possible that in North Herts the effect of higher age groups could negate that of the lower age groups (e.g. older people downsizing, or moving into care homes, to free up houses). This missing data - without any explanation - makes the ORS conclusion unreliable.

18) They also state that had the rates not declined during this 2001-2011 period these additional 797 households would have formed in North Herts. It cannot be assumed that young people did not create a household in North Herts because of a lack of

housing; there could be many reasons for their decision (e.g. job offer elsewhere, desire to go travelling).

19) ORS also maintains that a further 673 houses were overlooked by the Department of Communities and Local Government (CLG) and the ONS for the period 2011-2031. This calculation employs the 10-year trend variant and seems to be based on data from Figure 12 in their paper with no link given as to that data source. Again the arguments above for the decade 2001-2011 apply beyond 2011.

20) For these reasons the 797 +693 houses calculated by ORS should not be added to the 6,393 from the ONS Principle Projection.

21) *Interestingly, in their last household projection for North Hertfordshire carried out in October 2019, ORS did not mention the supposed significance of this 'suppressed' household formation. None of these extra house numbers were added to their calculations only 11 months ago, but the statistics were certainly available, with some going back to 2001. If it was so important why was this not flagged up beforehand?*

22) With the removal of the 1,470 extra houses, therefore, the ONS Principal Projection remains at either 6,393 or 7,433 using the other two variants.

c) But what about the so-called 'Market signals'?

23) Market signals are a bit of a mystery, covering a range of variables such as land and house prices, private sector rents, overcrowding and concealment, under occupation etc. Councils and their consultants have to apply Market Signals to the outline housing numbers. Application of market signals is open to very great interpretation, none more so than now in regard to these ORS calculations.

24) ORS has applied a +10% uplift to the housing projections as a consequence of market signals. No justification is given (in para 40) other than the same uplift has been applied in previous years and by other local authorities.

25) But this 10% increase bears little relation to today's market signals, stemming from Covid-19, Lockdown and economic recession.

26) The following market signals are relevant today:

- House building expected to be 35% lower in 2020 compared to 2019 (Knight Frank);
- The Construction Products Association predicts new housing starts will be only 40% of last year's numbers. 2021 housing starts will be 25% down on 2019, and dependent on a strong economic recovery;
- The Office of Budget Responsibility (OBR) predicts an annual GDP drop of initially 20% reaching -5% in 5 years' time with a worse case of -10%;
- A 15% deposit is now generally required to get a mortgage. That deposit, or even part of the deposit, has to be earned by the borrower –no bank of Mum and Dad (data Hometrack).
- The Bank of England predicts (August 2020) that the unemployment rate will increase after Lockdown and the furlough scheme to reach 7.5%. That equates to 2.46 million unemployed which is 1.2 million more than in 2019;
- The EU Commission states that the EU faces a deep and uneven recession. This is bound to reflect on UK economic activity;
- National debt to GDP ratio has just exceeded 100%.
- Immigration to the UK has dropped sharply since Covid-19.

27) These predictions indicate a severe down-turn in the house purchasing power of the UK public and the developers' ability to build must, and will, reflect that – which is not to say that the builders will not increase their already overflowing land bank if it is offered to them via this Local Plan.

28) Therefore true Market Signals on the need for new houses are in reality deeply negative. A Market Signals effect of **-20%** is more likely to be the case. However, that might result in a heavily skewed OAN that could be too low and might not reflect any economic upturn over the mid-term. I offer (in Appendix B) a range of Market Signals calculations from the +10% chosen by ORS through to the - 20%. I believe that Market Signals of between -5% and -15% might be the most appropriate.

d) But there may be extra-counting going on!!

29) However, there is a possibility of extra-counting in the ORS figures, or such a poor and confused explanation of their methodology that this further calls into question their analysis.

30) From figure 14, their chosen Household Growth figure of 8,638 is based upon the ONS 10-year Migration trend. From this they deduce a household projection-based housing need of 8,892 with no explanation how and why these extra 254 houses are added, but I will leave that figure standing. They have added their 10% Market Signals uplift to give the 9,781 in the tabulation. But in para 34 they argue the need for the suppressed household formation going back to 2001-11 and the supposed suppressed formation in the 2018-based household projections (see my paragraphs 14-22 above). They say: '*a 10% market signals uplift would no longer be sufficient, as an uplift of at least 17% would be needed to address the reductions within the headship rates.*'

31) The way this reads is, that, in addition to the 10% uplift, a further 7% uplift is needed for the 17% increase they talk about. Thus, an additional 7% on 9,781 gives 685 extra houses, totalling 10,466. But their calculated figure is 11,445 (rounded up to 11,500) for their new OAN. To reach that figure of 11,445, we need to take the 9,781 – with its 10% market signal uplift added - and then multiply it by 17% which gives 1,663. Adding the 1,663 to the 9,781 gives 11,444 which is the 11,445 figure they show. **Thus, they have increased the number of houses required by a factor of 10% and then a further 17%, not by 10% and then 7%**

32) This raises serious questions about their calculations and inadequate explanations as to how those calculations are derived.

In Appendix B please see further calculations, together with explanatory methodology, showing the impact of the range of revised OANs on housing delivery as discussed above.

From these various OANs chosen, and with the removal of the 1,400 houses proposed for build on the east of Luton sites through to 2031 for the reasons as stated in the methodology, it becomes apparent that in all of these scenarios there will be an over build of housing in North Herts, sufficient to allow some other Green Belt sites to be spared.