

APPENDIX 63

Examination of the South Worcestershire Development Plan

Inspector: Roger Clews BA MSc DipEd DipTP MRTPI

Programme Officer: Helen Wilson BA(Hons)

32 Pennyford Close, Brockhill, Redditch,
Worcestershire B97 6TW
Tel: 01527 65741

Email: progofficer@aol.com

Website: www.swdevelopmentplan.org/examination

Mr P Bayliss
Project Manager
South Worcestershire Development Plan

28 October 2013

Dear Mr Bayliss

INSPECTOR'S INTERIM CONCLUSIONS ON THE MATTERS CONSIDERED AT STAGE 1 OF THE EXAMINATION

As I indicated at the end of the hearing sessions earlier this month, I am writing to give my interim conclusions on the matters considered at Stage 1 of the examination – that is, the soundness of the proposed levels of employment, housing and retail provision set out in policy SWDP3, and whether or not the requirements of section 33A of the *Planning and Compulsory Purchase Act 2004* in respect of the duty to co-operate were met in the preparation of the Plan.

My interim conclusions on Stage 1 are set out in the enclosed paper. In reaching them I have given full consideration to all the written representations made to date on the Stage 1 matters as well as the discussions at the hearing sessions. My interim conclusions are given here without prejudice to the conclusions that will appear in my report at the end of the examination. **Bold type** in the text indicates points on which a modification to the Plan or further action by the South Worcestershire Councils is required.

My most important finding is that the modelling and analysis in the February 2012 SHMA do not provide a reliable basis for identifying the level of housing need in South Worcestershire over the Plan period, for the reasons given in the paper. Thus I must ask the Councils to undertake some further modelling and analysis in order to derive an objective assessment of housing need over the Plan period. Further details of how I consider that should be done are contained in the paper. If the Councils would like any further clarification of what is required, please do not hesitate to contact me, via the Programme Officer.

The need for the Councils to undertake further work on the assessment of housing need will have implications for the timing of the rest of the examination. Clearly it is important that any delay is minimised and for that reason I would ask the Councils, via the Programme Officer, to advise me as soon as possible – and in any case by Friday 8 November 2013 – how long they consider it will take them to carry out the additional work required. This information should be provided in the form of a timetable setting out the principal stages of the work and time estimates for each stage.

My interim conclusions also require the Councils to make revisions to the retail provision requirement figures in policy SWDP3 F and Table 4d, based on the 2013 Update to the *South Worcestershire Town Centres and Retail Strategy*. I would not expect this to be a lengthy process and so I am not seeking a timetable for this work, but it would be helpful if the Councils would advise me, via the Programme Officer and also by Friday 8 November 2013, when it will be complete.

Once the additional housing need assessment work is complete and published, I intend to convene another hearing session, involving the invited Matter 1 participants from the recent round of hearings, to consider its results. I also intend to reconvene the Matter 4 hearing participants to consider the Councils' proposed revisions to the figures in policy SWDP3 F and Table 4d. Hearing statements will be invited from participants on a similar basis as previously. The Programme Officer will make arrangements for those hearing sessions as soon as possible after I receive the Councils' timetable for the additional assessment work.

Following the reconvened hearing sessions, I would expect to reach conclusions on the housing requirement and retail provision requirement for the Plan period. That will conclude Stage 1 of the examination.

It may well be that, once the housing requirement has been established, the Councils will need to consider alternative or additional site allocations to those in the submitted Plan. Thus I am afraid it is not possible at this point to estimate when the examination will progress to Stage 2. I will review the position at the end of Stage 1 and I will ensure that there is no unnecessary delay.

As well as the additional assessment work on housing need and the revisions to the retail provision figures, my interim conclusions require a number of other modifications to the wording of the Plan. I therefore ask the Council to draft the necessary modifications and forward them to me, via the Programme Officer, for my comment.

I am not inviting responses from the Councils or any other party on my interim conclusions. They are provided for the purpose of identifying those matters of soundness on which I consider that further assessment work is needed and, in due course, modifications to the Plan will need to be brought forward. However, I would ask the Councils to let me know as soon as possible, via the Programme Officer, if there are any points of fact or clarification you wish me to address. In particular, please do not hesitate to seek any further clarification you may require over the appropriate approach to the further assessment of housing need.

Yours sincerely

Roger Clews

Inspector

STAGE 1 OF THE EXAMINATION OF THE SOUTH WORCESTERSHIRE DEVELOPMENT PLAN

INSPECTOR'S INTERIM CONCLUSIONS ON THE STAGE 1 MATTERS

The duty to co-operate in the planning of sustainable development (Matter 2)

1. The South Worcestershire Councils' [SWCs] *Duty to Co-operate Statement* and supporting evidence provided to the examination demonstrate that the SWCs have co-operated constructively, actively and on an ongoing basis with each other and with the other Worcestershire councils and prescribed bodies on strategic and cross-boundary matters in preparing the South Worcestershire Development Plan [the Plan]. There is evidence of a similarly appropriate level of co-operation with other neighbouring local planning authorities [LPAs] and with authorities in the West Midlands conurbation. No LPA has stated in terms that they are looking to the SWCs to meet part of their development needs.
2. The main area of controversy is whether or not the SWCs have co-operated effectively over housing provision with the three north Gloucestershire councils who are producing a Joint Core Strategy [JCS], and with Birmingham City Council. It is argued that the Plan fails to take adequate account of unmet housing need in the JCS area and in Birmingham.
3. Dealing first with the JCS area, there has been a series of meetings since at least 2010 involving representatives of the SWCs and JCS councils, at which the possibility that sites in South Worcestershire close to Tewkesbury could meet an element of housing need arising in north Gloucestershire has been discussed. This demonstrates active co-operation between the authorities on the issue. However, there is no current evidence that the JCS councils intend to pursue this approach.
4. Assuming they maintain their current stance, whether or not they ought to do so is a matter of soundness to be considered at the JCS examination. Should their position change, on the other hand, the ongoing nature of the duty to co-operate will require the SWCs to continue to engage in constructive discussions on the issue. The same applies in respect of any other neighbouring LPA which may identify a need for development that they consider should be met in South Worcestershire.
5. Turning to Birmingham, it may well be, on current evidence, that the City Council [BCC] will face a substantial shortfall of land within its boundaries to meet its arising housing need. The extent of the shortfall, and proposals for how it might be addressed, is currently being considered through a sub-regional Strategic Housing Study.

The SWCs are not directly involved in that work, but in my view that is appropriate given their distance from Birmingham.

6. Nonetheless, there have been meetings between representatives of BCC and SWDC to discuss the issue of housing need. At a meeting in 2011 BCC expressed concern at the housing requirement of 20,400 then being proposed by the SWCs. However, their representative made it clear at the Matter 2 hearing that BCC have no objection to the housing requirement figure in the submitted Plan.
7. At this time, therefore, there is no clear evidence that any land in South Worcestershire will be required to meet part of Birmingham's housing need. It would be contrary to the plan-making objectives of the *National Planning Policy Framework* [NPPF] to delay the examination of the Plan until any such evidence may have emerged. In that event, the ongoing duty to co-operate will require the SWCs to engage with BCC and other authorities over the issue.
8. The ongoing duty to co-operate over other LPAs' housing needs is recognised in policy SWDP2 H and its footnotes, which I consider further under Matter 1 below.
9. BCC and the Black Country councils have concerns about the level of employment land provision in the Plan, but that is a question of soundness, considered further under Matter 3 below. There is no evidence that the SWCs have failed to engage adequately with BCC and the Black Country authorities over the matter.
10. As I made clear at the hearing session, the issue of the West Mercia police headquarters at Hindlip Park will be considered further during Stage 2 of the examination.
11. I conclude that the legal duty to co-operate in the preparation of the Plan has been met.

The housing requirement (Matter 1)

The objective assessment of housing need over the Plan period

The assessment of housing need in the SHMA

12. The NPPF advises that Local Plans should meet the full, objectively-assessed needs for housing in the housing market area, as far as is consistent with the NPPF's policies. Consistent with this objective, Local Plans should be based on adequate, up-to-date and relevant evidence, and the assessment of and strategies for housing, employment and other uses should be integrated. In particular, the *Strategic Housing Market Assessment* [SHMA] should identify housing need which meets household and population projections, taking account of migration and demographic change.

13. Using the POPGROUP model, the Worcestershire SHMA (February 2012 – CD.090) identifies three Core Scenarios [CS] of projected population and household change, based on the 2008-based sub-national population projections [SNPP] and 2009 ONS mid-year estimates (CS1, CS2 & CS3). The most recent trend-based projections in CS3 are then modified to reflect the need for additional net in-migration to meet forecast job growth in the Plan area (CS4). Finally, in Sensitivity Scenario 2 (SS2), assumptions are made about future increases in the economic activity rates of older people. These have the effect of substantially reducing the level of in-migration needed to meet the forecast growth in jobs.
14. SS2 is the basis for the Plan's housing requirement figure of 23,200 dwellings for the period 2006 to 2030. The Councils consider that this represents the full, objectively-assessed need for housing in the Plan area over that period.
15. However, I consider that there are three fundamental shortcomings in the approach taken in the SHMA. In combination they mean that its assessment of housing need is unreliable and does not provide a sound basis for the planning of housing provision in the Plan area. I shall deal with each in turn.
16. **First**, the SHMA does not use household representative rates [HRR]¹ drawn from the 2008-based DCLG household projections – the corresponding official projections to the 2008 SNPP – or any other official population or household statistics. Instead, for the purposes of the SHMA, HRR were recalibrated using the total number of occupied properties in the Plan area in 2011, drawn from Council Tax records. While the objective may have been to calibrate HRR to a fixed dataset, the adjustment introduces a degree of inconsistency into the household projection process. This is because an individual occupied property, as considered for Council Tax purposes, may contain more than one household as defined in the Census and other official population and household statistics.
17. Comparison of the Council tax data for occupied properties with household numbers drawn from the 2011 Census – not available until after the SHMA was published – illustrates the point. In each of the three districts of South Worcestershire, the Council Tax occupied properties figure is lower than the Census figure for households: an overall discrepancy of some 1,500. By contrast, when the 2011 household figures drawn from the 2008-based household projections are compared with the 2011 Census figures, the overall discrepancy is significantly lower, albeit with greater divergences in the individual figures for two of the three districts.
18. **Secondly**, the job growth figures underlying CS4 were based on employment forecasts for the three South Worcestershire districts produced by Cambridge Econometrics [CE] in 2009. The CE forecasts

¹ Also sometimes known as "headship" rates.

give annualised employment growth rates well below any of the more recent employment forecasts, by other independent and reputable analysts², that were provided to the examination. Moreover, the CE forecasts predict a modest decline in employment between 2010 and 2020, in contrast to all the other forecasts which predict reasonably strong growth in that decade.

19. Economic forecasting is notoriously difficult and so variations between forecasts need not necessarily cause concern in themselves. Nonetheless, there are two factors which in my view significantly reduce the reliability of the CE forecasts as a basis for assessing future household growth. First, they were explicitly based on a *public sector austerity scenario* which attempted to anticipate cuts in government spending, but they have not been revisited subsequently in the light of actual spending plans. Secondly, and perhaps more significantly, they contain an unexplained anomaly in their treatment of agricultural employment, as follows.
20. The CE forecasts show some 6,000 workers employed in the agricultural sector in South Worcestershire in 2001, rising slightly to about 6,600 in 2010. The number of agricultural workers then slumps to around 3,700 in 2020 before falling more gradually to some 1,800 in 2030. The fall of some 44% between 2010 and 2020 largely accounts for the overall decline in employment predicted by CE for that decade³. No explanation is given for this dramatic predicted decline in agricultural employment. It appears to have no basis in current trends and it is not reflected in any of the other employment forecasts provided to the examination. Each of these predicts a more gradual decline in agricultural employment during the Plan period.
21. **Thirdly**, there is a lack of convincing evidence to support the assumed increases in older people's economic participation rates which provide the basis for SS2. While the Councils refer to national trends in support of the assumptions, the way the latter are derived from the former is not made clear.
22. There may be evidence of a steady rise, nationally, in economic participation by women aged 50-64⁴, but there appears to be no parallel trend among men and, moreover, future increases in the state pension age will not affect men in this age-group. Among the 65-plus age group, it may well be that the number in employment has nearly doubled between 1993 and 2011, but the Office for National Statistics [ONS] report⁵ cited in para 1.7 of Annex Q1(c)3 to the Councils' Matter 1 hearing statement makes it clear that two-thirds of them were working part-time in 2011. It is unclear how this

² Oxford Economics and Experian

³ Manufacturing employment is also forecast to fall over the same period, but much more gradually.

⁴ CD.084, p147, Figure 3

⁵ Office for National Statistics, *Older Workers in the Labour Market, 2012*

tendency would affect older people's ability to substitute for younger in-migrants in the future workforce.

23. I asked the Councils to carry out further sensitivity tests on SS2 to assess the effect of reducing the assumed increases in the economic participation rates of older persons, by half and by three-quarters⁶. The effect was to raise the projected increase in households between 2006 and 2030 by about 2,850 and 4,300 respectively, compared with SS2. The Councils also voluntarily carried out two further sensitivity tests, one applying a flat 10% increase in the participation rate across all 50+ age groups, and the other attempting to define the increase so as to mirror the impact of planned rises in the state pension age. These tests also resulted in significant rises in the projected household figures, compared with SS2.
24. Thus I find both a lack of clear evidence to support the assumptions made in SS2, and a high degree of sensitivity in the model to changes in those assumptions when calculating the housing requirement for the Plan period. Although the Councils refer in paragraph 1.35 of their Matter 1 hearing statement to other factors that might reduce the need for in-migration to meet the forecast increase in jobs over the Plan period, the effects of those factors are not quantified and in any event they did not form part of the SHMA modelling exercise.
25. Because of their fundamental shortcomings, I consider that the Plan is not justified in relying on the February 2012 SHMA, and in particular on SS2, as the basis for defining its housing requirement.

Alternative approaches to assessing housing need

26. Despite the fundamental shortcomings in the way the SHMA was carried out, in principle its approach of beginning with trend-based projections and modifying them to take account of the effect of job growth forecasts is an appropriate one. A similar approach was followed in the evidence prepared for the examination by Nathaniel Lichfield and Partners [NLP], also using the POPGROUP model⁷.
27. NLP had the advantage of access to later SNPP, Mid-Year Estimates [MYE] and household projections, which take account of more recent trends than the 2008-based projections that were used in preparing the SHMA. Compared with the latter, the 2011-based interim household projections indicate a significantly lower rate of increase between 2011 and 2021. In particular, the growth in household formation by those aged 25 to 44 is substantially reduced.
28. However, the DCLG *Statistical Release* setting out the 2011 household projections advises that they show

⁶ Reported in CD.221

⁷ Hearing statement M1/27b (Appendix)

... the long-term trend in household numbers if previous demographic trends in the population and household formation rates were to continue into the future. These interim projections only span for a 10-year period so users that require a longer time span would need to judge whether recent household formation trends are likely to continue.⁸

29. It seems very likely that the 2011-based projections are, at least in part, reflecting the fact that household formation, especially among the 25-44 age-groups, has been suppressed in the years since the global financial crisis of 2008 by a combination of reduced supply and lower effective demand. Some evidence for this can be found in the 2011 Census, which simultaneously demonstrated that there is a higher population and a lower number of households than had been expected from previous projections. At a national level, the Census found about 375,000 fewer households in 2011 than had been predicted in the 2008-based household projections.
30. A recent Town and Country Planning Association paper argues persuasively that just under half that reduction is attributable to suppressed household formation due to the state of the economy and the housing market⁹. The corollary of this is that, under the more favourable economic conditions expected in future years, there will almost certainly be a return to higher rates of household formation. Thus it would be unwise to rely on the household growth rates shown in the 2011-based projections persisting throughout the Plan period.
31. NLP follow this logic by employing two alternative sets of HRR in their modelling. The first, on which their "index" scenarios are based, uses HRR drawn from the 2011-based household projections for the period 2011-2021, then for the rest of the Plan period uses an index of HRR drawn from the 2008-based household projections. This effectively assumes that current trends in household formation will persist until 2021, after which there will be a return to the household growth rates experienced in the years before the financial downturn.
32. Taking into account all the evidence I heard on this point, this is a reasonable assumption. On the basis of current economic trends, I consider it less likely that, after 2021, household growth rates will accelerate beyond the rates experienced before 2008, as envisaged in NLP's alternative "partial catch-up" scenarios.
33. On their "index" basis, NLP's three trend-based "baseline" scenarios produce dwelling requirements for the Plan period of between about

⁸ DCLG, *Housing Statistical Release, Household Interim Projections 2011 to 2021, England*, April 2013, p19

⁹ Alan Holmans, *New estimates of housing demand and need in England, 2011 to 2031*, Town and Country Planning Tomorrow Series Paper 16, September 2013, appended to hearing statement M1/23c. According to the paper, the rest of the reduction is due to the effect of HRR changes associated with increased international migration.

23,500 and 24,600¹⁰. NLP then apply employment forecasts to their first baseline scenario, in much the same way as was done by the SHMA to produce CS4. NLP test the effects of applying both the 2009 CE forecasts used in the SHMA, and recent forecasts produced by Experian. The additional in-migration required to provide enough employees to meet these job forecasts raises the dwelling requirement to 25,300 based on the CE forecasts, and 32,000 based on the Experian forecasts. NLP recommend the latter as the minimum housing requirement for the Plan.

34. NLP's methodology is generally sound. In particular they use realistic assumptions about both future falls in local unemployment rates and increases in economic activity among older age-groups in the period to 2020. Nonetheless, I am concerned that the Experian forecasts on which NLP rely lie at the upper end of the range of employment forecasts provided to the examination. Indeed it is notable that the three Experian forecasts – from 2011, 2012 and 2013¹¹ – gave annual average job increases ranging widely from just under 500 to just under 700¹². These compare with the figures of about 450 jobs per annum from the 2011 Oxford Economics forecasts¹³, and about 250 per annum from the 2009 CE forecasts.
35. Using the Chelmer model, Barton Willmore [BW] follow a similar overall method to the SHMA and NLP in producing a trend-based demographic scenario, this time based on the interim 2011-based SNPP, and then applying employment forecasts to estimate the additional in-migration required to support likely job growth. It seems that their demographic scenario uses HRR drawn from the 2008-based projections throughout, which is likely to overstate the actual household formation rate in the period to 2021.
36. At the same time, while the 2012 Experian employment forecasts BW used were substantially lower than the 2011 figures used by NLP, their analysis appears not to have included the more sophisticated, and realistic, assumptions made by NLP in respect of unemployment and economic participation rates. For both these reasons, I find that it would not be appropriate to adopt BW's recommended requirement of about 34,000 dwellings for the Plan period.
37. The Chelmer model was also used by Pegasus Group and DLP to produce a range of future housing growth scenarios. Leaving aside Pegasus's avowedly unrealistic "zero net migration" scenario, these result in housing requirements for the Plan period ranging from about

¹⁰ The variations depend on which set of demographic inputs are used. The requirement figures also include an allowance for unmet need, which I deal with separately below.

¹¹ The 2011 forecasts were used by NLP, the latter two were provided to the examination by Barton Willmore.

¹² The last figure is a 15-year average of the 2011 Experian forecasts. NLP actually use an annual average increase of 630 jobs in their Experian-based scenario, after extrapolating the forecasts from 2026 to 2030.

¹³ Provided to the examination by Gladman Developments Ltd.

23,700 to around 27,000. However, each of these scenarios is essentially trend-based and does not include the necessary additional step of factoring in the effect of future employment growth on in-migration. Similar comments apply to the analysis presented by Harris Lamb using the *What Homes Where* toolkit.

38. Development Economics Ltd [DE] take a different approach, presenting three assessments of future housing need based on demographic change, economic growth and affordability needs. Balancing these three “drivers”, DE argue for a minimum housing requirement of 36,000 dwellings over the Plan period. However, their assessments appear not to have involved any original modelling work, and the economic growth assessment in particular is based on less sophisticated assumptions than those which informed the NLP work.
39. Finally, PSL Research Ltd provide an analysis of the SHMA work which identifies some of the shortcomings I have outlined above and proposes adjustments to the SHMA figures to rectify them, leading to a recommended requirement figure of about 26,800 over the Plan period. While PSL’s analysis is illuminating, their adjustments to the SHMA figures are essentially broad estimates, and moreover they do not seek to correct for the effect of the 2009 CE employment forecasts which I regard as insufficiently reliable.
40. The SWCs themselves commissioned a further examination of the demographic and economic impacts of the SWDP’s policies, published as *South Worcestershire Demographic Forecasts* in August 2013 (CD.220). Its main output is a “dwelling-led” forecast which presents an illustration of the demographic implications of the target level of housing growth in the Plan. While this forecast takes account of more recent official population and household statistics than the SHMA, it is not intended to constitute an assessment of housing need as required by the NPPF.

Conclusions on the assessment of housing need

41. For the reasons given above, the analysis in the February 2012 SHMA does not provide a reliable basis for identifying the level of housing need in South Worcestershire over the Plan period. This is principally because it introduces inconsistency into the calculation of HRR, uses employment forecasts which appear significantly out of line with those produced by other reputable forecasters, and places reliance on unsupported assumptions about a substantial increase in older people’s participation in the workforce.
42. Nonetheless, the SHMA’s underlying methodology, which involves modelling a trend-based demographic growth scenario and then modifying it to take account of additional in-migration resulting from forecast employment growth, is essentially sound. The inclusion of an assessment of job-related in-migration is particularly necessary in

South Worcestershire in view of the well-documented relative ageing of the population over the Plan period.

43. For the reasons given in the previous section, I consider that none of the other analyses of housing need presented to the examination provides a sufficiently firm basis on which to derive an overall housing requirement for the Plan period. Nonetheless there are useful elements in some of the analyses which could contribute towards a sound assessment of the requirement.
44. Thus **I must ask the Councils to undertake some further analysis in order to derive an objective assessment of housing need over the Plan period.** From what is said above, it should be clear that in my view the demographic stage of that analysis should be carried out using the latest available official population projections, combined with NLP's "index" approach to translate those projections into future household numbers. The "index" approach uses HRR drawn from the 2011-based household projections for the period 2011-2021, and an index of HRR drawn from the 2008-based household projections for the rest of the Plan period.
45. It is more difficult to indicate clearly how the employment growth stage of the analysis should be conducted, principally because of the large variations in the employment forecasts provided to the examination. As a first step in this stage, therefore, the Councils will need to satisfy themselves that they have up-to-date and realistic employment forecasts to inform the analysis. This is likely to mean examining and comparing forecasts from more than one source to ensure as far as possible that any they rely on are representative of the likely economic situation over the Plan period.
46. Once representative employment forecasts have been obtained, the Councils will need to assess their implications in terms of in-migration. For the purposes of this assessment I would endorse, in principle, NLP's assumptions about both future falls in local unemployment rates and increases in economic activity among older age-groups in the period to 2020. A similarly realistic assessment will need to be made of any further increases in older people's economic activity in the following decade.
47. It will be helpful to me for the Councils to prepare more than one employment-based scenario to illustrate the implications of different levels of employment growth, provided that each is based on up-to-date and representative forecasts. It is also likely to be helpful for sensitivity tests to be carried out on any significant assumptions made in this stage of the analysis.
48. I should add that, as with the original SHMA analysis and many of the other analyses I have referred to, separate modelling will need to be carried out to assess the level of housing need in each local authority area separately, before the results are brought together to give a objectively-assessed need figure for South Worcestershire as a

whole. In the interests of comparability, all the modelling should cover the same time period (2006-2030) and be set out in similar formats as were used in chapter 6 of the SHMA.

49. Clearly I cannot predict the outcome of this additional work. However, the 2009 CE employment forecasts on which SHMA CS4 was based show levels of employment growth well below any of the more recent employment forecasts provided to the examination. Added to this, the unsupported assumptions used to derive SS2 had the effect of substantially reducing the projected growth in households derived from CS4. As a general guide, therefore, it appears from the evidence before me so far that the objectively-assessed housing need figure for the Plan period is likely to be substantially higher than the 23,200 figure identified in the submitted Plan.

Other issues relevant to Matter 1

Does the proposed housing requirement take adequate account of the need for affordable housing?

50. The SHMA contains a robust assessment, in accordance with DCLG's *Practice Guidance*, of the need for affordable housing in the Plan area. Based on this assessment, and taking into account the committed supply of affordable housing, the *Housing Background Paper* (CD.084) identifies a net requirement over the remainder of the Plan period (2012-2030) of some 6,280 affordable dwellings¹⁴.
51. Of this requirement, the SWCs calculate that about 4,110 can be delivered between 2012 and 2030 from the uplift in land value associated with housing developments allocated in the submitted Plan¹⁵. This figure is informed by the *Affordable Housing Development Viability Study* (CD.103) and reflected in the requirements of policy SWDP15, which will be considered at Stage 2 of the examination.
52. This leaves a need for over 2,000 affordable dwellings which is not specifically met by the Plan as submitted. The recalculation of the assessment of housing need which I am asking the SWCs to carry out is likely to lead to an increase in the Plan's overall housing requirement, which may in turn increase the amount of affordable housing that can be delivered in association with market housing developments. Nonetheless, it is probable that a gap will remain between the need for affordable housing and the amount that can be specifically delivered through the Plan.
53. While this is regrettable, on current evidence I see no feasible means of overcoming it through further changes to the Plan. Increasing the proportion of affordable housing required from development beyond

¹⁴ CD.084, p152, Table 4

¹⁵ CD.084, p153

a viable level would be counter-productive, while simply increasing the overall housing requirement in proportion to the unmet affordable housing need would result in a substantial surplus of market houses and so would be economically unrealistic.

54. Additional affordable supply, over and above that identified in the Plan, would come forward from schemes such as that run by the Worcester Lettings Agency to bring derelict houses back into use. Other affordable housing initiatives such as housing association and local authority new-build schemes, and developments delivered through rural exceptions policy, neighbourhood plans and Community Right to Build are not included in the Plan's supply figures and would also contribute to reducing the gap in provision.

Does the proposed housing requirement take adequate account of any past under-supply of housing in the Plan area?

55. The intention of the SHMA was to carry out an objective assessment of housing need over the whole of the Plan period, 2006-2030. For the reasons set out above, I consider that its assessment is unreliable and that further work is needed to ensure that a satisfactory objective assessment of need over the whole Plan period is made. Once that has been done, there will be no need to consider past under-supply, as I will expect the Plan to make provision for the full assessed level of need.

Is there justification for the Plan's base date of 2006?

56. The Council made it clear at the hearing session that the base date for the Plan was chosen to coincide with the start date of the *West Midlands Regional Spatial Strategy* [WMRSS] review period. With the revocation of the WMRSS and the passage of time, the date now appears somewhat arbitrary. Nonetheless, all the evidence of housing, employment and retail need has been prepared on that basis, and it would be unhelpfully disruptive to insist that the base date be changed at this point in the preparation process. The Plan looks forward at least 15 years from its likely adoption date and so is consistent with the advice in NPPF paragraph 157.

Does the Plan place unjustified reliance on a review in 2019 in order to meet the full housing requirement for the Plan area?

57. As submitted, the Plan aims to meet what the SWCs regard as the full, objectively-assessed need for housing within its area. That aim is consistent with national planning policy. Once a revised housing need figure has been arrived at, on the basis I have outlined above, it will be for the SWCs to show how the need will be met through the Plan. It would not be appropriate to rely on a review of the Plan to meet part of the objectively-assessed need.
58. In considering Matter 2 above, I referred to the ongoing duty on the SWCs to co-operate with other LPAs, including the JCS councils and

BCC, in respect of any housing need that might arise in their areas which they consider should be met in South Worcestershire. This duty is recognised in policy SWDP2 H and its footnotes. However, as currently worded the policy is not entirely clear or effective. Moreover, its requirement that another LPA's housing needs must be set out in an adopted Local Plan before they can be considered for inclusion in the SWDP is too stringent, as it might be impossible for that other LPA to adopt their Local Plan until such consideration has been given.

59. In my view **policy SWDP2 H needs to be reworded** along the following lines:

As required by the Duty to Co-operate, due consideration will be given, including through a review of the SWDP where appropriate, to the housing needs of another local planning authority in circumstances when it has been clearly established through that LPA's Local Plan process that those needs must be met through provision in the SWDP area.

60. **Footnote 8** would then become unnecessary and **should be deleted**. Its reference to a review of the Plan in 2019 is too restrictive given that, in principle, circumstances could dictate that an earlier review is required.
61. In the interests of consistency, these changes are also likely to require corresponding **modifications to policy SWDP62/2**. I invite the SWCs to consider this point and make appropriate proposals.

Is there justification for the level of windfall allowance?

62. NPPF paragraph 48 enables LPAs to make an allowance for windfall sites in the five-year housing land supply if there is compelling evidence to support this. The five-year supply is not a static measurement but rolls forward each year. In principle, therefore, I see no objection to the Plan accounting for windfalls as part of the supply of housing over the Plan period identified in policy SWDP3 G and Table 4e.
63. The Councils have provided evidence of recent windfall supply rates on small sites of less than 10 dwellings, or less than five dwellings in the case of Malvern Hills. In order to avoid double-counting with existing commitments, the windfall rates are applied from 2016/17 only, and they are reduced by one-third to allow for uncertainty at the end of the Plan period. An adjustment is also made to account for small-site allocations in the first 10 years. With these adjustments in place, it is reasonable to suppose that windfall developments will come forward on the basis that the Councils assume.
64. NPPF paragraph 48 also makes it clear that windfall allowances should not include residential gardens. In this respect the evidence before me is not entirely clear and I need to seek further clarification

from the Councils. I will write to the Councils separately on this point. **Depending on the outcome of this clarification process, the actual level of the windfall allowance, as set out in the submitted Plan, may be confirmed or may need to be adjusted.**

Is there justification for the level of allowance made for bringing empty homes back into use?

65. The calculation of the housing requirement derived from the SHMA includes a 3% allowance for vacant homes to allow for turnover, or “churn”, in the housing market. As the SHMA makes clear, this level of vacancy allowance is commonly made in housing requirement calculations¹⁶. It corresponds almost exactly to the vacancy rate of 2.9% for South Worcestershire in October 2010 that can be derived from SHMA Figure 3.1.
66. While NPPF paragraph 51 advocates bringing empty houses back into use, it gives no guidance on including them in the assessment of housing land supply. Nonetheless, Table 4e of the submitted Plan includes an allowance of 550 dwellings in the overall housing supply for bringing long-term empty homes back into use. Long-term empty homes are defined as those that have been unoccupied or substantially unfurnished for more than six months. There were 1,364 such dwellings in South Worcestershire in October 2011¹⁷. The Councils say that advice from their housing support teams indicates that about one-third of long-term empty homes are in danger of being lost to the supply without intervention.
67. The *Housing Background Paper* gives figures showing that Wychavon brought 254 empty homes back into use between 2006 and 2012, and I was told at the hearing session about similar initiatives elsewhere. Despite this, I can find no clear evidence of how the actual allowance figures for each sub-area were derived. Although the SWCs do refer to the overall figure of 550 dwellings as corresponding to 12% of the SHMA vacancy allowance¹⁸, it is not made clear how that percentage has been arrived at.
68. Thus I am not persuaded that the Table 4e allowance of 550 dwellings over the Plan period is soundly based. It would represent 40% of all the long-term empty homes that existed in South Worcestershire in 2011 – that is to say, more than the one-third of such homes that the SWCs regard as in danger of being lost to the supply. Even if assumes that the same proportion of the additional dwellings built over the Plan period also fall into long-term disuse,

¹⁶ SHMA, para 6.100

¹⁷ See CD.084, Appendix 11, Annex 1

¹⁸ Hearing statement M1/1, para 1.149

that only adds a further 82 dwellings to the number potentially lost to the supply¹⁹.

69. Thus an allowance of 550 dwellings would represent a success rate of over 100% in bringing such homes back into use. That is evidently implausible. Moreover, the figures for long-term empty homes change significantly from one year to another – in 2004 the figure in South Worcestershire was as low as 988, whereas in 2009 it was 1,829. In Wychavon the figure rose by 272 between 2006 and 2009, despite the Council bringing 126 empty homes back into use over the same period, according to the SWCs' figures.
70. This shows that fluctuations in the market are a far more significant factor in reducing (or increasing) the proportion of long-term empty homes than local authority initiatives, valuable though the latter are. Indeed it suggests that in many cases local authority initiatives, rather than preventing properties from being lost to the supply altogether, only speed up the process of returning it to use. While that is of course to be welcomed, it does not justify treating dwellings that would have returned to use in any case, albeit somewhat later, as additions to the overall housing supply.
71. Taking all these points into account, **I conclude that the Plan's allowance of 550 dwellings in the housing supply for bringing long-term empty homes back into use is not justified.**
72. If the SWCs wish, and are able, to bring forward further evidence to justify a lower allowance figure, I would be prepared to consider that evidence at the reconvened Matter 1 hearing. However, it would need to demonstrate robustly (i) that any figure included in the allowance corresponded to dwellings that would otherwise remain empty throughout the whole Plan period, and (ii) that there were firm, evidence-based arrangements in place to ensure that the dwellings are brought permanently back into the housing supply. Any such evidence should be provided on the same timescale as the revised assessment of housing need referred to above.

Is there justification for the level of allowance made for dwellings released when their residents move into extra care accommodation?

73. There is clear national and local policy support for the provision of extra-care housing for older people. The *Worcestershire Extra Care Housing Strategy* (CD.218) identifies a need for some 2,600 such housing units in South Worcestershire between 2012 and 2026. It indicates that extra-care dwellings should be self-contained, each

¹⁹ The arithmetic is: 22,785 (Plan supply figure minus the 550 "empty homes" allowance) x 3% (SHMA vacancy rate) = 686.25 x 12% (SWCs' assumed proportion of vacant homes in danger of loss to supply) = 82.35. This figure is a little generous because it includes 2006-11 completions which must already be included in the 2011 vacancy figures, and it also assumes that new houses will fall into long-term vacancy at the same rate as older stock.

with their own kitchen and bathroom, as distinct from the shared facilities found in residential care homes. On this basis, the *Strategy* considers that extra-care housing should be classified within use-class C3, the dwelling-house class.

74. However, the SWCs point to two recent appeal decisions in which self-contained extra-care housing was deemed to fall into use-class C2 – *use for the provision of residential accommodation and care*²⁰. They also provide evidence that, when submitting applications, some developers are choosing to categorise extra-care housing as C2 on the grounds that, among other things, it may reduce their liability to provide affordable housing or CIL.
75. The needs of older people for extra-care housing are encompassed within the Plan's overall (C3) housing requirement: they are not assessed as a separate category. The SWCs' concern is therefore that if a proportion of extra-care housing provided during the Plan period is classified as C2 rather than C3, it will appear as if that element of the housing requirement has not been met, when in fact it has. They propose to overcome this by making an allowance in the supply figures for the dwelling-houses that are "released" when their occupants move into extra-care housing that has been classified as C2.
76. I accept that there are monitoring difficulties which arise from the ambiguity over the position of extra-care housing in the use-class spectrum. But in my view those difficulties do not justify the Council's decision to make an allowance in the supply figures in SWDP Table 4e for "extra-care housing release". Such an allowance could only be justified if the Plan made separate provision in the supply for C2 extra-care housing.
77. Because no such separate provision is made in the Plan, any C2 extra-care developments will have to come forward on allocated or windfall sites that would otherwise be available for C3 housing. No actual addition to the housing supply already identified by the other elements of Table 4e will have occurred. Making an allowance for the dwelling-houses "released" by their occupants in these circumstances would therefore be inappropriate, as it would, in effect, constitute double-counting. For these reasons **the allowance for "extra-care housing release" in SWDP Table 4e should be removed.**

Does the Plan make adequate allowance for the non-delivery of housing commitments?

78. The Plan applies a non-delivery discount rate of 4% to all commitments – that is to say, sites with planning permission for housing – excluding dwellings under construction²¹. That rate is supported by detailed evidence of lapsed planning permissions for

²⁰ See hearing statement M1/1, Annex 1(n), para 18

²¹ See footnote B to SWDP Table 4e.

each of the three districts (EX.214-217b). However, the information for each district covers a different period of time, ranging from 18 years at Worcester City to six at Wychavon. Moreover, the “average” lapse rate for each district appears to have been arrived at by calculating the mean of the percentage lapse rates for each year. This is mathematically inexact if the objective is to assess the overall percentage lapse rate over the period in question.

79. I also note that, in Malvern in particular and to a lesser extent in Worcester, there are much higher annual lapse rates in the years after 2007 compared with the period from 2000 to 2007. In order to achieve a robust discount figure that takes account of recent market conditions, and is reasonably consistent across all three districts, I therefore consider that it should be calculated by reference to figures from 2006/07 onwards – the earliest date for which figures for Wychavon were provided.
80. Summing all the available figures for lapsed permitted dwellings since 2006/07, and dividing that sum by the total number of dwellings with outstanding planning permissions over the same period, gives an average lapse rate of 4.8% across South Worcestershire. On this basis **I conclude that a robust and sound non-delivery discount figure to be applied to commitments in SWDP Table 4e is 5%**, rather than the 4% used in the Plan as submitted.
81. In reaching this conclusion I note that the inspector in the Honeybourne appeal²², to which many respondents referred, and some other inspectors have applied a 10% non-delivery discount rate when dealing with section 78 appeals on housing development. But I have based my conclusion on the detailed evidence provided at this examination, which does not all appear to have been before those other inspectors.

Should the Plan set out district-wide housing figures for each of the three LPAs in the Plan area?

82. An important factor in the decision of the three SWCs to prepare the SWDP jointly is that Worcester City’s built-up area is tightly constrained inside its boundaries. There is insufficient space in the City’s administrative area to meet all its needs for development, especially housing.
83. Hence the Plan proposes that a share of Worcester’s housing need should be met on sites just outside and abutting its boundary, in both Malvern Hills and Wychavon (policy SWDP3 H). The Worcester City administrative area together with the urban extension sites directly abutting it are referred to in the reasoned justification to policy SWDP3 as the Wider Worcester Area [WWA].

²² Land between Station Road and Dudley Road, Honeybourne – Ref APP/H1840/A/12/2171339

84. Because of natural and environmental constraints, Malvern Hills district is also seen by the Councils as having limited ability to accept new development. The Plan therefore proposes that part of its housing need be met in the WWA and part in Wychavon.
85. These arrangements are entirely in line with the approach suggested in NPPF paragraph 179 to deal with situations where development requirements cannot wholly be met within an LPA's own area. Accordingly, policy SWDP3 D and Table 4b of the Plan contain separate housing apportionments for the WWA, Malvern Hills excluding the WWA, and Wychavon excluding the WWA. The policy specifies that the apportionments are non-transferable between these three areas.
86. Some respondents have pointed out a potential difficulty, in that NPPF paragraph 47 indicates that each LPA must be able to demonstrate a five-year housing land supply in its own area. My view is that this difficulty can be overcome by **making it clear in the Plan that, for the purposes of monitoring their five-year housing land supply, Malvern Hills and Wychavon will make separate calculations for those parts of their administrative areas within and outside the WWA**, in accordance with policy SWDP3 D and Table 4b. (The issue does not arise for Worcester City because its administrative area apportionment is already set out in the Plan.) This would be in addition to the sub-area-based monitoring described in paragraph 33 of the reasoned justification to policy SWDP3.
87. The High Court Consent Order concerning a Secretary of State [SoS] decision on two appeals by *Richborough Estates* at Sandbach, Cheshire²³ to which I was referred pre-dates the replacement of PPS3 by the NPPF. It also makes it clear that the decisive point in that case was the introduction by the SoS of an additional requirement relating to the five-year housing land supply in part of a district council area *which has no basis in the development plan or PPS3*. By contrast, policy SWDP3 D will, once adopted, by definition become part of the development plan. Because of these material differences I consider that the *Richborough Estates* case has no direct bearing on this matter.

Should the phasing of housing provision in the Plan be adjusted or deleted?

88. Policy SWDP3 E and Table 4c set out the proposed level of housing provision in each of the three sub-areas, divided into three phases: 2006-2013, 2013-2019 and after 2019. Since the first phase effectively represents completions and current commitments, the issue is whether or not the phasing of provision before and after 2019 should be adjusted or deleted.

²³ *Richborough Estates (Sandbach) Ltd v SoS CLG, Cheshire East Council and others*, CO/7802/2011. See hearing statement M1/24b.

89. The SWCs' representative made it clear at the hearing session that the phasing is not intended to hold back development if, for example, it proves possible to exceed the indicated level of provision for 2013-2019. Nor is the phasing specifically linked to the timing of infrastructure provision, albeit that there may be particular timing requirements applying to some individual sites. (These will be considered during Stage 2 of the examination.)
90. Instead, the SWCs' representative said that their intention was that the phasing would encourage development to come forward sooner in the Plan period rather than later. This is reflected in the higher annual rate of provision for 2013-2019 compared with the period after 2019.
91. Merely indicating a certain rate of provision will not in itself mean that development comes forward, however. In this regard, the robustness of the SWCs' housing delivery trajectories will be examined at Stage 2. In the absence of any other justification for the phasing of the sub-area housing provision totals, my view is that **the reference to phasing in policy SWDP3 E should be deleted**. This would effectively make that sentence of the policy redundant, since the sub-area totals are already set out in policy SWDP D and Table 4b.
92. It is a matter for the SWCs whether or not they retain Table 4c, or a variant of it. But **if they choose to do so, it should be made clear that any future phasing indicated in it is indicative, and not intended to prevent development from coming forward earlier than indicated**. Any indicative phasing shown would of course need to be consistent with the SWCs' housing delivery trajectories.

Should the five-year housing land supply include provision for a 5% or 20% buffer?

93. NPPF paragraph 47 advises that when calculating their five-year housing land supply, LPAs should include an additional buffer of 5% moved forward from later in the plan period. Where there has been a record of persistent under-delivery of housing in their area, LPAs should increase the buffer to 20%. Whether a 5% or a 20% buffer is used is relevant to the calculation of housing delivery trajectories for the Plan period.
94. Appendix 9 to the SWCs' *Housing Background Paper* (CD.084) sets out housing completions for three Council areas from 1996 to 2011. It indicates that Worcester City and Malvern Hills met their total requirements for that period derived from the former WMRSS and Worcestershire County Structure Plan, while Wychavon under-provided by about 10%. On this basis the Council argue that there has not been persistent under-provision of housing in the Plan area.

95. Many of the respondents who contend that there has been persistent under-provision base their argument on a shorter time-period, typically beginning in 2006. The inspector in the Honeybourne appeal²⁴, to which many respondents referred, based his findings of persistent under-delivery on the same period. But it is unclear from his decision whether or not he had evidence of delivery from earlier years. In any case, while that approach was found to be appropriate when considering the current five-year land supply in the context of a section 78 inquiry, it is appropriate to take a longer perspective when dealing with a Plan whose period extends to 2030.
96. Moreover, the Honeybourne decision only considered the housing land supply in Wychavon district, as did the Evesham decision²⁵ to which reference was also made. While the inspector who dealt with the Rushwick appeal²⁶ stated that Malvern Hills council *has very significantly underperformed* [in the delivery of housing] *on a persistent basis*, he did not elaborate on the basis for that statement.
97. The SWCs' assessment of housing delivery in Appendix 9 to CD.084 takes no account of the higher housing requirement figures from 2006 onwards set out in the WMRSS Phase 2 Revision Panel Report. Had it done so, it is likely that, against those figures, their assessment would have shown significant under-delivery of housing in the Plan area since 2006. But taking into account that the Panel's recommended figures have never had formal development plan status, I consider that under-delivery against those figures, when balanced against a record of successful provision in the preceding 10 years, should not be regarded as persistent under-delivery for the purposes of this examination.
98. It follows from this that **a 5% buffer should be used when calculating whether or not the Plan's housing delivery trajectories will deliver a five-year housing land supply** in accordance with NPPF paragraph 47. It would nonetheless be prudent also to calculate the five-year supply using a 20% buffer, in order to test the robustness of the trajectories.

The employment land requirement (Matter 3)

99. At the hearing, the SWCs made it clear that the Plan's employment land requirement of 280ha over the Plan period is based primarily on the annual average of employment land developed across the three council areas over the 21 years from 1992 to 2013²⁷. That is an appropriate length of time, taking in periods of both growth and recession. Although the requirement figure is somewhat higher than

²⁴ See footnote 22.

²⁵ Land off Cheltenham Road, Evesham – Ref APP/H1840/A/13/2195014

²⁶ Land at Green Hedges, Claphill Lane, Rushwick – Refs APP/H1840/A/12/2187934 & 2193129

²⁷ See the table in EX.109a, Annex 1

would result from a strict extrapolation of the 21-year average²⁸, the difference is justified given that there are some gaps in the data from which the average was derived, notably in Wychavon where only developments over 0.4ha were recorded.

100. While the *South Worcestershire Employment Land Review* prepared by GVA Grimley in February 2008 (CD.073) provides no direct support for the requirement figure, the evidence base that underlies that review is now quite dated. The more recent report of the same title by Roger Tym and Partners (March 2011 – CD.074) does not seek to set out a requirement figure.
101. The Councils' *Economic Prosperity Background Paper* (CD.070) sets a goal of 25,000 additional jobs in South Worcestershire between 2011 and 2030. That implies an annual employment growth rate of around 1%, comparable with the rate experienced during the decade of strong economic performance between 1998 and 2008²⁹. This rate is significantly higher than the growth rates implied in the economic forecasts provided to the examination for the discussion of Matter 1. Nonetheless the *Background Paper* makes it clear that the Councils have deliberately chosen an optimistic figure in order to ensure that there is no planning barrier to economic growth, reflecting guidance in NPPF paragraph 19.
102. Employment land take-up rates between 1998 and 2008 were somewhat higher than the 1992-2013 average, and on this basis the *Background Paper's* goal of 25,000 jobs provides further support for the Plan's 280ha requirement figure. Even if, as seems likely, actual employment growth is lower than that goal, the requirement will help promote economic development by ensuring that a wide range of sites is available for developers and businesses. It will provide flexibility to accommodate unanticipated needs and rapid economic change.
103. BCC and the Black Country councils expressed some concern at the hearing that the amount of employment land required by the Plan might threaten their own regeneration objectives. It was suggested that the WMRSS Phase 2 Revision Panel's recommended figure of 244ha would be more appropriate. However, that figure is for a 20-year period and implies an annual take-up rate somewhat greater than that implied by the Plan figure. Moreover I was given no specific evidence to show how the provision of employment land in South Worcestershire in general threatens investment in the West Midlands conurbation. (The issue of the Worcester Technology Park in particular will be considered during Stage 2.)
104. Taking all these points into account, I conclude that the employment requirement figure of 280ha set out in policy SWDP3 C is soundly

²⁸ A strict extrapolation of the 1992-2013 annual average would give a figure of 255.6ha for the Plan period.

²⁹ See CD.074, Table 3.4 on p15.

based. No evidence was submitted to indicate that the distribution into sub-area totals set out in Table 4a under that policy is inappropriate. However, in order to provide necessary flexibility, **the policy needs to make it clear that the sub-totals are not intended to put a cap on employment development in any of the sub-areas.**

The requirement for retail provision (Matter 4)

105. Policy SWDP3 F and Table 4d set out an overall retail floorspace requirement of 50,000sqm over the Plan period, of which 28,000sqm is allocated to Worcester City with a further 2,000sqm outside the city boundary in the WWA. The policy figures, as submitted, correspond to the findings of the *South Worcestershire Town Centres and Retail Strategy Update 2010* (CD.192-195), which had an end-date of 2026.
106. However, in their hearing statement the SWCs presented figures drawn from a more recent update to the Retail Strategy carried out in 2013. The 2013 Update took account of several more recent datasets than had been available in 2011, including the 2011-based interim SNPP and Experian's September 2012 *Retail Planner Briefing Note 10.1*. It also rolled forward the end-date of the forecast period to 2031.
107. Notwithstanding these changes, the 2013 Update continues to forecast a surplus of convenience goods floorspace in all town centres except Malvern, where a need for some 664sqm by 2031 is identified. In respect of comparison goods floorspace there are more significant changes in the forecast level of need, most notably in Worcester. Much, but not all, of the forecast need for additional floorspace will be met by existing commitments.
108. In the interests of soundness I consider that **the figures in policy SWDP3 F and Table 4d should be revised to reflect the findings of the 2013 Update**, as – unlike the 2010 update – the 2013 version is based on up-to-date information and covers the whole of the remaining Plan period. This will provide a firmer basis on which to determine, during Stage 2 of the examination, whether or not the Plan makes adequate provision to meet the assessed level of need.
109. The 2013 Update was criticised for relying on household surveys which were conducted in 2006 or 2007 and so do not reflect subsequent changes in shopping patterns, or spending by those living outside the study area. However, I am not persuaded that any such changes or additional spending are likely to have been so significant, particularly in a period characterised by recession and slow growth, as to justify the cost and delay involved in commissioning new or additional surveys.

110. There are also concerns that the Plan ought to be more aspirational in seeking to claw back to Worcester local comparison spending that currently goes out to centres like Birmingham, Merry Hill and Cheltenham. But I share the Councils' view that this is more likely to be achieved as a result of market competition than by increasing the retail floorspace requirement beyond a level that reflects an up-to-date needs assessment. In this respect, the important question is whether or not there are opportunities for growth over and above that required to meet the assessed need, especially in Worcester city centre. That is a question for Stage 2 of the examination.

Roger Clews

Inspector

28 October 2013