Central Lancashire Housing Requirements Study

Report submitted to The Central Lancashire Planning Authorities

March 2011

Contents

List of figures

List of tables

1.0 Introduction

Ecorys were commissioned in December 2010 to assist the Central Lancashire authorities in assessing the appropriateness of the North West Regional Spatial Strategy (RSS) housing requirement figures for Preston, South Ribble and Chorley Districts in the current economic conditions.

1.1 Purpose of the Report

The purpose of this report is to present an independent assessment as to whether the short term approach to lower housing requirement figures proposed in Policy 4 of the Publication Core Strategy[1] is justified from economic and housing delivery points of view.

1.2 Report Structure

The remainder of this section summarises the Central Lancashire authorities rationale for the short term approach to lower housing requirement figures, sets out the 10 tasks that underpinned Ecorys' assessment and describes the assessment tools used.

The remainder of the report is then structured as follows, indicating where the results of the individual assessment tasks will be reported. The assessment tasks are set out in paragraph 1.4.

Section 2, The Big Picture, sets out the relevant points of government economic policy and how they differ from the previous government. This section also summarises the national economic outlook and how that differs from the outlook envisaged in 2007. Finally this section sets out the economic growth forecasts that underpinned the Adopted RSS housing requirement figures for Central Lancashire and a comparison of the latest Communities and Local Government 2008 based household growth projections for Central Lancashire and the North West with the superseded 2006 and 2004 based projections. This section relates to assessment tasks 1, 5 and 6 which are concluded in Section 3.

Section 3, Central Lancashire Update, is the main body of the report and sets out Ecorys' findings based on the latest available data as regards:

i. The current economic position (assessment task 1)
ii. Outlook and resilience (assessment tasks 2, 3 and 5)
iii. Effective demand (assessment tasks 6 and 8)
iv. Housing delivery - including the spatial variations of likely short-term future delivery (assessment task 9)

Section 4, Summary of Key Findings, sets out the key findings of the assessment tasks at Section 3 and compares them with either the actual position in 2006/7, or the forecasts that underpinned RSS (and are summarised in Section 2), and the extent of the deviation is quantified and / or qualified.

[1] Central Lancashire Publication Core Strategy; Preston, South Ribble and Chorley Councils (December 2010) (referenced as 'PCS' throughout this document)

Section 5, **Core Strategy Representations**, summarises the case(s) made in representations received relating to policy 4 by 31st January 2011. It contrasts the representations with the findings contained within Section 3, advises on their justification (in so far as they relate to impacts on housing delivery arising from policy 4) and proposes any changes to Ecorys' assessments and findings that justified representations may merit. This section relates to assessment task 10.

Section 6, **Economic Justification for PCS Policy 4**, presents Ecorys' conclusions as to the justification for setting and applying short-term maximum housing requirements at 80% of the RSS figures for the period 2010-2012.

1.3 Background

Rationale for Reduced Housing Requirements[1] explains the reasons why the Central Lancashire authorities, under Policy 4: Housing Delivery of the Publication Core Strategy (PCS):

"Provide for and manage the delivery of new housing by:

(a) Setting and applying short-term maximum requirements at 80% of the RSS figures for the period 2010-2012 (or until such time as new local housing requirements are produced) as follows:

- Preston 406 dwellings per annum
- South Ribble 334 dwellings per annum
- Chorley 334 dwellings per annum"[2]

In summary, *the economic case* for the above short-term approach established in the Rationale for Reduced Housing Requirements, and which is also presented in Section 8 Homes for all of the PCS[3], is as follows.

The housing provision requirement figures contained in the RSS were the product of a series of exchanges between the Central Lancashire authorities and the Regional Planning Body. Nevertheless they were prepared prior to the recession and based on growth assumptions that, thus far and with the benefit of hindsight, appear to have been highly optimistic.

The impact of the credit crunch and recession has turned out to be worse than expected, and the Central Lancashire authorities observe that assumptions made in March/April 2010 – for example that loan finance would start to become more readily available – have themselves proved to be over optimistic.

Furthermore, as subsequently confirmed by the Comprehensive Spending Review 2010, it is now clear that public funding for housing development will be greatly reduced over the period 2011 to 2014 and that the Coalition government's objective of tackling the sovereign debt crisis will result in reduced public sector spending across the board.

[1] Rationale for Reducing Housing Requirements Background Topic Paper; Preston, South Ribble and Chorley Councils (December 2010)
[2] Page 69; PCS
[3] Page 68; paragraphs 8.10, 8.11, 8.12, 8.13; PCS

Whilst it was clear that such so called austerity measures were inevitable whatever the result of the general election in May 2010, it is equally clear that the Coalition is seeking to make quicker progress at reducing sovereign debt than Labour proposed. The result is deeper public spending cuts than originally envisaged, higher estimated public sector job losses as a result, and less capital funding for housing and infrastructure.

In the first year of the Coalition government and with the greatest public sector cuts planned for 2011/12, the full impact will be felt after March 31st 2011 and as such there is uncertainty over what the implications will actually be. Furthermore, whilst public spending limits have been agreed at programme level, the detail of how the money will be spent/ awarded has not been finalised – the National Affordable Housing Programme is a case in point.

Finally, the Central Lancashire planning authorities note that the possibility of a double dip recession has not gone away and that, by way of summing up the case, the path to economic recovery has thus far been weaker than hoped for and remains susceptible to an uncertain national and global economic outlook. Such circumstances merit a considered approach, pending progress on allocating development sites and whilst research is done on the appropriateness of applying the RSS housing figures.

1.4 Assessment tasks

The aforementioned research is the subject of this report and gives rise to the following, which are a product of the Central Lancashire authorities brief for this study and the professional judgement of Ecorys:

1. **Refresh and update the economic and associated housing market baseline** [Sections 2 and 3]. Establish what the current local economic and related housing market conditions are and compare them with the assumptions that underpinned the RSS housing requirement figures.

2. **Determine the economic outlook** [section 3]. Make short term projections (the next two years) based on the current local economic and housing market conditions and performance. Taking account of and highlighting the component changes between the 2006 and recently published 2008 based household projections from CLG as well as identifying the drivers that give rise to such changes.

3. **Test and understand the resilience of the local economy** [section 3]. Model the effects of reduced and reshaped public finances, and further economic shocks, on the local economic outlook.

4. **Establish the impact of changes to housing related funding** [section 2]. Determine the impact of changes to housing related funding (on housing delivery), including the prospects for attracting, and likely scale and timing of, public sector housing delivery related funding.

5. **Account for the impact of macroeconomic conditions and policies** [section 2 and 3]. Taking account of macroeconomic conditions, published forecasts and policies that operate at the national and international scale but which are major determinants of local economic and housing market performance, including changes to housing benefit, in so far as they impact on housing market dynamics.

6 **Account for the impact of access to finance** [section 2 and 3]. Report on the current and likely future terms and availability of mortgage and development finance, its relationship to macroeconomic conditions and it's current and short term future impact on housing demand and supply in Central Lancashire.

7 **Assess spatial variations in housing delivery** [section 3]. Establish the distinct characteristics and economic drivers of sub market areas within Central Lancashire, and across the three local authority areas that give rise to variable patterns of housing delivery.

8 **Estimate the impact of economic conditions and outlook on housing demand** [section 3]. To consider the extent to which demand has been dampened through delayed purchase, changed prospects, behaviour, attitude and aspirations arising from uncertainty and adjustments in the labour market.

9 **Examine short term housing development viability and delivery prospects** [section 3]. Using the current Central Lancashire housing viability assessments and the typologies they are based on, carry out sensitivity analysis based on updated house price/ land value trends and reduced public sector gap/ infrastructure funding. This analysis will also take account of the latest reported trends in house builder activity and practices nationally as well as our own research base.

10 **Consider representations** [section 5]. Examine the representations made on the Publication Core Strategy that relate to the impact of economic circumstances on housing delivery, evaluate and advise on their credence as well as use to inform and test the findings of this research.

1.5 Assessment tools

We have investigated and reported on the 10 key tasks using the following methods:

- Fresh economic and housing market data collection and analysis
- A review of LDF evidence base analysis and findings alongside a wider review of relevant literature
- The development of a bespoke Central Lancashire Economy Audit Model (CLEAM) and use of the Effective Demand Model

1.5.1 About CLEAM

Ecorys have developed a Central Lancashire Local Economy Audit Model using the most up to date publicly available data.

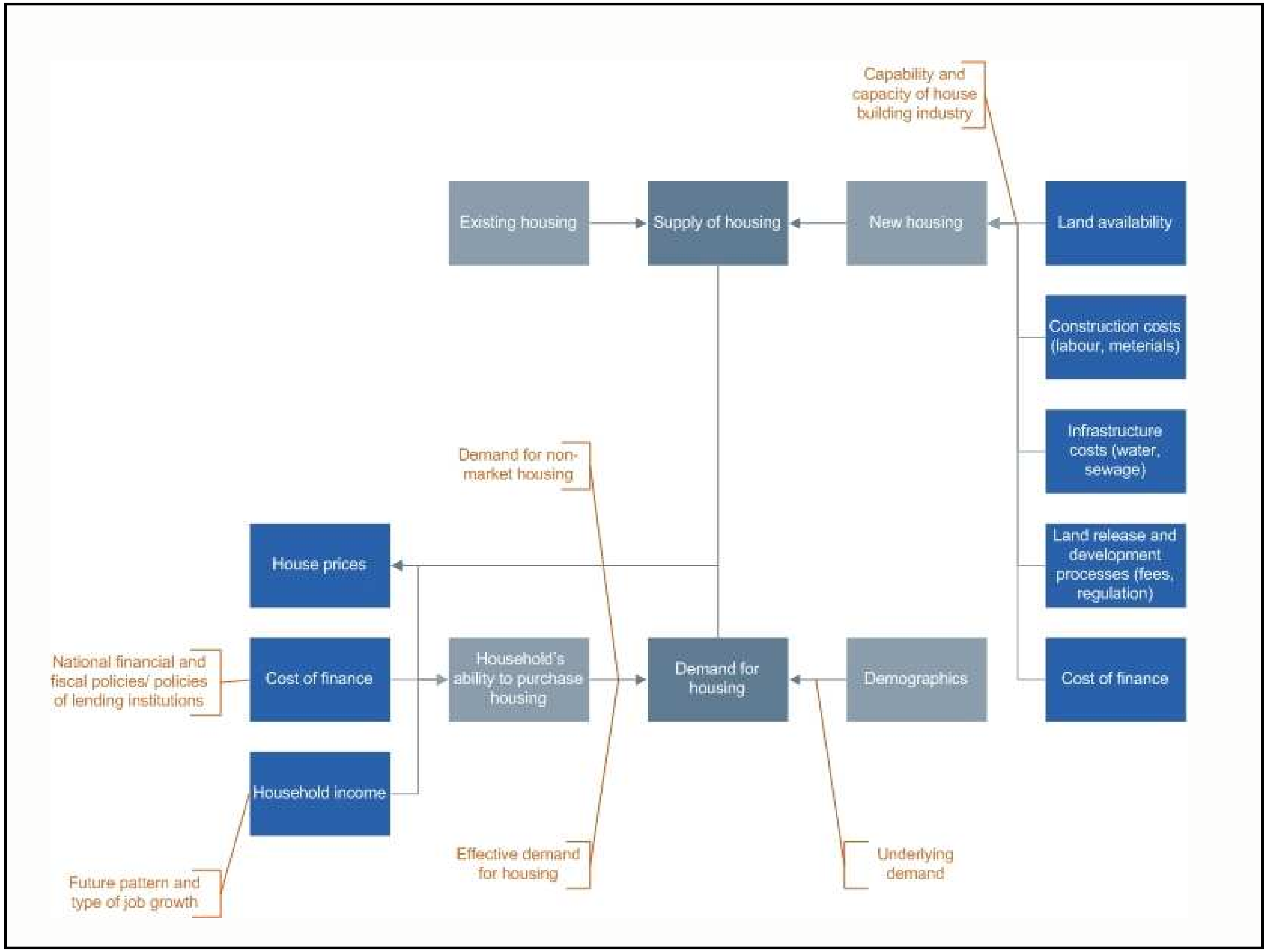
CLEAM allows you to understand and measure the performance profile of Central Lancashire and its constituent local authority areas. A key benefit of using CLEAM is its ability to synthesise and present a wealth of highly complex data into a readily accessible format. Through the measurement of absolute and relative performance across key economic domains and indicators, it is possible to isolate the major factors impacting on the economy of Central Lancashire as a whole, Preston, South Ribble and Chorley.

The model takes advantage of advanced statistical techniques developed by our experts. It is driven by a powerful indicator database, drawing on extensive nationwide information, enabling you to benchmark and evaluate local performance. Key results are presented in the form of accessible graphs, charts, maps and tables, and are accessible to a range of audiences – including, for researchers, policy makers, and politicians. In short, the results of the analysis provide a common and unequivocal information base for future decision making in an area.

1.5.2 Effective Demand Model

Ecorys has developed a straightforward way of estimating the scale of the effective demand for market housing. It models the volume of newly forming households that, each year, are able to afford a mortgage, taking account of both the monthly cost *and* the size of the deposit. Its relationship with the overall assessment is established in the conceptual framework overleaf.

Figure 1.1 Effective Demand Conceptual Framework



ECORYS

The core data sets used by the effective demand model are:

- Household incomes
- Lower quartile house prices
- Mortgage conditions – standard product loan to value ratio and interest rates

Annual household income growth assumptions, house price inflation, and changes in mortgage conditions over the time period assessed are based on the latest available market intelligence. For the purpose of this study we have run the model from 2009 to 2015 to illustrate the impact of the credit crunch on demand for market housing in recent years.

The key features that the effective demand model compares are as follows:

- Underlying demand, which is household formation determined by demographic changes and migration patterns and hence the ‘natural’ demand for housing arising each year
- Effective demand, which is a subset of underlying demand, determined by income and mortgage conditions, and represents the actual quantity of housing that newly formed households are able to buy each year

The gap between the two is indicative both of the scale of the 'problem' caused by current and potential future mortgage conditions *and* the residual scale of demand for other tenures/ solutions.

2.0 The Big Picture

2.1 Coalition government fiscal policy and its implications for housing demand and supply

Whilst it is not possible to assess the full extent to which Coalition government policy would have differed from Labour policy had they been elected, it is possible to make the following observation both about Coalition policy objectives and the pace at which they are being pursued.

The Coalition government is explicit in prioritising deficit reduction. Securing the confidence of the financial markets – and the threat to the UK economy of not doing so - is the policy rationale. Providing clarity as to how and by when the deficit will be eliminated are the means to this end. Immediate and decisive action now sends a clear signal to the financial markets that the Coalition government is serious about tackling sovereign debt.

The Coalition government is convinced that without a firm and unwavering approach to deficit reduction economic recovery will not be realised. At the first real test of the policy –the prospect of growth falling below expectations in the fourth quarter of 2010 – and opposition pressure to change course, the Chancellor gave no quarter and responded that:

Within minutes Britain would be in financial turmoil. I am not prepared to let that happen[1]

Such conviction explains why the Coalition government set about scaling back Labour's expenditure plans immediately on coming into office. A £6bn reduction in 2010/11 public spending was followed by the October 2010 Comprehensive Spending Review (CSR2010) which announced £81bn reduction in public spending over the next 4 years. CSR2010 sets government spending for the period 2011/12 to 2014/15 and, in real terms, returns departmental spending to 2005/06 levels with investment (after taking account of spending that is already committed) back at 2001/02 levels[2].

When in government, Labour outlined departmental spending cuts of £39.3bn by 2014/15, which equates to a nominal (cash) expenditure increase of 9% between 2009 and 2015. The Coalition government has scaled this back to 5%.[3]

Following the publication of CSR2010, The Office for Budget Responsibility (OBR) initially estimated that 490,000 jobs would be lost from the public sector, a figure that they have since revised down to 330,000. Cities Outlook 2011[4] takes these estimates and presents two scenarios for Central Lancashire as follows:

- An upper estimate of 4,600 public sector job losses based on 490,000 losses nationally
- A lower estimate of 3,400 public sector job losses based on 330,000 loses nationally

[1] Reported in the Financial Times, (January 30th 2011)
[2] The Reality of the Cuts; Chris Giles, Emily Cadman, Steve Bernard and Ian Bott (October 2010)
[3] The Reality of the Cuts; Chris Giles, Emily Cadman, Steve Bernard and Ian Bott (October 2010)
[4] Cities Outlook 2011: Preston; Centre for Cities (January 2011) covers the LADs of Preston Chorley and South Ribble.

The latest estimate of the knock-on effect in the private sector due to the impact on firms supplying the public sector is that half-a-million private sector jobs will be lost, with construction and business services amongst the worst affected industry sectors (about 180,000 and 100,000 jobs respectively)[1]. Whilst no figures are available for Central Lancashire from this source, PricewaterhouseCoopers (PwC) estimate that 108,000 jobs will be lost from the North West as a result of the deficit reduction plan, or 3.7% of total jobs in the region.

2.1.1 The dampening effect of deficit reduction in context

The Coalition government's tight reign on public expenditure contrasts with the spending plans outlined by Labour in the run up to the May 2010 election and their stance in opposition that the cuts are too soon and too deep. The government will invest £45bn less in the public sector between 2011/12 and 2014/15 than Labour might have been expected to do. The bottom line is that the government regards the pain caused by its deficit reduction plans as the lesser of two evils.

Over the short term, most especially for the period 2011/12, as the plans are put fully into action, it is to be expected that the cuts will result in more job losses than would have been the case under Labour. It is evident, for example, that the large metropolitan authorities of Liverpool and Manchester would not have announced the need to shed *as many as* 3,500 jobs between them in 2011/12, though undoubtedly job losses would have been necessary under Labour as well. And the cuts that Lancashire County Council face of £128m over the next two years, the bulk of which will have to be made in 2011/12, would also not have been so great.

The OBR central growth forecast implies that the dampening effect on the economy is projected to be greatest during 2011/12, when the International Labour Organisation (ILO) defined unemployment rate is expected to peak at 8% of the labour force and gross domestic product (GDP) growth of 2.1% is forecast. Growth is expected to accelerate thereafter and in the intervening period to 2015 private sector job creation is expected to more than offset falling public sector employment. Any remaining spare capacity in the economy is the expected to be eliminated by 2017[2].

Our central forecast is that the economy will continue to recover from the recession, but at a slower pace than in the recoveries of the 1970s, 1980s and 1990s. This relatively sluggish medium term outlook reflects the gradual normalisation of credit conditions, efforts to reduce private sector indebtedness and the impact of the Government's fiscal consolidation[3]

So whilst the announcements have been made, the full effects are yet to be felt. 2011/12 is projected to bear the brunt of net public spending cut effects. There will then be a lag in the private sector picking up the slack. The threat of redundancy hangs over many public sector and public supply chain workers employed in private sector firms in 2011/12. This is likely to delay decisions to move and buy homes. Those households that do make the decision to purchase are still likely to find that mortgage criteria are unfavourable, especially if they wish to buy a newly built home[4]. Both circumstances are expected to

[1] Sectoral and regional impact of the fiscal squeeze, PwC (October 2010)
[2] Office for Budget Responsibility: Economic and Fiscal Outlook; page 5 (November 2010)
[3] Office for Budget Responsibility: Economic and Fiscal Outlook; page 7 (November 2010)
[4] The basis for this is considered in more detail in the earlier report to Pennine and Central Lancashire; Central Lancashire and Blackpool Growth Point Impact Study, Ecotec (2010)

improve gradually over the forecasting period, but the 2010 to 2012 period passes before the benefits are realised in any appreciable sense.

2.1.2 Impact on housing investment

In making the spending cuts, certain areas of government spending have been protected, giving rise to considerable variations in how the reductions have been applied. Whilst overall departmental spending will fall by 15% net capital investment will fall by 54%.

The reduction in capital investment impacts directly on the new Affordable Housing Programme (AHP). A total budget of £4.5 billion was identified to support the delivery of new affordable housing over the 2011-2015 programming period. This contrasts with the £8.4 billion investment allocated across the 2008-2011 period[1].

The 2011-2015 allocation seeks to support the delivery of 150,000 new affordable homes through developing new intermediate rental tenancies. Under AHP, unlike the previous arrangements, there are no regional budgets, except for London, which is expected to deliver about 27% of national output.

We understand[2] that the AHP will not include any funding for social rent. Instead it will only consist of the new Affordable Rent (announced as part of CSR2010), and Low Cost Home Ownership - if the latter can be shown to deliver as good value for money as the new Affordable Rent product. It is envisaged that Affordable Rent will offset the reduction in AHP, because it will trigger additional revenue by introducing rents of up to 80% of the market rate, for most new homes built by registered providers as well as some re-let properties. This new approach sits alongside proposals for Housing Associations to have increased flexibilities as regards rent and asset management in order to maximise the value of government investment programmes.

The deadline for AHP bids, which can be made by HCA investment partners (as per the arrangements put in place for the 2008 to 2011 investment cycle), is 3rd May 2011. The bulk of the 2011/2012 programme will be taken up by commitments from the 2008/2011 programme, in respect of those developments where start on site social rent has been funded but practical completion of the homes has not been achieved as at 3 May 2011. This will allow for conversion of social rent to affordable rent. Commitments account for 67,000 completions and £2.3bn of the total programme, leaving £1.8m to finance the development of 56,000 new homes under the programme.

In addition to AHP, the Coalition government has introduced proposals for a New Homes Bonus, for which £900m has been set aside between 2011/12 and 2014/15. £200m will be available in year one (2011/12) and £250m for each of the following three years. Funding beyond these levels will come from formula grant. The design of New Homes Bonus was the subject of consultation between 12 November 2010 and 24 December 2010, the results of which were published in February 2011, along with a final scheme design.

[1] http://www.cih.org/policy/SpendingReviewBriefing-Oct10.pdf
[2] Source: National Federation of ALMOs news bulletin 21 January 2011

New Homes Bonus is the main way in which the government will support the delivery of new homes. Their benchmark is to achieve a higher build rate than the last government, so there will be no national targets to drive delivery. Instead it is expected that the value of the bonus, which is to be paid as an unringfenced grant to the local authority, will act as incentive enough. In two tier areas outside London such as is the case for Central Lancashire, 80% will go to lower tier and 20% to upper tier authorities.

The final design of the New Homes Bonus scheme confirms[1] that the bonus will be equal to the national average for the council tax band on each additional property and paid for the following 6 years. Every additional band D property is worth about £1,439 a year or £8,634 over 6 years on this basis. Additional affordable homes will attract a further enhancement of £350 for each of the 6 years and empty homes that are brought back into use will also be rewarded through New Homes Bonus.

Using the "Provisional allocations based on October 09-10 delivery" New Homes Bonus calculator[2] as the basis for the first line of payments (labelled Year 1) and then assuming the same level of net additional homes in each of the following 6 years (labelled Year 2 to Year 7) the value of the New Homes Bonus to Central Lancashire between 2011/12 and 2017/18 would be as per Table 2.1. According to the CLG calculator actual net additions between October 2009 and October 2010 were 592, with 76 in Preston, 220 in South Ribble and 296 in Chorley giving rise to a payment of about £3.8m over 6 years (without taking account of empty homes and excluding any affordable homes enhancement). The basis for the calculation is explained in the next paragraph.

Table 2.1 Indicative New Homes Bonus for Central Lancashire

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Year 1	£631,667	£631,667	£631,667	£631,667	£631,667	£631,667	
Year 2		£631,667	£631,667	£631,667	£631,667	£631,667	£631,667
Year 3			£631,667	£631,667	£631,667	£631,667	£631,667
Year 4				£631,667	£631,667	£631,667	£631,667
Year 5					£631,667	£631,667	£631,667
Year 6						£631,667	£631,667
Year 7							£631,667
TOTAL	**£0.6m**	**£1.3m**	**£1.9m**	**£2.5m**	**£3.2m**	**£3.8m**	**£3.8m**
Net additional homes	*592*	*592*	*592*	*592*	*592*	*592*	*592*
Cumulative net additions	*592*	*1184*	*1776*	*2368*	*2960*	*3552*	*4144*

The net additional homes calculation is based on data collected on the Council Tax Base form as at October. Payments made in 2011/12 relate to net additions between October 2009 and October 2010, payments made in 2012/13 relate to net additions between October 2010 and October 2011 and so on. Year 1 in table 2.1 refers to the October 2009 to October 2010 period and is taken from the CLG

[1] New Homes Bonus: final scheme design (CLG 17 Februay 2011)

[2] http://www.communities.gov.uk/documents/housing/xls/1767709.xls#'New Homes Bonus'!I14

calculator referred to above. To illustrate the cumulative nature of bonus payments, we have assumed the same level of delivery in each of the following 7 years, creating the payment profile presented.

For completeness, the full breakdown of the provisional 2011/12 allocation for the Central Lancashire authorities is as per table 2.2. (This is also the basis for table 2.2 above).

Table 2.2 Central Provisional Allocation for the New Homes Bonus 2011/12

	2011/12	Total payments over 6 years
Preston	£38,351	£229,508
South Ribble	£165,168	£990,951
Chorley	£301,916	£1,811,498
Net total	*£505,335*	*£3,032,010*
Lancashire County Council	£126,332	£757,992
TOTAL	**£631,667**	**£3,790,002**
Net additions	*592*	*592*

The Regional Growth Fund (RGF), may also indirectly support housing development, for example where it is used to unlock a site for development. It was introduced by the Coalition government through the Local Growth White Paper and the CSR in October 2010 to stimulate sustainable private sector job creation in those areas most affected by public sector retrenchment.

RGF is a challenge fund open to competition from the private sector, private public partnerships and Local Enterprise Partnerships. At the time of writing it is not known how many bids were submitted within Central Lancashire, nor whether any related to housing development. Successful bids are expected to be announced in March 2011. RGF is worth £1.4bn in total and is available between 2011/12 and 2013/14.

As well as introducing changes to how and by how much housing development will be financed and incentivised, changes to the Local Housing Allowance have also been introduced and will take effect from April 2011. Local Housing Allowance (LHA) is a flat rate allowance paid to Housing Benefit claimants in the private sector. From April 2011, LHA is being lowered, from the 50^{th} percentile to the 30^{th} percentile of rents. The impact on Central Lancashire is presented in table 2.3, which also provides a comparison with the range of market rents reported for each local authority in the latest SHMA.

LHA rates are determined by the Valuation Office Agency and are set across Broad Rental Market Areas, that is, an area within which a person could be reasonably expected to live having regard to access to facilities and services for the purposes of health, education, recreation, personal banking and shopping. The BRMA of Central Lancashire is coterminous the local authority areas of Preston, South Ribble and Chorley.

Table 2.3 Local Housing Allowance Comparison (monthly) for the Central Lancashire BRMA

	1 Bed	2 Bed	3 bed	4 bed
Central Lancashire LHA for March 2011 (median value)	£400	£500	£575	£750
Central Lancashire shadow 30th percentile rate (for April 2011)	£380	£475	£525	£675
Difference	*£20*	*£25*	*£50*	*£75*
Preston Market Rents (2009 SHMA)	£295 - £550	£400 - £700	£450 – 800	£700 - £1,400
South Ribble Market Rents	£450 - £500	£500 - £595	£595 - £700	£700 - £850
Chorley Market Rents (2009 SHMA)	£275 - £400	£425 - £495	£500 - £695	£750 - £1,300

2.2 Economic outlook, a national comparative perspective

Section 2.2 compares and contrasts the Bank of England's (BoE) Inflation Reports for November 2007 and November 2010 (the latest report at the time of writing this report). The Bank's quarterly Inflation Report was first published in 1993. The Report sets out the detailed economic analysis and inflation projections on which the Bank's Monetary Policy Committee (MPC) bases its interest rate decisions, and presents an assessment of the prospects for UK inflation.

The 2007 report allows us to observe how the economy was performing during the period that the RSS housing requirement figures were being prepared (2005-2007). It also reveals how GDP growth was expected to play out between the middle of 2007 and the third quarter of 2010. The November 2007 report highlights that "the past three months have witnessed considerable turmoil in international financial markets."[1]

Figure 2.1 The GDP outlook for growth in November 2007[2] [Ecorys highlighted]:

The central projection is for growth to slow to below its long-term average *as consumer spending and business investment decelerate,* ***reflecting the impact of past increases in Bank Rate, tighter conditions in credit markets and heightened uncertainty****.*

Growth then recovers *as the effect of lower official interest rates and the lower value of sterling work through and uncertainty dissipates.* ***The slowing in the first year of the projection is a little sharper than in the August Report and the subsequent pickup correspondingly stronger****.*

The 2010 report gives us the benefit of hindsight and allows us to observe how the economy actually performed between the middle of 2007 and the middle of 2010. It also reveals how GDP growth was expected to play out between the middle of 2010 and the third quarter of 2013.

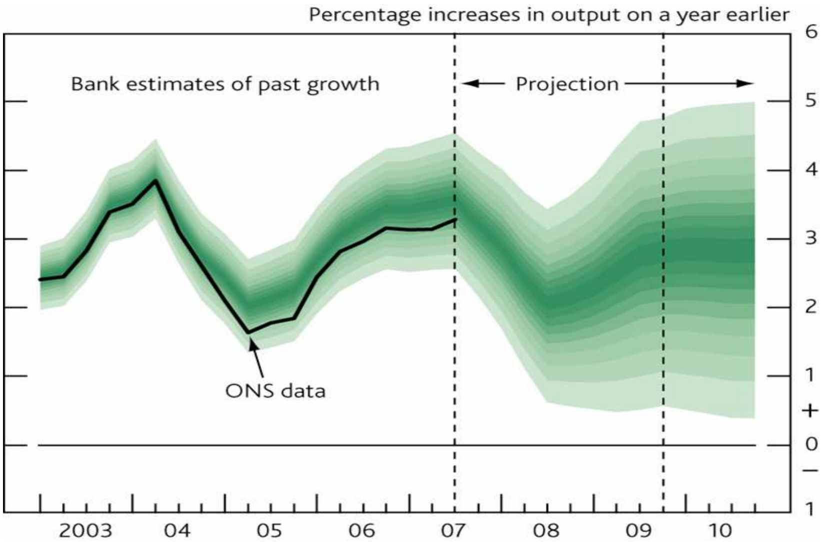
[1] Page 5; Inflation Report; Bank of England (November 2007)
[2] Page 7; Inflation Report; Bank of England (November 2007)

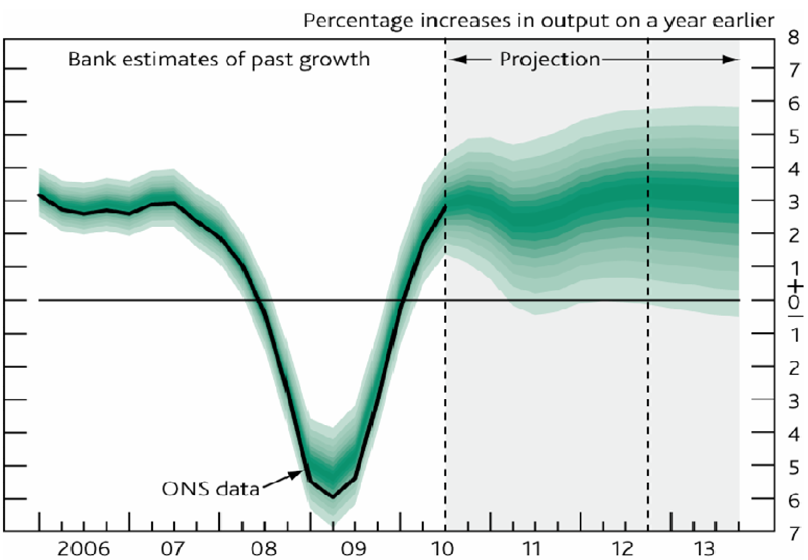
Figure 2.2 The GDP outlook for growth in November 2010[1] [Ecorys highlighted]:

The outlook for growth is highly uncertain. The contribution of net trade to growth has so far been weaker than the Committee had expected*, and it is unclear how persistent that weakness will prove to be.* ***Private domestic demand could grow rapidly if confidence recovers, and if businesses reinstate investment projects previously put on hold****. But there are also* ***significant downside risks to the path of private demand, especially to household spending.*** *Some households may not yet have fully adjusted to the forthcoming fiscal consolidation.*

The charts at figure 2.3 are taken from the Bank of England Inflation Reports for November 2007 and November 2010 respectively and relate to GDP. They are in stark contrast and highlight how the recession of 2008 was, even towards the end of 2007 when global financial turmoil was recognised, unexpected. Note that the depth of the 2008 recession recorded in November 2010 is off the 2007 scale at -5%.

Figure 2.3 BoE GDP Growth Projections November 2007 and November 2010 respectively





[1] Page 7; Inflation Report; Bank of England (November 2010)

2.2.1 Access to finance

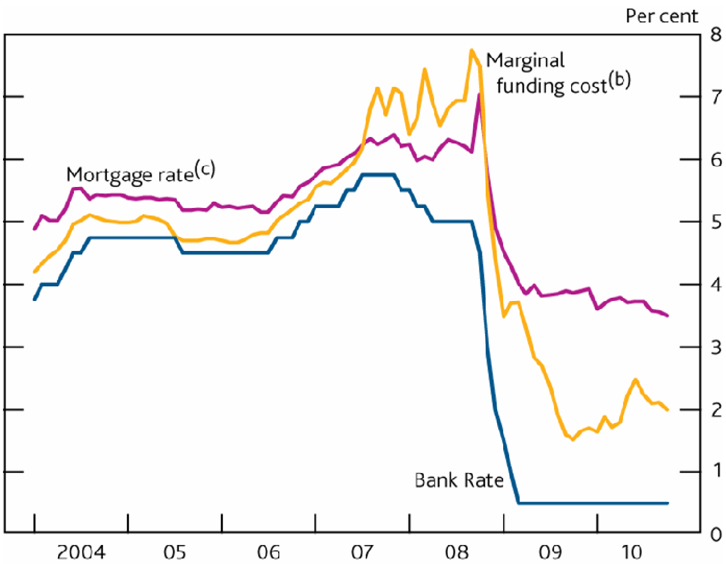
Figure 2.4 shows the Bank Rate lowered to effectively zero at the start of 2009, where it has stayed ever since. The Monetary Policy Committee lowered the Bank Rate to stimulate lending and, in turn, growth. Amongst concern that this action alone was not working, £200bn worth of asset purchases were made between March 2009 and March 2010 by the Bank of England, effectively by increasing the credit in its own account by the same amount and so creating 'new money' to then circulate in the economy.

An appreciable gap between the mortgage rate and the Bank Rate opened up in 2009 and is the result of mortgage lenders repairing their balance sheets in the wake of the credit crunch (by increasing profit margins). For the banks, rather than precipitating an expansion of lending, the MPC actions have, to date, underpinned consolidation.

Such consolidation translates into unfavourable mortgage conditions for would be borrowers, who are confronted by either higher mortgage rates and or a higher deposit rate that helps protect the lender from the risk that house prices are overvalued – a view that makes getting a mortgage on new build properties particularly difficult, because many lenders regard them to be especially overpriced.

Reflecting back on the OBR central growth forecast, we would expect mortgage criteria to become more favourable from 2011/12 onwards. However the cost of mortgages may be pushed upwards if the outlook for inflation results in the Bank Rate being increased. If so the actual take up of mortgages may well face further downward pressure. The BoE November Inflation Report notes that near term outlook for inflation was higher than expected, but that current measures (holding the bank rate at 0.5% and maintaining the stock of asset purchase at £200bn) were sufficient to meet the 2% Consumer Price Index target over the medium term – a position that may change next quarter, because the prospects for inflation remain highly uncertain.

Figure 2.4 BoE Cost of Borrowing compared to the bank rate, November 2010



Whilst the Bank Rate might be expected to rise as the economy recovers, mortgage interest rate rises are expected to be slightly less pronounced, mainly because they have remained relatively high from the start of the financial crisis and so have not followed the decline in the Bank Rate. To an extent, particularly when considered alongside relatively low loan-to-value ratios, this is symptomatic of monetary policy failure to stimulate lending thus far. Table 2.4 presents the latest National Housing and Planning Advisory Unit (NHPAU) interest rate and loan-to-value (LTV) assumptions to 2016 (thereafter the values are held constant).

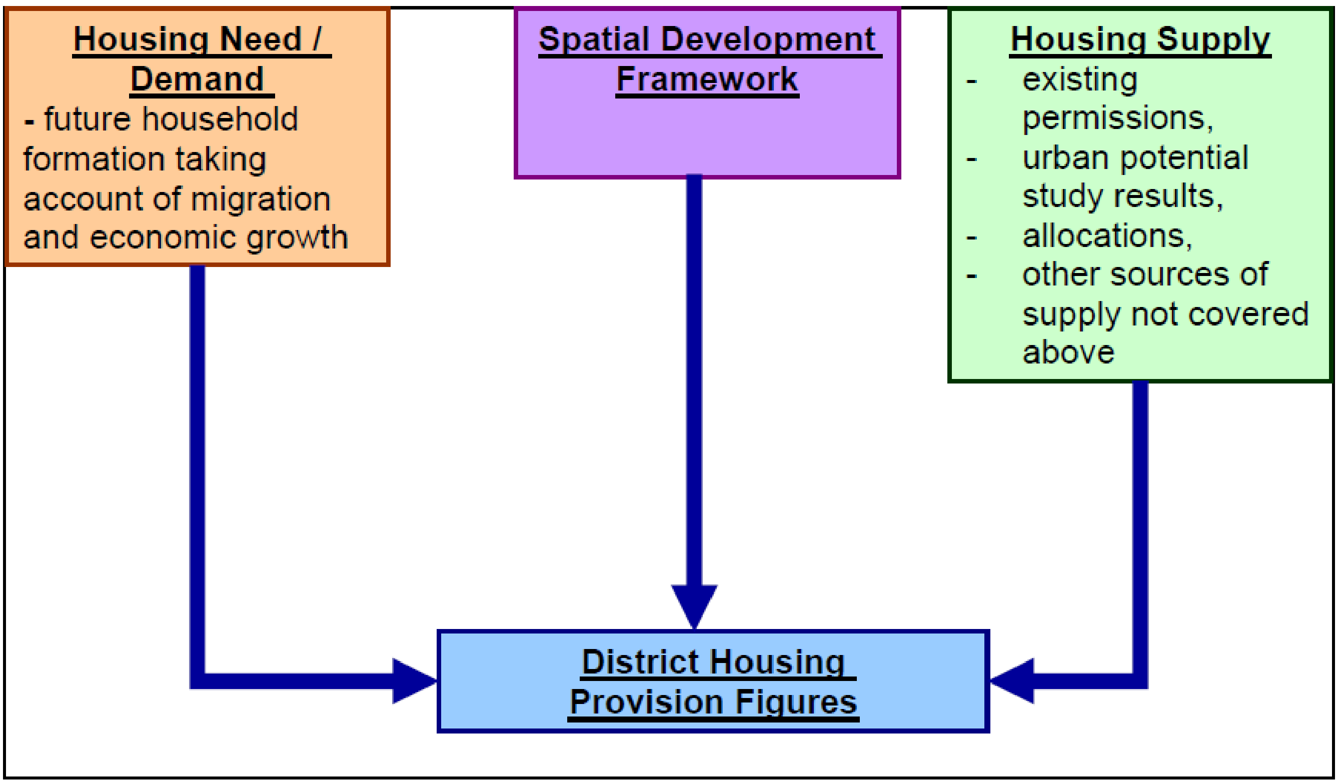
Table 2.4 NHPAU Interest Rate and LTV Assumptions

Assumptions	2009	2010	2011	2012	2013	2014	2015	2016
Interest	4.5%	4.88%	5.88%	6.25%	6.25%	6.25%	6.25%	6.25%
LTV	75%	75%	78%	80%	83%	85%	88%	90%

Source: NHPAU 2010

2.3 RSS assumptions for economic growth

The North West Regional Planning Body's estimate of housing requirement figures contained within the Regional Spatial Strategy was guided by the following methodology[1].



[1] North West Regional Assembly Panel Briefing Paper 22 Overview of Methodology for Determining Housing Provision Figures in Draft RSS (October 2006)

ECORYS

Experian developed North West and sub-regional scenarios to inform a review of the Regional Economic Strategy[1] and these were applied to the housing requirement methodology. Using DETR 1996 based household projections, three sub regional county scenarios were developed by 2005, as follows:

a. A. Longer term trends continue
b. B. Recent employment success
c. C. Regional productivity transformation

For Lancashire, the following growth path was anticipated through the scenario work[2].

This area is forecast to perform slightly better than the regional average in terms of employment creation under all the longer term trends and productivity transformation scenarios, however less well under recent employment success. It is only under the productivity transformation scenario that the area is expected to see a relative improvement in GVA per capita (and 60,000 additional jobs).

The full Experian/Regeneris scenario analysis is presented in the data tables at Annex 1. The following tables extract and set out the Lancashire full time equivalent employment growth, GVA growth and resident population scenarios. These are compared with latest actual position in Section 2.4, below. The RSS housing requirement was based on a point between the long term trend scenario and the recent success scenario.

Table 2.5 Lancashire Long Term Trends, selected data

Lancashire Long Term Trends	2005 Baseline (estimate)	% Per Annum	% Overall	2025 Position	Absolute Growth
Employment FTEs	581,000	0.01%	0.1%	582,000	1,000
GVA £s (workplace based 2001 prices)	19,861,000	2.13%	52.5%	30,295,000	10,433,000
Total Resident Population	1,435,000	0.24%	4.9%	1,506,000	71,000
Working Age population	870,000	-0.06%	-1.2%	860,000	-10,000

[1] North West Regional Assembly Panel Briefing Paper 3; Economic Scenarios (October 2006)
[2] NORTH WEST ECONOMIC BASELINE: FINAL FULL REPORT for NORTHWEST REGIONAL DEVELOPMENT AGENCY; Regeneris Consulting (July 2005) This refers to 60,000 full and part time jobs, which equates to the 39,000 full time equivalent jobs reported in table 2.7.

Table 2.6 Lancashire Recent Employment Success, selected data

Lancashire Recent Employment Success	2005 Baseline (estimate)	% Per Annum	% Overall	2025 Position	Absolute Growth
Employment FTEs	581,000	0.26%	5.3%	612,000	31,000
GVA £s (workplace based 2001 prices)	19,861,000	2.31%	57.8%	31,345,000	11,484
Total Resident Population	1,435,000	0.24%	4.9%	1,506,000	71,000
Working Age population	870,000	-0.06%	-1.2%	860,000	-10,000

Table 2.7 Lancashire Regional Productivity Transformation

Lancashire Regional Productivity Transformation	2005 Baseline (estimate)	% Per Annum	% Overall	2025 Position	Absolute Growth
Employment FTE	581,000	0.33%	6.8%	620,000	39,000
GVA £s (workplace based 2001 prices)	19,861,000	2.55%	65.5%	32,871,000	13,009,000
Total Resident Population	1,435,000	0.24%	4.9%	1,506,000	71,000
Working Age population	870,000	-0.06%	-1.2%	860,000	-10,000

Along with the other evidence considered at the time, the Experian/Regeneris scenarios gave rise to North West Regional Planning Body originally proposing an annual housing requirement for Central Lancashire of 1,061 over the plan period.

The Central Lancashire City Sub Regional Strategy[1] (CLCSR) produced in 2005 proposed an alternative set of scenarios based on the Cambridge forecasting model that gave rise to more optimistic projections.. In turn, these projections supported proposals from Central Lancashire for a higher annual housing requirement over the plan period of 1,550, which was partially accommodated in the Adopted RSS figure of 1,341. The following text (highlighted and in italics) is taken from CLCSR and describes the growth trajectory and scenarios that were used to negotiate a higher housing requirement.

[1] Central Lancashire City Sub Regional Strategy Audit and Analysis Report (2005)

"GVA growth in Central Lancashire has historically been above average [1981-2005]. Average GVA growth during this period has been 2.78% pa compared to 2.16% pa for the region. It implies therefore that structurally, Central Lancashire appears to have a stronger base of industry mix than the average which has underpinned performance over the last 25 years.

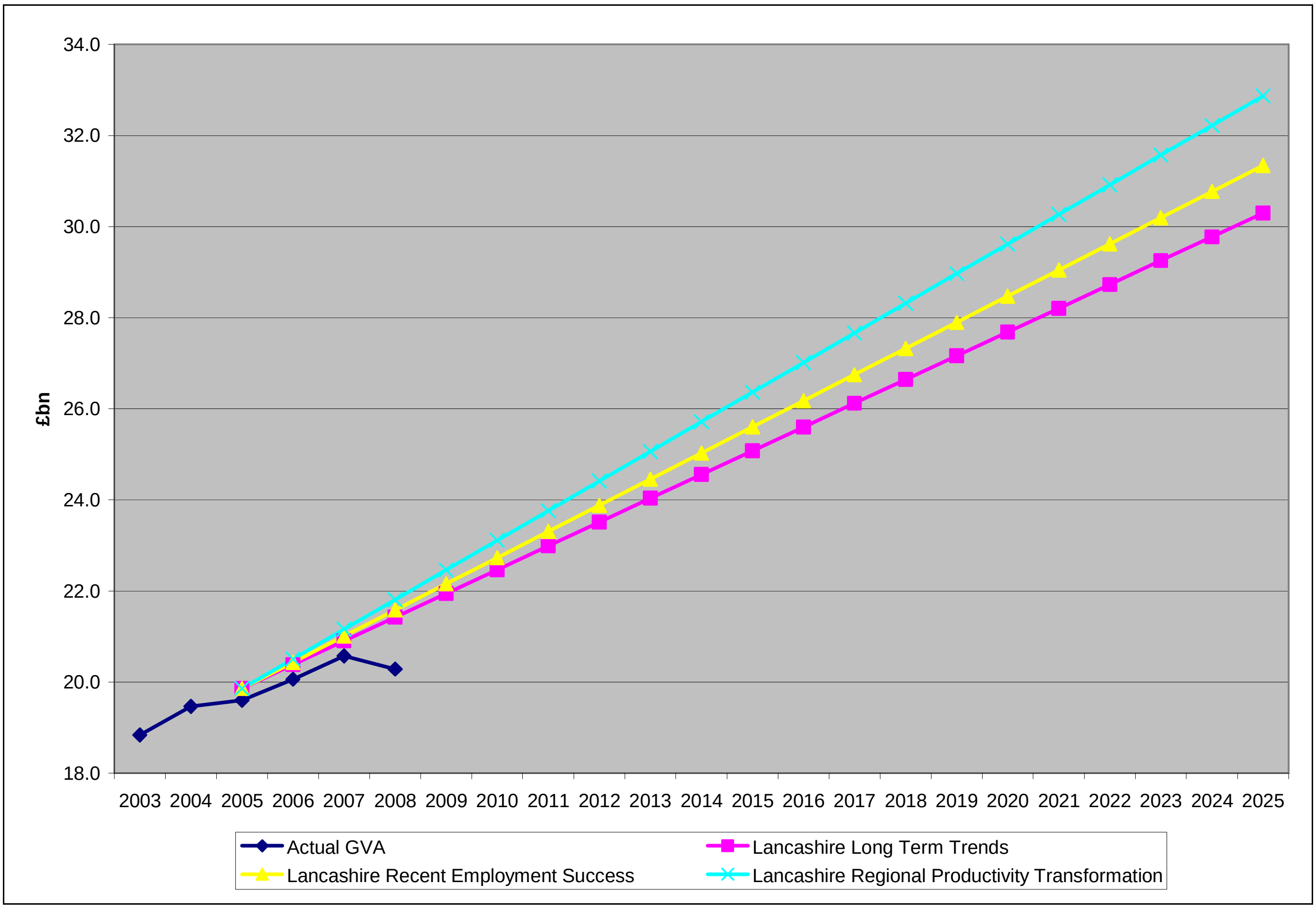
The established trends pre 2005 are generally predicted to persist over the next 10 years or so; essentially, Central Lancashire' predominance in Lancashire whilst East Lancashire struggling with what we have described as jobless growth – essentially a period where above regional average output growth is expected to be associated with very little in the way of employment growth.

Total employment is expected to grow by just over 7,800 between 2005 – 2015.(ie 3.3%); employment in the region is expected to grow by 2.4% and in East Lancashire by 2.2% (ie just over 5,000 jobs). (In simple terms, Central Lancashire is expected to create well over 50% more jobs than its economic neighbour over the same period)."

2.4 Comparing RSS assumptions with actual outturn

The following chart shows actual GVA growth in Lancashire against the original three forecast scenarios discussed above and used to help justify a housing requirement of 1,061 per annum across Central Lancashire and over the plan period. The chart shows that, due to the severity of the recent recession, GVA in Lancashire actually fell in 2008 (the latest available data). Even prior to the downturn, GVA grew at a slower rate than even the most conservative of the three forecasts. This suggests that, even if the Lancashire economy recovers strongly from recession, GVA is likely to remain well below the forecasts that were put forward in support of a housing requirement of 1,341 per annum for Central Lancashire.

Figure 2.5 GVA in Lancashire, actual vs forecasts, 2001 prices



Source: Ecorys analysis based on Experian forecasts and ABI data

ECORYS

2.5 Household projections

The following table shows the latest household projections for Central Lancashire and benchmark areas. These figures are produced by CLG and are based on demographic trends up to 2008 and assumptions about household formation. Between 2008 and 2013, the number of households in Central Lancashire is expected to increase from 145,000 to 152,000.

Table 2.8 Household projections (thousands), 2008-based

	2008	2013	2018
England	21,731	22,868	24,108
North West	2,935	3,044	3,165
Lancashire	494	514	535
Chorley	44	46	48
Preston	56	58	60
South Ribble	45	48	50
Central Lancashire	145	152	158

Source: CLG November 2010

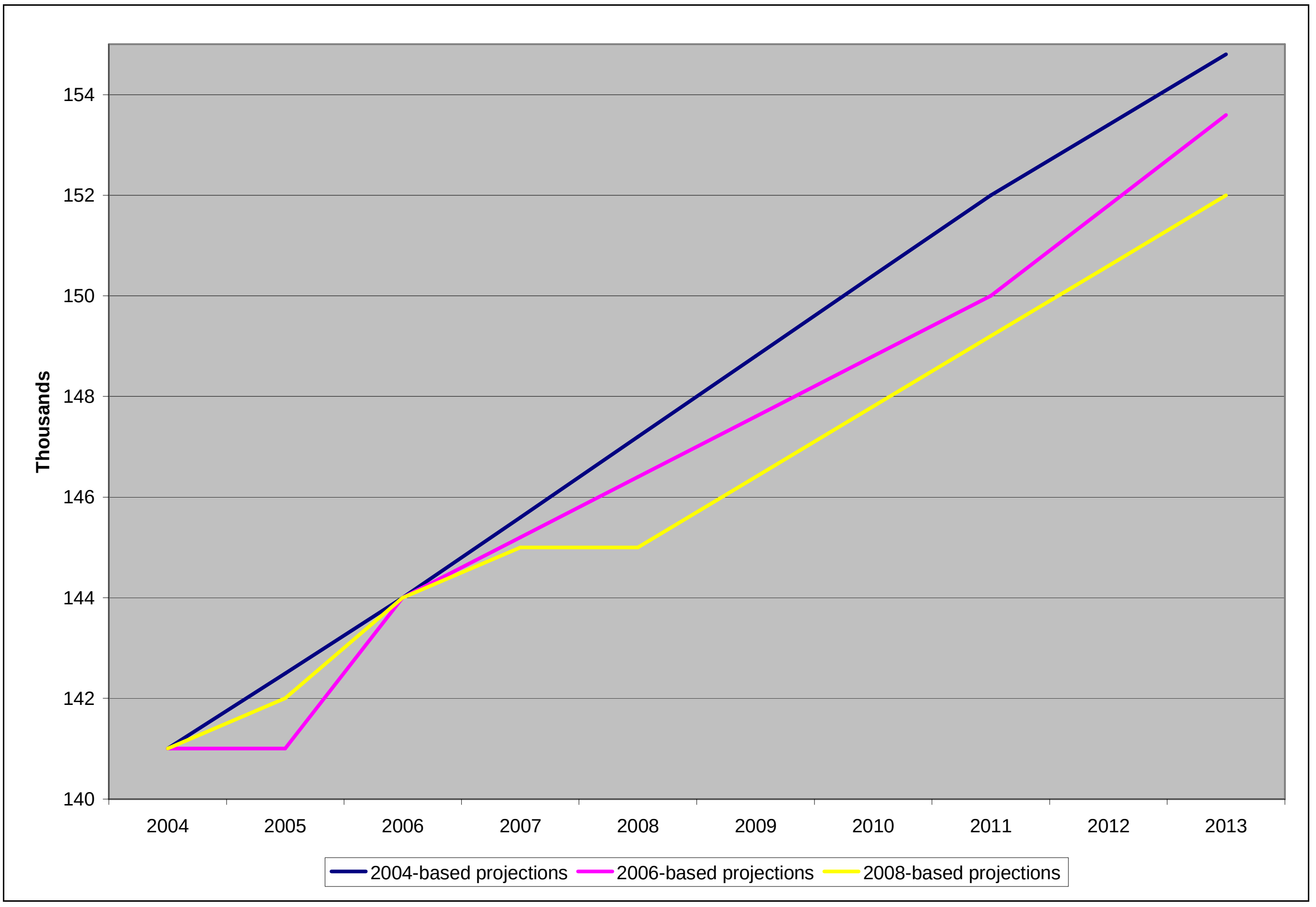
This projected growth, however, is lower than recent projections produced between 2007 and 2009, and after the RSS was completed. As shown in Figure 2.8, the latest projections suggest that the number of households in 2013 will be up to 3,000 fewer than the 2004-based projections (published in 2007) and up to 2,000 fewer than the 2006-based projections (published in 2009). Household projections at national, regional and sub-regional levels have been similarly revised downwards.

These lower household projections, at a national level, are primarily due to changes in ONS population projections. Between 2006 and 2008, there was an unexpected fall in net migration to the UK leading to lower than predicted population growth and hence a revision in population projections going forward. The UK was affected more by the global economic downturn than many other countries, in terms of unemployment and falling incomes, making it a relatively less attractive place to live. There is particular evidence of a fall in net migration from A8[1] countries such as Poland.

The RSS housing requirement used 1996 based household projections (themselves based on the 1991 Census). They projected that the North West will grow by 12,900 households per annum between 2006 and 2016 which compares with the 2008 based projections that the North West will grow by 23,000 households per annum between 2008 and 2018.

[1] Following the expansion of the EU in May 2004, 8 countries from Eastern Europe joined the EU, collectively known as the "A8 countries". They are; Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia

Figure 2.6 Household projections for Central Lancashire



Source: Ecorys analysis using CLG projections

2.6 RSS and the impact of economic growth on household formation

The EIP Panel were clearly struck by the fact that **"nobody is prepared to admit anything but the brightest of futures"**[1] and it is apparent from the scenarios developed that at worst, the plan envisaged uninterrupted economic growth and set all of its policies, housing included, about ensuring the greatest sustainable growth possible.

That being said, there was an element of caution exercised in relation to the net housing requirement, which, despite pressure from North West Development Agency to peg it to the transformational scenario, was based on a point between the long term trend scenario and the recent success scenario as can be seen in table 2.9.

[1] Page 50, Regional Spatial Strategy for the North West, Panel Report (2007)

Table 2.9 RSS Growth Scenarios and Associated Regional Household Growth

Scenario	Annual household growth per annum	Uplift on long term economic trend
Long term economic trend (base)	17,700	-
Recent success	25,000	41%
Transformational	29,000	64%
Draft RSS and EIP Panel Recommendation	23,100	31%

Source: Regional Spatial Strategy for the North West, Panel Report (2007)

Nevertheless, it is clear from table 2.9, that in developing the RSS housing requirement, considerable weight was given to the impact of economic growth, to the extent that even the relatively conservative RSS requirement is 31% higher than the base case, which itself assumed year on year economic growth and which is significantly greater than the 1996 based household projection upon which it was developed.

The EIP panel were satisfied with the housing requirement proposed for the North West, partly because it was in line with the 2003 based household projections which had been published during 2006 and presented annual average change of 21,900 households per annum. (Coincidentally about the same as the projection for the North West presented in the 2008 based household projections of 22,000 households per annum – albeit starting from a lower level as household growth 'stalled' during the recession).

But there was clearly a belief amongst Panel members that the requirement should respond to changes in economic circumstances and in responding to views that the requirement should be set higher, in order to match the transformational scenario, the Panel took the view that:

"If, as a result of monitoring, it becomes clear that the economy is growing at the rate envisaged on the transformational scenario, it may be necessary to adjust the proposed housing provision in a future review of the RSS[1]"

Although the panel did not suggest the opposite, a clear parallel can be drawn with the Central Lancashire approach of lowering the housing requirement in the face of recent economic decline that has been followed by a period of subdued growth. On a North West scale, and using the assumptions that underpin RSS and the logic of the EIP Panel, it is reasonable to assume that the requirement might be lowered by at least 31% to take account of recent economic growth trends. On that basis, the Central Lancashire approach of reducing the requirement temporarily by 20% is also reasonable.

[1] Page 123, Regional Spatial Strategy for the North West, Panel Report (2007)

3.0 Central Lancashire Update

Very clearly, since compilation of the Regional Spatial Strategy evidence base, conditions in the wider economy have been subject to considerable change - globally, nationally and locally. Such changes have influenced, and will continue to influence, the economic position and future development of Central Lancashire for at least the next few years. Our analysis in this section is structured as follows:

- Latest economic performance
- Short term outlook
- Medium to long term outlook
- Effective demand
- Housing and delivery

3.1 Latest economic performance

In 3.1 we assess and examine the most recent economic performance of Central Lancashire's performance across a number of key economic indicators, including employment, GVA, sector structure, skills and occupational structure.

3.1.1 Strong pre-recession employment growth, not matched by GVA growth

In terms of overall headline employment growth, statistical evidence confirms that Central Lancashire performed well over the decade up to 2008 and the onset of the recession. Indeed, the annual average employment growth in Central Lancashire was 2.4% between 1998 and 2008[1], compared with 1.1% in Great Britain and 0.8% in the North West region. All three Central Lancashire local authority areas appear to have benefited from this employment growth to a greater or lesser extent – with an annual average employment growth rate of 2.2% in Preston, 3.2% in South Ribble and 1.9% in Chorley[2].

Interestingly however, analysis suggests that the strong employment growth recorded in Central Lancashire has not been translated into a concomitant increase in gross value added (GVA) or income generation. Whilst official statistics on GVA are not available for Central Lancashire, data on Lancashire (excluding Blackburn with Darwen and Blackpool) highlights that the average annual growth in GVA per head between 1998 and 2008 was 4.5% (at current basic prices[3]) compared to the national (England) average of 5.1%. This would tend to indicate that much of the recent employment growth experienced in Central Lancashire has been in relatively low wage and low value added sectors (including, notably, construction).

[1] Due to discontinuities in the Annual Business Inquiry (ABI), which affect comparisons across years, employment change has been calculated for the following time periods: 1998-2005; and 2006-2008.
[2] Ecorys Local Economic Assessment Model (LEAM), based on data from the Annual Business Inquiry
[3] Current prices are the actual or estimated recorded monetary value over a defined period. They show the value for each item expressed in terms of the prices of that period (i.e. including the effects of inflation). Basic prices refer to prices excluding taxes and subsidies on products.

3.1.2 Significant job losses during recent economic recession

Latest figures suggest that Central Lancashire has been hit particularly hard by the recent economic recession, with a recorded fall in employment of 4.9% posted between 2008 and 2009. This can be compared with a fall in employment of 2.3% in Great Britain as a whole and 1.3% in the North West region. Within Central Lancashire significant spatial variation is evident: whilst both Preston and Chorley experienced a fall in employment, in Preston's case this was notably pronounced, with a decline in jobs numbers of some 10.6% (-10,650 jobs according to the published data, although we have been advised locally that about 40% of this loss is accounted for by pay-point reassignments). Chorley recorded a 2.7% fall (-1,150 jobs), with latest figures indicating that South Ribble actually exhibited employment growth of approximately 5% (+2,400 jobs)[1].

This most recent decline in employment has largely been a result of job losses in construction trades, business services and consumer services (leisure activities and retail), and some manufacturing sectors. To some extent this fall in overall employment in Central Lancashire was dampened by continuing employment growth in public services sectors (public administration and defence; and education).

3.1.3 Increasing vulnerability as a result of sector specialisation

Figure 3.1 simultaneously plots the size of a given sector in Central Lancashire (the size of the bubble), the relative under/over-representation (location quotient) of sectors in the sub-regional economy compared with the national average (horizontal axis), and the change in the location quotient relative to the national average between 2003 and 2008 (vertical axis).

[1] Ecorys Local Economic Assessment Model (LEAM), based on data from the Annual Business Inquiry

Figure 3.1 Sector Specialisation (LQ analysis[1])

Source: Ecorys Sector Specialisation Model, based on Annual Business Inquiry data

The analysis reveals that Central Lancashire is characterised by a relatively high specialisation of employment in high technology manufacturing, non-market LKIS[2] (e.g. public administration), construction, and, to a lesser extent, non-market KIS (e.g. education and health) and low technology manufacturing. Further, relative to the employment growth profile of England, recent years (five year period 2003 to 2008) have seen disproportional employment growth in non-market KIS (public services) and market LKIS (e.g. consumer services) in Central Lancashire. Consequently, these two areas of the economy now account for more than one-half of all employment in Central Lancashire. Looking forward, this is of considerable significance in light of both the recently announced public spending cuts and the income squeeze affecting household expenditure.

The specialisation in high technology manufacturing largely reflects the presence of BAE Systems, the single largest industrial employer in Lancashire. The vicinity of Preston represents a hub of BAE Systems' UK operations through its two locations at Warton and Samlesbury. In total some 17% (or 1,970) of its UK employees (in the Air Systems; and Customer Service and Support Business Groups)

[1] Location Quotient (LQ) analysis is used to assess industry concentration in a particular geographical area against employment shares of the same industry for a larger reference area (such as England). An LQ >1.00 indicates that an area is more specialised in a particular industry than is the case for England as a whole. Conversely, an LQ <1.00 suggests that an area is less specialised in a particular industry than England.
[2] Less Knowledge Intensive Services (LKIS)

reside in Central Lancashire, with a further 54% residing in Lancashire[1]. There is, however, risk attached to these sites going forward, and following the UK Government's Strategic Defence and Security Review (SDSR), BAE Systems announced in December 2010 that it had started consultation regarding potential job losses at six of its UK sites and two RAF bases. Sources indicate that approaching two-thirds of the 1,300 potential job losses are at the Samlesbury and Wharton sites (119 and 668 potential job losses respectively)[2].

3.1.4 Variations in the quality of jobs and skills base

With an increasing specialism in knowledge intensive sectors across the UK, there can be little doubt that future employment growth and economic prospects in Central Lancashire will be conditioned to a considerable degree by the quality of the resident labour force. It is of some concern therefore, that Central Lancashire continues to be characterised by an under-representation of those qualified to NVQ4+ among the working age population– 25% compared with 30% nationally. The proportion of working age population with NVQ4+ qualification levels is particularly low in Preston – 20.5%.

Perhaps unsurprisingly, the nature of jobs taken by residents in Central Lancashire reflects the skills base of the working age population, with a lower proportion of employed residents classified as knowledge workers[3] – 42% compared with a national average of 45% - with knowledge workers tending to be especially under-represented in Preston.

3.1.5 Low paid workforce

Reflecting the occupational and employment structure of Central Lancashire, average wage rates tend to be relatively low in the sub-region when assessed against the regional and national averages. Indeed, gross weekly wages in all three local authority areas in Central Lancashire are below the national average, with all three areas being ranked in the bottom half of the Local Authority District table on this measure (Preston ranks close to the bottom 20% of all local area districts on this measure). Moreover, gross weekly wages have apparently seen relatively sluggish growth since 2008 – 0.9% in Preston, 1.5% in South Ribble and 1.9% in Chorley. This can be compared with an average growth rate of some 4.4% nationally.

Table 3.1 Median weekly pay (full-time workers)

	2008	2010	2008-2010
Preston	£422.7	£426.4	0.9%
South Ribble	£485.2	£492.4	1.5%
Chorley	£459.8	£468.7	1.9%
North West	£451.3	£471.2	4.4%
England	£484.5	£506.0	4.4%

Source: Ecorys analysis, based on Annual Survey of Hours and Earnings (resident analysis)

[1] Lancashire County Council http://www.lancashire.gov.uk/office_of_the_chief_executive/lancashireprofile/misc/baesystems.asp
[2] http://www.baesystems.com/Newsroom/NewsReleases/2010/autoGen_11011911443.html
[3] Knowledge workers are defined as including the following major occupational groups: Managers and Senior Officials; Professional Occupations; and Associate Professional and Technical Occupations.

3.2 Short Term Outlook and Resilience

The short term outlook, resilience and performance potential of the Central Lancashire economy will be dependent on a number of conditioning factors. In attempting to better identify and further assess such factors we have developed an analytical model, the Central Lancashire Economic Assessment Model (CLEAM), underpinned by a series of carefully selected indicators. The indicators are structured around two main domains – susceptibility and resilience.

Table 3.2 CLEAM domains

Domain	Description
Susceptibility	The *susceptibility index* is based on indicators that capture the sensitivity of the local economy to recessionary affects such as weak household spending, numbers on out-of-work benefits and declining wage levels, together with vulnerability in the face of cuts in public spending.
Resilience	The *resilience index* is based on indicators designed to measure the capacity of the local economy to adapt to a rebalancing of economic activity in the face of weak demand and reductions in public spending - through enterprise, skills and employment creation in high-value and knowledge-intensive industries.

The CLEAM model is based on official statistics and data prepared and stored on Ecorys' local area databases. Further information on constituent indicators within the Model, together with their rationale for their inclusion, is provided below.

3.2.1 Economic susceptibility

As the first of two connected analytical domains, *susceptibility* calculates the degree of sensitivity of an area to factors that could hold back recovery: government spending cuts, weak household spending and rising unemployment.

More specifically, we have measured the economic susceptibility of Central Lancashire's economy using key indicators corresponding to*:*

- percentage employed in the public sector
- percentage of working age population claiming out-of-work benefits
- change in employment between 2008 and 2009
- percentage employed in the consumer services sector
- median gross weekly pay

Individual values on these indicators have also been combined to create a composite index score[1] for *economic susceptibility*.

Table 3.3 overleaf summarises the performance profile of Central Lancashire (Preston, South Ribble and Chorley) on each of the five indicators of *economic susceptibility* against Lancashire, North West and Great Britain benchmarks.

In summary:

- Central Lancashire is broadly comparable with the national average in terms of overall economic susceptibility (and seemingly in a better position than much of the rest of Lancashire and the North West region). However, this headline does serve to mask significant spatial variation across Central Lancashire, with Preston as the dominant economic centre in particular exhibiting a much higher degree of susceptibility in comparison to Chorley and South Ribble.

- Looking in more detail at individual metrics, then it is apparent that Central Lancashire has been characterised by significant job losses (-5%) during the latest 12 month period for which figures are available. At the same time it is also clear that it exhibits a disproportionate share of public sector employment – a key source of growth across the previous decade, but now subject to Government expenditure cuts.

- In the case of Preston then there are strong grounds for further highlighting the susceptibility of the local economy. The city has a high concentration of public sector jobs (1 in 3 of all employment positions), whilst recorded job losses during the latest 12 month period have been pronounced (1 in 10 of all workplace-based positions according to the data).

[1] Composite scores for each factor represent unweighted averages of underlying indicator scores. In all cases indicator scores are indexed against the national average (GB=100).

Table 3.3 Economic Susceptibility

Area	% Public Sector, 2009			% Out-of-work benefit claimants, May 2010			Employment change, 2008-2009			% Consumer Services, 2009			Gross weekly wage (median), two year average 2008/10			Economic Susceptibility Composite	
	Value	Score	Rank	Value	Score	Rank	Value	Score	Rank	Value	Score	Rank	Value	Score	Rank	Score	Rank
Preston	32.9%	81.3	327	13.9%	91.2	279	-10.6%	91.5	377	18.7%	105.1	125	439.1	88.5	303	91.5	320
South Ribble	23.6%	113.7	136	9.0%	142.1	126	5.0%	107.5	22	16.4%	119.7	39	474.2	95.6	204	115.7	110
Chorley	28.0%	95.8	236	10.0%	127.4	163	-2.7%	99.6	215	19.5%	100.5	158	465.5	93.8	229	103.4	198
Central Lancashire	**29.2%**	**91.8**	**N/A**	**11.2%**	**113.3**	**N/A**	**-4.9%**	**97.3**	**N/A**	**18.3%**	**107.6**	**N/A**	**454.9**	**91.7**	**N/A**	**100.3**	**N/A**
Lancashire	27.7%	96.8	26	13.7%	92.6	26	-1.4%	100.9	12	21.0%	93.4	25	450.8	90.9	30	94.9	27
North West	28.1%	95.4	7	15.6%	81.7	9	-1.3%	101.0	4	20.2%	97.3	9	465.6	93.8	5	93.8	9
Great Britain	26.8%	100.0	N/A	12.7%	100.0	N/A	-2.3%	100.0	N/A	19.6%	100.0	N/A	496.2	100.0	N/A	100.0	N/A

Source:CLEAM Model, Ecorys, 2011

Table 3.4 Economic Resilience

Area	Business Population Rate, 2009			% Knowledge Workers, two year average 2008/10			% NVQ Level 4+ qualifications, two year average 2008/09			% NVQ3+ qualifications, two year average 2008/09			% Knowledge Intensive Services/ High-Tech Mfg, 2009			Economic Resilience Composite	
	Value	Score	Rank	Value	Score	Rank	Value	Score	Rank	Value	Score	Rank	Value	Score	Rank	Score	Rank
Preston	51.4	86.4	220	34.3%	78.0	334	22.4%	76.6	288	51.7%	105.9	127	21.8%	91.2	176	87.6	255
South Ribble	53.8	90.4	195	43.0%	97.7	160	29.3%	100.2	157	47.8%	98.1	208	14.1%	59.1	342	89.1	243
Chorley	61.1	102.7	131	49.2%	111.8	86	28.0%	95.6	192	50.2%	102.9	161	16.5%	68.8	294	96.3	169
Central Lancashire	**55.1**	**92.5**	**N/A**	**41.9%**	**95.3**	**N/A**	**26.3%**	**89.7**	**N/A**	**50.0%**	**102.5**	**N/A**	**18.5%**	**77.2**	**N/A**	**91.4**	**N/A**
Lancashire	53.9	90.5	17	39.7%	90.3	23	25.2%	86.2	24	46.6%	95.5	21	21.5%	89.9	21	90.5	22
North West	53.6	90.1	5	40.9%	93.1	6	26.1%	89.2	7	46.2%	94.8	7	22.0%	91.8	4	91.8	6
Great Britain	59.5	100.0	N/A	44.0%	100.0	N/A	29.3%	100.0	N/A	48.8%	100.0	N/A	23.9%	100.0	N/A	100.0	N/A

Source: CLEAM Model, Ecorys, 2011

3.2.2 Economic Resilience

As the second of the two connected analytical domains, *resilience* assesses factors that could make an area better positioned to adapt to the rebalancing of the national economy: private sector jobs in high value-added industries, a depth of enterprise and a strong skills base. More specifically, we have measured the *economic resilience* of Central Lancashire's economy using key indicators corresponding to*:*

- Business population (birth) rate
- Knowledge workers as a percentage of the total workforce
- Percentage of the working age population qualified to NVQ Level 4 or above
- Percentage of the working age population qualified to NVQ Level 3 or above
- Percentage of the workforce employed in knowledge intensive services and high or medium-high technology manufacturing

Once again, individual values on these indicators have also been combined to create a composite index score[1] for *economic resilience*.

Table 3.4 (on page 31) summarises the performance profile of Central Lancashire (Preston, South Ribble and Chorley) on each of the five indicators of *economic resilience* against Lancashire, North West and Great Britain benchmarks.

In summary:

- In common with much of Lancashire and the wider North West, Central Lancashire is characterised by relatively poor levels of economic resilience, with all three local authority areas scoring below the national average on this index. Notably, Preston and South Ribble also score below the Lancashire and North West averages.
- Overall, Central Lancashire would seem to be weak in terms of jobs representation in knowledge-intensive sectors (private), with this being further underscored by a below average performance profile with respect to skills and enterprise generation. Again, Preston has the lowest score out of the three local authorities in the area while Chorley is the most resilient, but still below the national average.
- Preston's economic resilience profile is a particular cause for concern going forward. The city's skills and enterprise endowments are comparatively weak, and Preston is not an important focus for those knowledge workers who reside in Central Lancashire. Whilst Preston does presently possess some

[1] Composite scores for each factor represent un-weighted averages of underlying indicator scores. In all cases indicator scores are indexed against the national average (GB=100). Scores above 100 are therefore above average and indicate strong performance, whereas scores below 100 are below average and indicate weak performance

depth of employment in knowledge-intensive sectors, BAE Systems, as a major local employer is at risk of job cuts in defence-related activities.

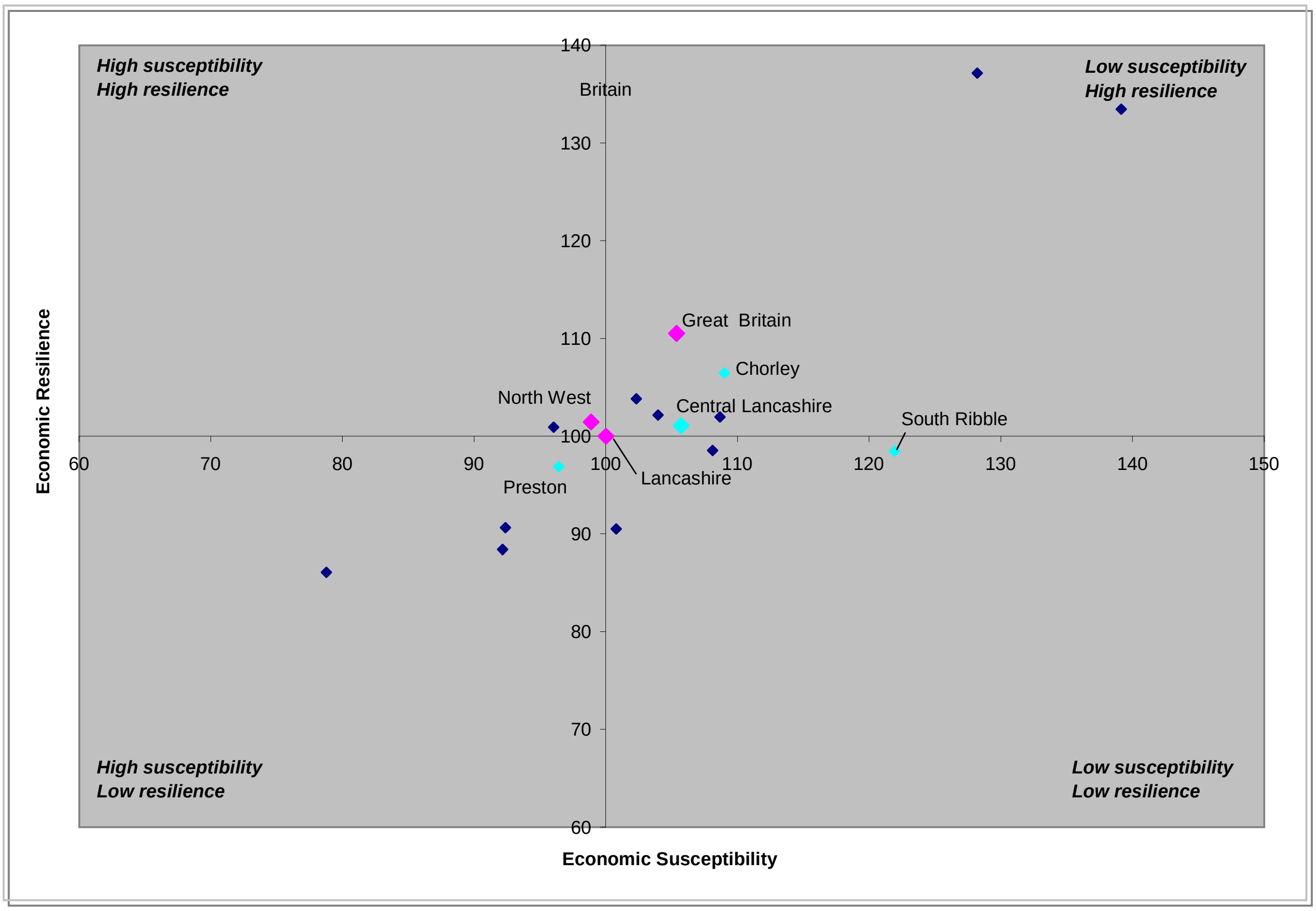
3.2.3 Combining the domains

Figure 3.2 (below) depicts the location of each of the local authorities in Lancashire, as well as Central Lancashire and benchmark areas, on the two axes of susceptibility and resilience. In particular, it shows that only two local authority areas in Lancashire (Fylde and Ribble Valley) are especially strong performers on both economic susceptibility and resilience, as represented by their position in the top right quadrant (suggesting that they are relatively insulated in the face of current economic pressures and also have the capacity for strong and resilient future growth in jobs and incomes).

Whereas Chorley is close to the Great Britain average, South Ribble falls into the "low susceptibility, low resilience" quadrant, suggesting that whilst it has been protected to some extent in the face of recent economic pressures, there remains underlying weaknesses in the likely capacity of these areas to "bounce back" and adapt to a changed economic environment.

Preston, which accounts for by far the greatest share of Central Lancashire's employment base, exhibits at the same time high susceptibility and low levels of underlying resilience in its economic complexion, and scores less favourably on both indices than the county and the wider region.

Figure 3.2 Susceptibility and resilience matrix



Source: Ecorys, 2011

3.3 Medium to Long Term Prospects

Central Lancashire has a well established network of economic development officers within its councils and individual economic development officers have had the opportunity to comment on the narrative and analysis produced by Ecorys. Whilst it is accepted that the short-term economic situation is experiencing the same turbulence as the rest of the UK, the economic development officers consider that Central Lancashire will be able to recover in the medium term and ultimately realise long term sustainable growth. They make the following points in support of this view:

- The Claimant Count figures for Preston wards as at December 2010 show a reduction in claimants by 14.6% since December 2009, with similar reductions of 17.4% in Chorley and 17.9% in South Ribble over the same period. It should also be noted that increases in local unemployment have been mainly concentrated outside the inner urban wards, suggesting that those leaving the labour market are more likely to have higher levels of skills and hence a greater ability to re-enter it, than would be the case for those from more deprived areas, where employment rates remained a challenge in more economically propitious times.

- While total public sector employment is high within the Preston LAD – 33,000, reflecting its role as the administrative, educational and transport hub for Lancashire, and the location of a University, two Colleges, a major teaching hospital, and the main offices for both Lancashire County Council, Preston City Council and the Lancashire Constabulary – recent research by Centre for Cities (Cities Outlook 2011) suggests that total likely reductions in numbers across the Preston PUA (Central Lancashire) are likely to be contained at around the 4,300 mark. The same report also identifies the fact that Central Lancashire is in the top ten nationally for cities with the lowest claimant count (a reduction of 0.4% between November 2009 and November 2010) and also in the lowest decile for business churn.

- BAE has confirmed its intention to invest for the longer term in Lancashire and is working with the Universities of Central Lancashire and Manchester to future-proof its skills and training needs, and to raise the standards of its supply chain. And in the context where the government is encouraging of a rebalancing of the economy towards manufacturing and away from the service and financial sectors, there is potential for growth here in the medium term.

- The Preston LAD has particular challenges as the urban core has high concentrations of deprivation and low skills levels. It does have two major transformative projects in train – the Tithebarn and Central Business District developments, which will see in excess of £700m private sector investment affecting more than one third of the city centre. But these will not be completed for at least three years and their benefits may take some time to work through. Although the resident NVQ4+ skills level is below the UK average, as the location of Lancashire's University, Preston does benefit from significant levels of in-migration to knowledge economy work.

- Central Lancashire has the underlying benefits of its location as a transport hub and as a major centre of higher education. It also benefits from three Regional Strategic employment sites, and government confirmation of investment in improved rail links to Manchester and Blackpool airports. Having said that, the prospects of economic growth based on those underlying strengths will be dependent primarily on macro-economic factors and changes to the national growth prospects. With the Office of Budget Responsibility (OBR) having recently (March 2011) downgraded the national growth projections to 1.7% for 2011/12, it appears unlikely that there will be significant growth at the national and therefore sub-regional level before the end of the current Parliament. This then feeds into likely less demand for housing from an economic and employment perspective locally in the short term.

3.4 Effective Demand

3.4.1 Household formation

The latest national statistics on household projections to 2033 for England suggest that the number of households in Central Lancashire will increase from 145,000 in 2008 to 152,000 in 2013, representing an average growth rate of 0.9%. Within Central Lancashire, the number of households is projected to increase by 2,000 each in Chorley and Preston, and 3,000 in South Ribble. Interestingly, these (2008-based) projections forecast lower growth in household formation than the previous (2006-based) projections, equating to some 20,500 fewer households per year between 2008 and 2031 in England.

Whilst the above household projections provide a useful start point for attempting to estimate future household formation, it is important to note that these are based solely on demographic trends, and hence do not explicitly attempt to predict the impact of changing economic circumstances. Given this position, it is therefore useful to briefly consider other factors that may influence household formation in Central Lancashire, including employment growth.

There is no established one-to-one relationship between employment growth and household formation: the likelihood of an individual benefiting from a new job forming a household will be influenced by a number of factors, including, most notably, the income associated with the new job. As such, it is not only the number of jobs created, but also the types of jobs created, that will likely be important determinants of future household formation demand.

Recent research[1] has usefully attempted to estimate household formation rates for various occupational groups. In particular, the research indicates that:

- Workers in traditional mainly male-dominated and full-time occupations such as managers, skilled trade occupations and machine operatives have the highest 'headship rate' (representing the likelihood of the worker being the sole breadwinner).

- Occupations associated with younger, part-time and mainly female employment such as administrative, personal services (health and social care) and sales activities are less likely to be head of households.

Headship rates for the major occupational groups, based on the above research, are summarised in the table below, together with recent changes in the occupational structure in Central Lancashire.

[1] Housing and Economic Growth in the Leeds City Region, 2006, CURS, University of Birmingham

Table 3.5 Headship Rates by Major Occupational Groups

Occupation	Headship Rate	Central Lancashire: change in employment (2005-2010)	Central Lancashire: % point change in share of employment (2005-2010)
Managers and Senior Officials	0.68	-3,600	-1.8%
Professional Occupations	0.60	3,800	2.8%
Associate Professional and Technical	0.54	3,200	2.4%
Administrative and Secretarial	0.29	-6,600	-3.6%
Skilled Trades	0.78	-3,700	-1.9%
Personal Services	0.28	1,400	1.1%
Sales and Customer Service	0.27	-1,900	-0.9%
Process, Plant & Machine Operatives	0.79	500	0.6%
Elementary Occupations	0.45	1,700	1.4%

Source: CURS, University of Birmingham; Ecorys analysis based on the Annual Population Survey

Overall, occupational trends in the labour market indicate that household formation demand in Central Lancashire has not, on balance, been significantly altered. This assertion is based on the fact that the fall in the share of jobs in some occupations with high headship rates (i.e. managers and senior officials; and skilled trades) has been compensated by a similar increase in the proportion of residents employed in other professions typically associated with high headship rates (i.e. professional occupations; associate professional and technical; and process, plant and machine operatives). This is particularly the case for Chorley, probably reflecting the district's access to neighbouring conurbations of Liverpool and Manchester as well as Preston. Whilst the sharp fall in residents employed in administrative and secretarial occupations is alarming from a labour market point of view, it is not expected to severely alter household formation demand in Central Lancashire, as a result of the relatively low headship rate associated with this type of occupation.

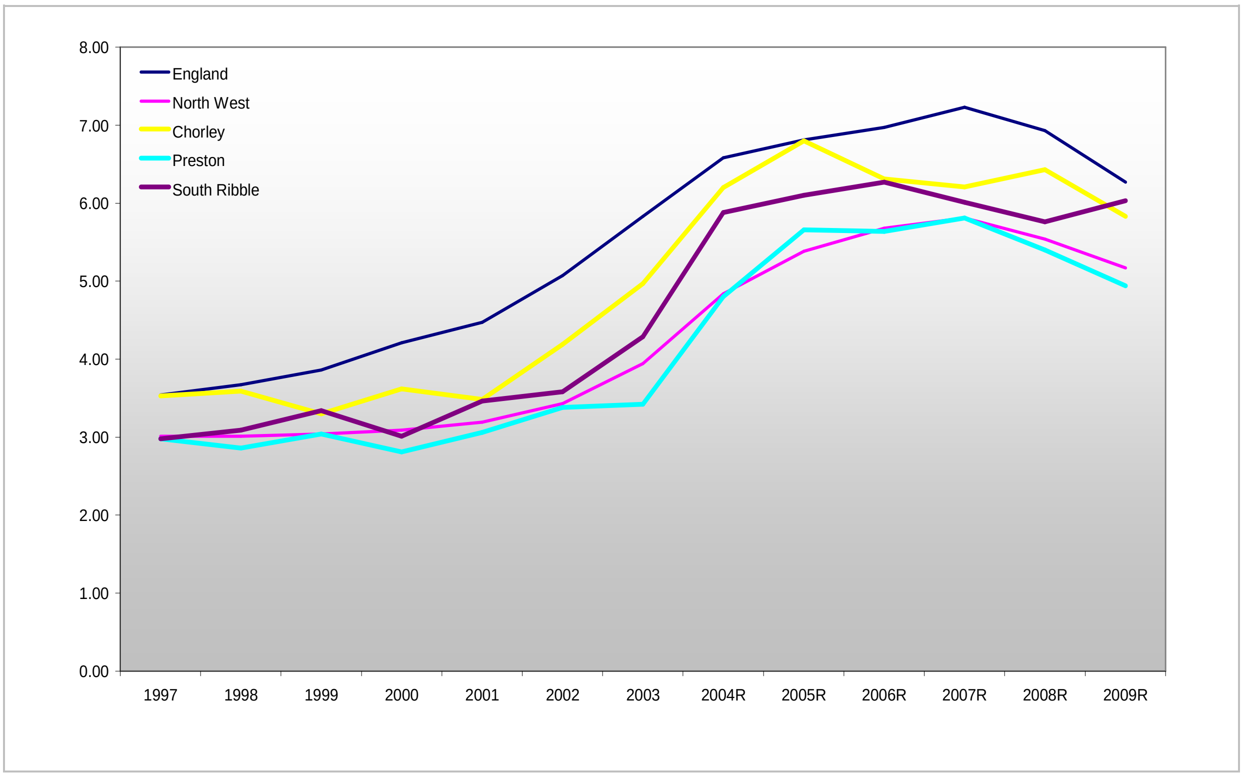
3.4.2 Effective demand

Demographic trends, together with the future pattern and type of employment growth plainly hold important implications with respect to future household formation demand. Be that as it may, the extent to which this latent demand will be translated into 'effective demand' will also be depend to a considerable degree on a number of financial variables - prevailing mortgage conditions, household income and house prices, as well as supply conditions.

The most widely used measure for determining the ability of households to purchase a residential property at market prices is housing affordability, which tends to be represented by the ratio of median or lower quartile house price to median or lower quartile earnings[1]. These measures are plotted in the graphs below for the time series 1997 to 2009.

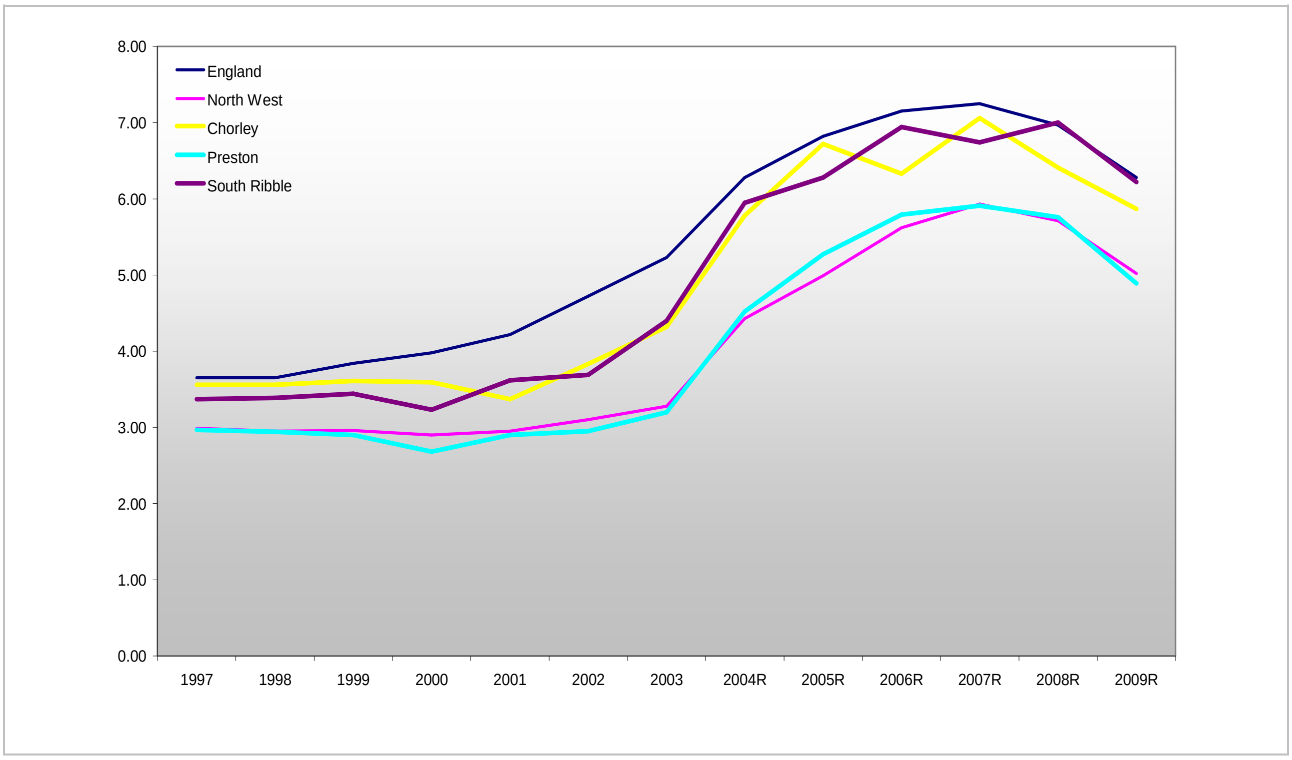
[1] Based on the Annual Survey of Hours and Earnings (workplace based and for full-time employees only)

Figure 3.3 Median house price to earnings ratio, 1997-2009



Source: Ecorys analysis, based on data from the Department for Communities and Local Government

Figure 3.4 Lower quartile house price to earnings ratio, 1997-2009



Source: Ecorys analysis, based on data from the Department for Communities and Local Government

In summary:

- Housing affordability in Central Lancashire varies appreciably across the three LADs: median house prices are 6 times the median annual earnings in South Ribble, compared with 4.9 times higher in Preston. In terms of lower quartile house prices[1], the variance is slightly greater still – 6.2 times the lower quartile earnings in South Ribble and 4.9 times higher in Preston.

- With the exception of Preston, house prices in Central Lancashire have generally been less affordable than in the region as whole, though more affordable than the national average, taking into account the earnings profile. Affordability ratios however, have tended to follow the same evolutionary pattern as in England as a whole over the period in question.

- The decrease in house prices since the 2007 market peak have been translated into a slight improvement in the house price to earnings ratio. However, if this ratio were to return to its long-term average then prices would necessarily need to fall a lot further (unless earnings increase radically – a highly improbable scenario for the foreseeable future).

The official measure of affordability, as proposed by DCLG, is that 'a household can be considered able to afford to buy a home if it costs 3.5 times the gross household income for a single earner or 2.9 times the gross household income for dual-income households'[2]. Assessed on this basis, then the above analysis would suggest that the housing market in Central Lancashire has been characterised by significant affordability issues for a decade or more. In reality, the housing market (at least in many areas) was relatively buoyant up until 2007 – a position that can be explained in large part by the fact that the ability to purchase a home is not only dependent upon house prices and incomes but is also highly sensitive to mortgage conditions. Households contemplating the decision to buy tend to be closely conditioned by the actual cost of mortgage payments and on their ability to pay the initial deposit required.

The former National Housing and Planning Advice Unit (NHPAU)[3] recently developed new indicators to provide a fuller picture of the affordability and accessibility of housing, including:

- **Deposit** – deposit required as a proportion of household income after tax and national insurance contributions;

- **Mortgage costs** – mortgage costs as a proportion of household income after tax and national insurance contributions;

Such measures deal with two issues that the ratio of median or lower quartile house price to median or lower quartile earnings do not account for: getting on the housing ladder in the first place (deposit), and affording the ongoing costs of owning a house (mortgage costs).

[1] Lower quartile: this represents the average price of the 25% least expensive houses.
[2] *Strategic Housing Market Assessments: Practical Guidance*, CLG, 2007. It is important to note that this definition is given in order to assess one household's ability to afford to buy a home, and the house price estimate that is given here is purely indicative of what affordable prices could look like.
[3] Housing Affordability: a fuller picture, 2010, NHPAU

NHPAU estimates for these deposit and mortgage costs measures, based on a number of assumptions in relation to household income and entry level house prices (first time buyers are most affected by deteriorating affordability), are presented in Table 3.6 below for the North West region and England.

Table 3.6 Deposit and Mortgage Costs as a % of household income

	Deposit as a % of household income		Mortgage costs as a % of take home household income	
	North West	England	North West	England
2000	12.0%	16.0%	8.0%	11.0%
2001	11.0%	16.0%	8.0%	11.0%
2002	12.0%	17.0%	7.0%	10.0%
2003	13.0%	22.0%	7.0%	12.0%
2004	20.0%	33.0%	9.0%	16.0%
2005	20.0%	29.0%	13.0%	18.0%
2006	24.0%	31.0%	15.0%	19.0%
2007	26.0%	32.0%	18.0%	21.0%
2008	29.0%	35.0%	17.0%	21.0%
2009	53.0%	64.0%	13.0%	15.0%

Source: NHPAU, 2010

In summary:

- Whilst the deposit required has increased gradually over the course of the previous decade, the scale of this increase was transformed during 2009 as lenders dramatically reduced the loan-to-value ratios at which they were prepared to lend.

- Similarly, there has been an increase in relative mortgage costs since 2000 as house prices have grown faster than earnings. Most recently, there has been some improvement on this measure due in part to falling house prices and reduced interest rates, together with imposition of higher loan-to-value ratios.

3.4.3 Ecorys' Effective Demand Model

In further recognition of the above aspects of effective demand, in this section we develop headline estimates of future effective demand up to 2013. Our effective demand model simultaneously takes into account house prices, income and mortgage conditions (e.g. loan-to-value ratio and interest rates). The model focuses on new forming households - including, most notably, first-time buyers – reflecting the position that it is new forming households which tend to be the ones that face the most significant affordability issues.

The principal data inputs and modelling assumptions that have been used to build the model are summarised below. Specifically, data inputs relate to household formation, household income, income distribution and mortgage conditions.

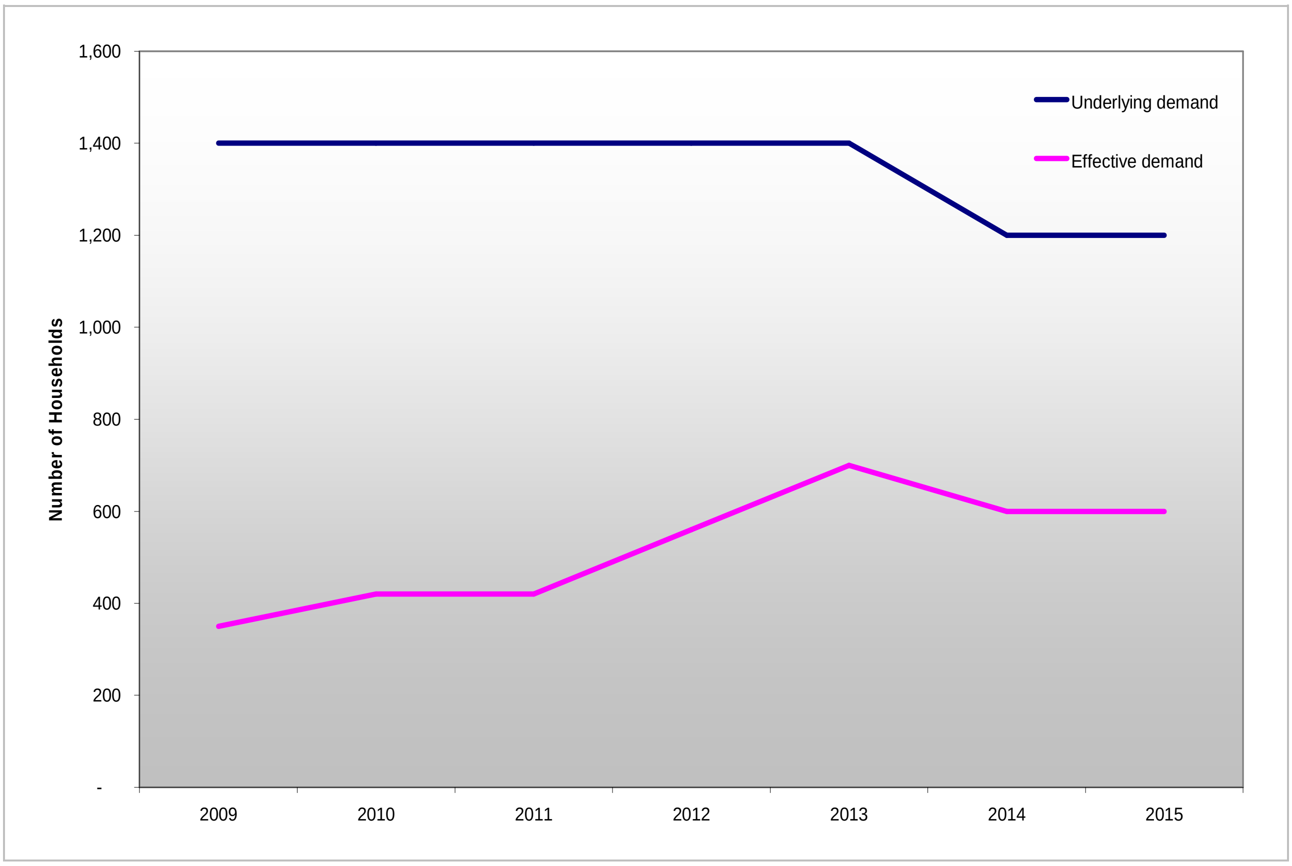
Table 3.7 Inputs and assumptions

Variables	Sources	Assumptions	Comments
Household projection	CLG (2008-based)	Average annual household growth of 0.9% (2008-2013)	Projections are based solely on demographic trends and hence do not explicitly attempt to predict the impact of changing economic circumstances.
Lower Quartile House Prices	CLG (2009) House price projections based on Savills	Annual growth of 2.7% (in 2011); 5.5% (in 2012); 8.0% (in 2013)	
Household Income	Household income estimates have been sourced from CACI The Annual Survey of Hours and Earnings has been used as a proxy for the distribution of household income Household income projections based on OBR forecast (average earnings)	Annual growth of 2.2% (in 2011); 2.4% (in 2012); 3.8% (in 2013) Average tax rate of 30% to convert gross income to net income. This is a common assumption used for impact assessment.	Income from savings and investment has been excluded on the basis that this will be needed to pay the deposit. According to the Family Expenditure Survey, income from savings and investment accounted for 11% of household income. The distribution of household income has been based on individual incomes (Annual Survey of Hours and Earnings) and thus may overestimate/ underestimate household income at top and bottom percentiles. Household income projections implicitly reflect changes in the type and pattern of job growth.
Loan To Value Ratio	NHPAU	75% in 2009 - returning gradually to 90% by 2016 and then held constant at 90% from 2016 onwards	
Interest Rate	NHPAU	4.5% in 2009 - rising 0.25 percentage points every quarter from 2010 reaching 6.25% from Q1 2012	
Payback period	n/a	General assumption that the payback period is 25 years	
Effective Demand Condition 1	n/a	Mortgage costs as a % of annual net household income must not be higher than 50%	This should be interpreted as the maximum and not the average share of household income.
Effective Demand Condition 2	n/a	The deposit required must not be higher than the net annual household income	This represents a somewhat arbitrary assumption, but has been included to counter the relatively lower mortgage costs resulting from a lower LTV.

Source: Ecorys analysis, 2011

In turn, the chart below further sets out the estimated future effective demand for housing in Central Lancashire based on the inputs and assumptions presented above.

Figure 3.5 Effective demand for housing in Central Lancashire (number of households)



Source: Ecorys analysis, 2011

In summary:

- Over time, effective demand for housing in Central Lancashire is estimated to increase steadily, from 350 new forming households in 2009 to 700 households in 2013. The slight downward trend from 2013 reflects demographic trends (underlying demand) rather than significant changes in house prices, household incomes and/ or mortgage conditions.
- The difference between the underlying and effective demand is indicative of the demand for non-market housing and private renting among new forming households. As such, the indicative demand for non-market housing and private renting is estimated to fall from 1,050 households in 2009 to 600 households in 2015.
- Notably, effective demand would appear to be primarily driven by the prevailing mortgage conditions, over changes in house prices and household income.

3.5 Housing and Delivery

In 3.4 we focus on housing delivery; first by looking at recent performance and then by reporting on the consultation work we undertook with local and regional property specialists. The consultation exercise provides a qualitative assessment of recent and future market trends so far as these can be predicted in the current climate.

3.5.1 Recent Housing Delivery Performance

The housing requirements set out in the RSS were informed by a detailed process of analysis and consultation which the three Central Lancashire authorities had opportunity to be involved with and to influence. The fundamental approach which underpinned the RSS was driven by a desire to facilitate growth and prosperity in order that the Northwest, in common with other areas, could reduce the disparity between itself and the England on a range of socio-economic indicators.

Unfortunately, however, the forecasting models and techniques used to underpin the RSS analysis did not foresee the economic downturn which we are now experiencing. Indeed, none of the macro econometric modelling techniques in the UK appears to have been sufficiently robust to have predicted a downturn from 2008 onwards and certainly not one on the scale we have witnessed. Consequently, the housing targets are now running out of synchronisation with housing delivery, and indeed, with what can be delivered in terms of housing numbers largely due to issues around access to finance.

The data in Table 3.8 overleaf is drawn from the Annual Monitoring Reports collated by the local planning authorities. It shows that delivery of new houses to the market in Central Lancashire has dipped in the past two-to-five years across Central Lancashire with annual targets for the area not being met for the last five years. However, within the three districts there are different patterns: Chorley has performed best against its targets and this performance has been assisted by the Buckshaw Village development; South Ribble displays a performance closer to the Central Lancashire performance overall; and Preston's performance has dropped off considerably largely due to the collapse of the inner urban apartment market due to the recession.

The Strategic Housing Land Availability Assessment (SHLAA, 2010) reveals that there are severe delivery prospects in Preston and reduced performance in South Ribble. A five-year supply of housing land is in place across Central Lancashire but it is acknowledged that there are issues of deliverability of housing due to the ongoing market difficulties being experienced. In order to maintain values, it is not uncommon for developers to scale back on the volume of units they deliver from each site per annum and this can also have a deflating effect on the annual completion rates over time. At a later date, as demand is increased through relaxation of mortgage lending rules, so the volume of units completed per site can be built up again. This point demonstrates the intricate relationship between the economy and the volume of housing units completed each year, and it is a relationship which will continue to concern us for some time to come.

Table 3.8 Housing Targets and Completions: Central Lancashire, 2003/11

Preston	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	*2010/11*	Totals
RSS targets	507	507	507	507	507	507	507	*507*	4056
Completions	308	544	627	565	609	468	5	*55*	3181
Difference	-199	37	120	58	102	-39	-502	*-452*	**-875**
% Difference	-39	7	24	11	20	-8	-99	*-89*	**-22**
South Ribble	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	***2010/11***	**Totals**
RSS targets	417	417	417	417	417	417	417	*417*	3336
Completions	538	657	520	284	320	312	171	*231*	3033
Difference	121	240	103	-133	-97	-105	-246	*-186*	**-303**
% Difference	29	58	25	-32	-23	-25	-59	*-45*	**-9**
Chorley	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	***2010/11***	**Totals**
RSS targets	417	417	417	417	417	417	417	*417*	3336
Completions	585	479	489	121	288	355	440	*513*	3270
Difference	168	62	72	-296	-129	-62	23	*96*	**-66**
% Difference	40	15	17	-71	-31	-15	6	*23*	**-2**
Central Lancashire	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	***2010/11***	**Totals**
RSS targets	1341	1341	1341	1341	1341	1341	1341	*1341*	10728
Completions	1431	1680	1636	970	1217	1135	616	*799*	9484
Difference	90	339	295	-371	-124	-206	-725	*-542*	**-1244**
% Difference	7	25	22	-28	-9	-15	-54	*-40*	**-12**

Source: Preston City Council, South Ribble Borough Council, Chorley Borough Council

Notes: Data shown in the 2010/11 column is the full year projection taken from the AMR.
Dark blue shaded cells indicate where annual targets have been/ are predicted to be exceeded.
Red figures indicate where annual targets have not been achieved.

3.5.2 Consultation with Residential Agents and Developers

The initial list of contacts was provided to us by the client group and we then supplemented this with contacts of our own. A list of consultees involved in this process is contained at Appendix Two. To conduct the consultation exercise we prepared a short questionnaire (contained at Appendix Three) and made contact with a number of local and regional residential property agents, developers and other specialists active in the residential market.

A collated summary of the responses received to the questionnaire is contained below organised around the headings used in the questionnaire.

3.5.3 Involvement in the Central Lancashire Residential Property Market

The people involved in the consultation exercise had varying degrees of involvement in the Central Lancashire market which ranged from no active involvement at present to involvement in specific sites and negotiations, including:

- South Ribble and Chorley: negotiation of strategic land options in various locations for sites in excess of 5 acres.
- Buckshaw Village, Chorley.
- Cottam and Tithebarn in Preston.
- Lostock Hall gas works site.
- Involved with RSLs including Progress Housing Association.

In terms of current requirements for sites in the area, one consultee noted that they had requirements for residential sites across all of Central Lancashire and is considering each opportunity as it arises. Another respondent said that they would consider sites on the edge of existing towns as they become available.

The regional office of a national agency indicated that they are normally involved in larger sites from 2 or 3 acres to 20 and 30 acres, sites of this type are still being sought particularly by the larger national housebuilders. Where there is potential for larger developments up to 400 dwellings of a conventional type then there is interest although none are actively being sought in Central Lancashire at the moment.

3.5.4 Sites in Current Market Conditions

It was noted that in the current market, sites on the edge of town which have planning permission in place and are ready to develop are most suited to the development industry. A further comment noted that larger sites of over 2 acres with potential for a good mix of family housing, and thus not primarily aimed at first-time buyers, were suited to current market conditions.

In current market conditions developers were thought to be looking for 'oven ready' sites that are more likely to make them money. The 'easy wins' with fewer barriers or difficulties to overcome will be more attractive in the current market. Smaller scale, more up-market sites also still seem to be moving through the market. Conversely, one consultee noted that real opportunities are few and far between and there are 'no easy sites' but all opportunities will be considered on their merit.

There is demand at the other end of the market around affordable housing but developers are finding it difficult to make affordable housing work at the moment. A requirement for 15% affordable was manageable but with requirements moving to between 25% and 40% it makes schemes unviable. This was echoed by another consultee who noted that affordable housing is not a barrier to development until the requirement gets above about 30%.

Social rented housing as part of a development is not attractive to developers and at the moment there are also issues around shared ownership as it can cause issues over the amount of deposit required to secure a mortgage. For example, if a purchaser is interested in a house valued at £200,000 but want it on a shared ownership basis then some mortgage lenders will require a deposit of 25% of the valuation and not just of the 50% share.

3.5.5 Characterising the Current Market

Current market conditions were characterised as being two-tier at present: good demand existed for the better located sites where a sales value of about £180 to £185 per ft² could be achieved; and below that value there was much more limited demand.

It was noted that sites are available but the market for the final product is the main issue. Houses could be built as there are people who want to buy them, but the main blockage in the market is around access to finance and mortgage lenders reigning in their offers which means that as a result houses aren't selling. This issue around first-time buyers not being able to raise the deposits requested by the lenders was noted as a factor that is holding back the buyer chain.

Another respondent noted that for land, demand is polarised to the main national builders who still have funding whereas smaller developers are struggling. This person went on to note that 'in the last month we have seen demand for new homes and second hand homes drop off considerably and as has been the experience over the last two years, first time buyers are particularly struggling to enter the market'.

Overall, general comments summarising the situation included: 'not very good at all', 'difficult' and 'weak'.

3.5.6 Outlook for the Next Two Years

A key determinant in whether the outlook for the next two years may change was noted as being linked to the banks and whether they are able to lend more. The situation was viewed as being likely to remain the same through to about 2013 and that there may be a slight deterioration over the next year. It was thought that there would have to be an improvement at some point as there is a build-up of demand occurring, but this may only be marginal.

Consequently, the role of the banks was seen as central to determining how the market took shape over the next two years. Clearly, there are issues around security of employment which are also affecting household spending plans and this may be more pronounced in areas with higher public sector employment levels.

There has been good demand for RSL sites but this is changing now due to reduced levels of grant aid being available. The sites which RSLs were interested in are unlikely to be picked up by the market as there is limited value in them.

3.5.7 Central Lancashire Market Sub-Areas and Resilience

Consultees thought it is difficult to say with any precision, but the areas with better demographics and locations are likely to be more resilient market areas, that is the least adversely affected by the credit crunch and recession and so the most likely to encompass deliverable housing land. Suburban and rural areas characterised by family housing and more affluent residents will probably be the most resilient. This is a familiar pattern in tough market conditions, the higher value and more popular areas will generally always tend to be more resilient. By comparison, Central Lancashire should be better placed to be resilient than, for example, parts of East Lancashire.

In general terms, Chorley and South Ribble were considered as quite resilient. The more rural locations in these districts were also thought to be the most resilient; for example Euxton, Penwortham and Rural West Chorley. In comparison, inner Preston and Chorley town centre are likely to be less resilient.

The widespread view was that the apartment market has collapsed; they are not selling at all. Starter homes remain in demand and family homes (4-bed) can experience mixed fortunes largely down to the area within which they are located. The overall quality of a development and the effort put in to marketing it were also thought to be factors in the success of a development. Larger family houses seem to be selling better but there has been an impact on demand for them due to the reduction of new-buyers entering the market overall.

In terms of trying to disaggregate the prospects for housing market activity at a sub-area level, the comments summarised in Table 3.9 were received around level of prospects that could be expected.

Table 3.9 Prospects for delivery based on consultation feedback

Best Prospects	Marginal Prospects	Limited or No Prospects
Market towns accessible to cities	Bamber Bridge	Leyland town centre
Euxton	Preston Northern Rural Hinterland	Preston city centre
Rural West Chorley		Chorley town centre
Penwortham		Urban areas
Rural areas		
Developments like Buckshaw Village		
Eccleston		

Note: The above market areas are the same as those used in the recent viability studies

3.5.8 Barriers to Housing Development in Central Lancashire

The barriers identified by the consultees were split into two groups: local and national:

3.5.9 Local Issues

- Planning decisions may not be favourable for some larger sites due to uncertainty around the RSS figures and how to interpret them in the current policy environment which feed through to a restricted supply of land to the development sector and ultimately reduced supply of houses to the market.

- Lots of indecision in the planning system and smaller sites appear to be easier to deal with at present.

- Weak demand exists in some local areas due to a lack of confidence and uncertainty in current market conditions in the prime. Also there is an oversupply of housing in parts of Central Lancashire and very low value houses mean that the viability of building new developments in many areas is just not there.

- Limited availability of land in the high value, more popular areas will be a barrier to housing development.

3.5.10 National Issues

- National issues are a big factor at the moment with the recession and job security overshadowing household spending plans.

- Mortgage lenders are requesting 20 to 25% deposits which many people can't afford and this is affecting demand for houses. Demand is there, but is not being realised due to financial barriers.

- The uncertain economic climate and the difficulty in obtaining mortgage finance for first time buyers are significant national issues affecting the local level.

3.5.11 Summary

The RSS targets for housing completions across Central Lancashire as a whole are not being achieved and have not been achieved since about 2006. A fundamental issue with targets based on previous trends and oriented towards growth scenarios is that they struggle to tolerate sustained periods of economic decline and market downturn. Unfortunately, the current market scenario suggests that the RSS targets are too high for the scale of delivery that can realistically be achieved in Central Lancashire.

A clear theme running through the consultation exercise was a strong view that access to finance for first-time buyers was acting as a barrier to residential sites coming forward. In the opinion of some of the agents and developers we consulted, this may be leading to pent-up demand and the build-up of this may ultimately be a factor in delivering a relaxation of lending requirements around mortgage deposits at the national level in order that some of this demand is released. However this is unlikely to take place in the short term, most especially as regards the conditions that apply to first time buyers and new homes.

In terms of the type of sites favoured in the current market, sites that can deliver higher value or that have fewer barriers to overcome were thought to be the ones most sought after. It was also noted that there is a difference in developer activity which is also linked to access to finance with the larger, national firms being better placed to remain active in the current market. The rural hinterlands were viewed as definitely having more potential than the inner urban areas.

In many respects, Central Lancashire is similar to other areas and is affected by national issues around finance more than local issues. Demand exists (the waiting lists for affordable housing are one way of recognising this), but the financial barriers to development are significant. Although there are undoubtedly planning issues locally, as there are throughout the country, they are outweighed by financial barriers which are as a result of decisions at the national level.

There is a geographic disparity in the area with the rural areas characterised by property values which are standing up quite well to the current market situation compared with the urban areas where values are stunted. Issues around location, size of site and socio-economic characteristics in the surrounding area will also affect demand and value on a site.

4.0 Key Findings and Conclusions

The following section sets out the key findings of the assessment tasks at Section 3 and compares them with either the actual position in 2006/7, or the forecasts that underpinned RSS (and are summarised in Section 2), and the extent of the deviation is quantified and / or qualified.

4.1 The current economic position

Our economic analysis has provided a re-assessment and further examination of recent performance and changing conditions in the Central Lancashire economy. Among our key findings:

- Whilst employment growth in the decade up to the onset of the recession in 2008 was certainly pronounced in Central Lancashire, this has not been translated into a concomitant increase in GVA. This suggests that much of recent jobs growth has been disproportionately accounted for by expansion in lower wage and lower productivity sectors (including construction).

- Latest figures reveal that Central Lancashire has been especially hard hit by changing fortunes in the wider economy, with a recorded jobs fall of 5% between 2008 and 2009. Of particular concern is the scale of job losses exhibited by Preston, with statistics suggesting the loss of more than 1 in 10 of all employment positions.

- Analysis of sector specialisation reveals that Central Lancashire has been characterised by disproportionate employment growth over the previous decade in knowledge intensive public service occupations and low knowledge intensive consumer service occupations – areas of the economy which are now vulnerable in the face of widespread public spending cuts and the income squeeze impacting on household expenditure.

These findings reveal both a decline in economic performance in Central Lancashire, and an underlying vulnerability of the Central Lancashire economy in the face of post recession macro economic conditions and national policy measures.

Plainly, revisiting the earlier economic projections prepared for Lancashire (and which informed the RSS evidence base) shows them now to have been unduly optimistic. These forecasts were produced before the financial crisis and subsequent recession. Therefore, even if economic growth in the wider region and county eventually returns to its long term trend path, there has been and will continue to be a sharp deviation from this trend for some years to come, and this will have considerable implications with respect to the effective demand for housing.

4.2 Outlook and resilience

A closer view on future outlook and prospects for the Central Lancashire economy is provided by application of the CLEAM model, which assesses likely future performance against the key criteria of economic *susceptibility* and *resilience*. Such an analysis highlights the following principal findings:

- Whilst Central Lancashire is broadly comparable with the national economy overall in terms of headline economic susceptibility, it is of considerable concern that Preston as the dominant economic centre exhibits an appreciably higher degree of susceptibility on this index. Moreover, it is clear that the city possesses a high concentration of public sector jobs (1 in 3) many of which are at risk, across the whole economy job losses during the latest 12 month period were significant.

- Looking forward, there must be serious question marks over Central Lancashire's ability to respond to and counter-balance further turmoil in the economy. Our CLEAM analysis reveals economic resilience to be low, with this reflecting a general under-representation in private sector knowledge economy activities, together with notable deficiencies in terms of skills base and enterprise generation. Again, Preston's economic resilience profile would seem particularly weak – a position further compounded by the threat of significant job losses at BAE Systems.

In summary, the CLEAM analysis tends to reveal a depth of underlying weaknesses in the Central Lancashire economy adversely affecting its likely capacity to 'bounce back' and adapt to a changed economic environment: one which over the short term at least will be characterised by restricted demand and public sector expenditure cutbacks. Again, under this market scenario, the RSS targets are simply too high for the scale of delivery that can realistically be achieved in Central Lancashire.

4.3 Effective demand

Based on the latest national statistics on household projections (2008-based), and reflecting demographic trends, the number of households in Central Lancashire will increase from 145,000 in 2008 to 152,000 in 2013, representing an average growth rate of 0.9%. This represents a lower growth in household formation than the previous (2006-based) projections, equating to some 20,500 fewer households per year between 2008 and 2031 in England, equivalent to approaching 140 fewer households annually in Central Lancashire (based on the sub-region's 2008 share of all households in England).

In addition to these underlying demographic trends, household formation demand will be affected by the changing economic circumstances in the sub-region and more widely. Indeed, recent research has shown that there is a strong link between employment growth and household formation demand. The strength of this relationship, however, varies according to the occupational structure of an area's economy.

The analysis above has shown that occupational trends in the labour market have not, on balance, significantly altered household formation demand in Central Lancashire. This assertion is based on the fact that the fall in the share of jobs in some occupations with high headship rates (i.e. managers and senior officials; and skilled trades) has been compensated by a similar increase in the proportion of residents employed in other professions typically associated with high headship rates (i.e. professional occupations; associate professional and technical; and process, plant and machine operatives). This is particularly the case for Chorley, probably reflecting the district's access to neighbouring conurbations of Liverpool and Manchester as well as Preston.

Whilst demographic trends and the future pattern and type of employment growth have important implications for future household formation demand, ultimately it is mortgage conditions, together with household income and house prices that determine the extent to which this underlying household formation demand will be effective.

Interestingly, in this regard, the preceding analysis has highlighted that there is going to be relatively sluggish growth in household income in the foreseeable future, mainly due to relatively slow employment growth. This, together with steady recovery in house prices, would tend to indicate that future effective demand for housing will be heavily dependent on the prevailing mortgage conditions (i.e. LTV and interest rates).

Based on a number of assumptions in relation to mortgage conditions, house prices and household income, and applying Ecorys' effective demand model, it is estimated that the effective demand for housing in Central Lancashire will represent 30% of all new forming households in 2011, rising to 50% by 2013 as mortgage conditions improve. The difference between the underlying and effective demand is indicative of the demand for non-market housing and private renting among new forming households. This demand may, in turn, to some extent be met by the existing housing stock, however stock turnover has been low since the onset of the recession.

4.4 Housing and delivery

The RSS targets for housing completions in Central Lancashire as a whole are not being achieved and have not been achieved since about 2006. A fundamental issue with targets based on previous trends and oriented towards growth scenarios is that they struggle to tolerate sustained periods of economic decline and market downturn. Unfortunately, the current market scenario suggests that the RSS targets are too high for the scale of delivery that can realistically be achieved in Central Lancashire.

A clear theme running through the consultation exercise was a strong view that access to finance for first-time buyers was acting as a barrier to residential sites coming forward. In the opinion of some of the agents and developers we consulted, this may be leading to pent-up demand and the build-up of this may ultimately be a factor in delivering a relaxation of lending requirements around mortgage deposits at the national level in order that some of this demand is released. However this is unlikely to take place in the short term, most especially as regards the conditions that apply to first time buyers and new homes.

5.0 Publication Core Strategy Representations

This section relates to assessment task 10 and summarises the case(s) made in representations received relating to policy 4 of the Publication Core Strategy. It contrasts the representations with the findings contained within Section 3, advises on their justification (in so far as they relate to impacts on housing delivery arising from policy 4) and proposes any changes to Ecorys' assessments and findings that justified representations may merit.

5.1 Representations considered

The representations reviewed covered a broad cross section of those that considered the Core Strategy to be unjustified on the basis of the reduced housing requirement between 2010 and 2012 proposed in Policy 4.

The representations are often made to protect particular development interests and in total 14 representations were reviewed, 12 against the proposed short term housing requirement reduction and 2 in favour.

Only one of the two representations in favour put forward a reason for their support. In the opinion of the party making the representation:

- The economic recession and tighter conditions on mortgage lending that had caused low rates of housebuilding justifies policy 4. As such the economic climate and the housing requirement are connected.

Of those who regarded the strategy to be unjustified on the basis of how Publication Core Strategy justifies the policy, the reasons can be grouped as follows (the opinions expressed and facts cited below are those put forward through the representations reviewed):

- The policy or policy rationale is not supported by evidence.
- Housing need, or underlying demand, is not (or not only) affected by the economic climate and has not materially changed.
- The latest household projections are consistent with the RSS requirement (CLG 2008 based, 1,277[1] households per annum versus RSS, 1,340 dwellings per annum).
- The latest Central Lancashire Strategic Housing Market Assessment identifies an annual average shortfall of 1,780 affordable homes per annum until 2014.

[1] This figure is equal to the average annual household increase between 2008 and 2026, over which time the number of households across Central Lancashire is projected to increase by 23,000, according to the Communities and Local Government 2008 Based household projections.

- The Regional Housing Strategy 2009 and National Affordable Housing Programme both point to long term regional trajectories of sustained household growth (thus setting the current difficulties as a short term blip).
- The problem is not about the housing requirement being too high, but the range of sites through which the requirement will be delivered.
- There is realisable demand for new homes subject to the release of developable land in the right market areas (economic recovery will spread from more affluent sought after areas back toward the inner areas over the plan period).
- Traditional house types on suitable and deliverable sites can ignite a higher level of development activity now that developers are in a stronger position to invest in them.
- A reduced requirement could adversely affect growth prospects in Central Lancashire and undermine implementation of the plan.

5.2 Credence and justification

None of the representations reviewed contest that economic conditions have been both challenging and a set back for housing delivery in Central Lancashire. However most state that economic difficulty should not be used as the basis for altering the housing requirement.

In a supporting representation where economic conditions are put forward as a justification for lowering the requirement, this is also connected to the need to protect the ongoing prospects for development that has already started, but which might be compromised if, as some of the representations against would wish, additional developable housing land is released.

Two key issues emerge from reviewing the representations.

Firstly, and building on the consultation exercise reported at paragraph 3.4, it is apparent that challenging economic conditions place a considerable strain on the plan's objectives in so far as they seek to direct housing growth into particular locations, because during such times it is much more difficult to reconcile the commercial model that a developer follows to build new homes with the spatial objectives of the Core Strategy.

The collapse in the apartment market helps illustrate this point – there is now a far weaker fit between the commercial model and the places that the Core Strategy seeks to develop than there was when the spatial plan was first conceived and development prospects were generally better.

This problem is further exacerbated, at least in the short term, by the reduction in public funding to support new housing development in 2011/12, compared to previous years. The means to address market failure that has, for the time being, enveloped formerly deliverable or marginal areas, are more limited than they have been since plan making commenced, and it would be surprising if they improved in the next two years. Consequently, it is likely that some of the housing sites are not viable in current market conditions and will not be developed until underlying market conditions improve.

Secondly, there are strong representations about housing need, which compare the annual requirement with a larger annual affordable housing need for example. Not withstanding the difficulties associated with developing affordable housing on the scale required, a fundamental question arises about whether long run underlying demand is as strong as anticipated by RSS. (Comparison between actual population change to date and scenarios for Lancashire can be found in Section 2).

One of the representations makes the point that "it is the function of the planning system to create a framework for development that can deal with times of economic growth and recession alike" and not one that is dictated by economic conditions. It is probable that the RSS housing requirement fails to perform this function, having planned only for the eventuality of economic growth, whereas the Northwest is now confronted with circumstances – recovering from economic recession - for which no plan has been made.

The aim should still be to plan for sustainable growth but for the plan to be set in a dramatically changed operating environment and with a far broader range of possible outcomes in mind. In the short term, adding easier to develop sites to the supply of housing land may only serve to displace development and inadvertently undermine the long run potential of strategic growth locations. In any event, over the next 12 months the lack of mortgage finance and the uncertain economic outlook are both likely to suppress demand, especially from would be first time buyers, for new homes.

The link between economic performance and residential development is an extremely important one, but also a difficult one to articulate precisely. Clearly, there are some mixed views on this from the representations received which serves to illustrate this point. It is important to note that some of the representations also point to the lack off attractiveness of some housing sites in the current market and this is a real issue, but one which extends beyond the next two years.

5.2.1 Response to the matters raised by representors.

For clarity and the avoidance of doubt, the following sets out our considered response to each of the 9 key matters raised by representors.

1 The policy or policy rationale is not supported by evidence.

The Publication Core Strategy refers in the reasoned justification for Policy 4 all the main economic factors affecting housing delivery. Our research analysis of these and related matters confirms the degrees to which these matters are significant in this respect and demonstrates that there is firm evidence to support the policy.

2 Housing need, or underlying demand, is not (or not only) affected by the economic climate and has not materially changed.

Economic factors do affect underlying demand, they influence migration patterns and the propensity for people to form households or share accommodation.

3 The latest household projections are consistent with the RSS requirement (CLG 2008 based, 1,277[1] households per annum versus RSS, 1,340 dwellings per annum).

The 2008 based household projections superficially appear similar but are not the same as dwelling requirements as they take no account of households sharing dwellings for example.

4 The latest Central Lancashire Strategic Housing Market Assessment identifies an annual average shortfall of 1,780 affordable homes per annum until 2014.

It is not uncommon for the SHMA to produce higher affordable housing need figures than the total RSS housing requirement this is a function of the nationally prescribed methodology which includes making good the identified 'backlog' of need within 5 years and is easily skewed by people's aspirations.

5 The Regional Housing Strategy 2009 and National Affordable Housing Programme both point to long term regional trajectories of sustained household growth (thus setting the current difficulties as a short term blip).

These are both based on data that pre-dates the 2008 based projections which themselves probably do not take full account of the economic recession.

6 The problem is not about the housing requirement being too high, but the range of sites through which the requirement will be delivered.

Our analysis is that increasing the range of sites will not necessarily increase housing delivery because of the constraints that will still apply on mortgage availability but will switch development to the easier to develop sites and so risk undermining the spatial strategy.

7 There is realisable demand for new homes subject to the release of developable land in the right market areas (economic recovery will spread from more affluent sought after areas back toward the inner areas over the plan period).

There may be a trickle out effect but as with the above, the spatial strategy could well have been undermined in the process.

8 Traditional house types on suitable and deliverable sites can ignite a higher level of development activity now that developers are in a stronger position to invest in them.

There is clearly a greater demand for 3 and 4 bedroom family housing but ultimately the market will only function properly if first time buyers can access the market and these buyers are severely constrained currently due to the mortgage restrictions.

9 A reduced requirement could adversely affect growth prospects in Central Lancashire and undermine implementation of the plan.

[1] This figure is equal to the average annual household increase between 2008 and 2026, over which time the number of households across Central Lancashire is projected to increase by 23,000. according to the Communities and Local Government 2008 Based household projections

Our analysis is that the local economy is not being held back by a lack of housing but by a range of other factors however there does need to be a balance achieved between economic and household growth prospects.

6.0 Economic Justification for Policy 4

This final section presents Ecorys' conclusions as to the economic justification for setting and applying short-term maximum housing requirements at 80% of the RSS figures for the period 2010-2012.

The conclusions of this research and their basis are set out under the following key headings:

- Effective demand and supply is constrained by economic conditions with little prospect for significant improvement in the short term.
- The true scale of underlying demand is likely to be falling, CLG household projections are subject to successive downward revisions, and the evidence is inconclusive.
- The spatial dimension and the notion that within Central Lancashire, some places have better short term prospects for housing delivery than others.

6.1 Conclusions

6.1.1 Effective demand and supply is constrained by economic conditions with little prospect for significant improvement in the short term

- Actual economic performance has fallen well below expectations since 2007.
- Predictions made (during the RSS plan making process) of continued economic growth contrast with actual economic decline between 2007 and 2010 precipitated by a credit crunch that has made access to finance far more difficult since 2008 than it was in the build up to 2007.
- Whilst recovery has started, the outlook for the next 12 months (2011/2012) is for subdued/flat growth.
- The ability of householders and developers to access finance is expected to improve, but like the prospects for economic growth, will probably be subdued/flat for much of 2011/12.
- In particular, the ability of first time buyers to purchase new homes has been adversely affected by recent economic conditions.
- Such circumstances act to constrain effective demand for, and supply of, new homes for sale.
- There is a clear link between economic decline after 2007 and a decline in housing completions since 2008/09.
- The analysis clearly indicates that these circumstances are unlikely to significantly improve during 2011/12 and on this basis, *reducing the requirement in the face of such uniquely challenging and unexpectedly malign economic conditions makes sense.*

6.1.2 The true scale of underlying demand is likely to be falling, CLG household projections have been subject to successive downward revisions

- Whilst we can conclude that effective demand has, and continues to be, constrained by economic circumstances, the impact on underlying demand is less clear; however it is evident that a fall in net migration to the UK is leading to lower than expected population and household growth.

- The Central Lancashire SHMA identifies an annual average shortfall of 1,780 affordable dwellings per year to 2014 which implies a total requirement above that of the RSS requirement. However estimates of affordable housing need are not necessarily indicative of underlying demand both because they seek to make good the notional backlog over a 5 year period and if survey based (as in this case), they may well be inflated by unrealistic aspirations.

- The 2008 based household projections are that Central Lancashire will grow by 1,400 households per annum between 2008 and 2013 and 1,200 households per annum between 2013 and 2018. These are in line with the RSS requirement; however they should not be taken as the sole basis for determining the housing requirement. Instances of households sharing (lodging for example or whilst saving for a deposit) and the extent to which existing properties are brought back into use skew the relationship between the two and imply that the requirement should at least be *lower* than the rate of household formation.

- Whether or not the underlying demand is consistent with the annual housing requirement, all things being equal, the market on its own cannot meet this demand and the prospects for subsidised affordable development are constrained by the significant reduction in the value of the new Affordable Housing Programme compared to the previous settlement.

6.1.3 Spatial dimension and the notion that within Central Lancashire, some places have better short term prospects for housing delivery than others

- The UK housebuilding sectors emergence from recession is predicted to move outwards, from strong markets and unencumbered sites, over time as the economy improves and finance becomes more readily available.

- This theme is picked up by both consultees contacted as part of this study and Core Strategy representations who considered Policy 4 to be unsound (there is a degree of overlap between the two groups). Their position can be summarised as follows:

- The 5 year supply is not fully deliverable, but there is an alternative housing land supply that might be, and through which the housing requirement could be met.

- There is a market for homes in or around the best performing areas - which could be lost to competing developments in neighbouring authorities and which in turn might compromises Core Strategy growth objectives.

- The presents a dilemma for policy makers:

- Releasing housing land out of sequence and/or in less sustainable locations may stimulate development but at the same time compromise development and renewal within strategic locations, compromise sustainability, and have a knock on effect on the effectiveness of other policies.

- Not releasing housing land out of sequence may deter short to medium development and growth opportunities and ultimately compromise Core Strategy implementation.

- The representations (from which the dilemma largely arises) are often made to protect particular development interests. These may, or may not turn out to have a material impact on successful implementation of the plan and have to be viewed in the round, that is the context of the plan as a whole, rather than in isolation (policy 4) as they have been for this study.

Glossary

AHP	Affordable Homes Programme – The Coalition government's affordable housing programme for the period 2011 to 2015
CSR	Comprehensive Spending Review – Presented by the Chancellor and which fixes spending budgets for each government department for the review period, 2011/12 to 2014/15 in the case of CSR 2010 which was presented on October 20th 2010
KIS	Knowledge Intensive Services – The sectors of the economy that are characterised by higher level/higher skilled occupations.
LAD	Local Authority District – generic term used to cover London Boroughs, Metropolitan Districts, Unitary Authorities and Non-Metropolitan Districts in England (as well as Unitary Authorities in Wales, Council Areas in Scotland and District Council Areas in Northern Ireland)
LKIS	Less Knowledge Intensive Sectors - The sectors of the economy that are characterised by lower level/lower skilled occupations predominate
LTV	Loan to value ratio – Determines the amount of the purchase price a house buyer is allowed to borrow and in turn the size of the deposit required
NAHP	National Affordable Housing Programme – The previous government's affordable housing programme for the period 2008 to 2011
OBR	The Office for Budget Responsibility – formed in May 2010 to make an independent assessment of the public finances and the economy (previously tasks carried out by Government)

Annex One: Experian Scenarios

Table A3.17: Forecast Changes Under Scenarios 2005 to 2025: Total Resident Population

Area	Base 2005 (esti-mate)	Longer term trends				Recent Employment Success				Regional Productivity Transformation			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	6,814	0.14	2.7%	7,001	187	0.14	2.7%	7,001	187	0.14	2.7%	7,001	187
Cheshire & Warrington	882	0.36	7.4%	948	66	0.36	7.4%	948	66	0.36	7.4%	948	66
Cumbria	491	0.20	4.1%	511	20	0.20	4.1%	511	20	0.20	4.1%	511	20
Greater Manchester	2,537	0.16	3.2%	2,619	82	0.16	3.2%	2,619	82	0.16	3.2%	2,619	82
Lancashire	1,435	0.24	4.9%	1,506	71	0.24	4.9%	1,506	71	0.24	4.9%	1,506	71
Greater Merseyside	1,469	-0.18	-3.5%	1,418	-51	-0.18	-3.5%	1,418	-51	-0.18	-3.5%	1,418	-51

Changes Under Scenarios 2005 to 2025: Working Age Population (aged 16 to 64 males, 16 to 59 women)

Area	Base 2005 (esti-mate)	Longer term trends				Recent Employment Success				Regional Productivity Transformation			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	4,193	-0.12	-2.4%	4,091	-102	-0.12	-2.4%	4,091	-102	-0.12	-2.4%	4,091	-102
Cheshire & Warrington	540	-0.02	-0.3%	538	-2	-0.02	-0.3%	538	-2	-0.02	-0.3%	538	-2
Cumbria	295	-0.25	-4.8%	281	-14	-0.25	-4.8%	281	-14	-0.25	-4.8%	281	-14
Greater Manchester	1,587	0.00	0.1%	1,588	1	0.00	0.1%	1,588	1	0.00	0.1%	1,588	1
Lancashire	870	-0.06	-1.2%	860	-10	-0.06	-1.2%	860	-10	-0.06	-1.2%	860	-10
Greater Merseyside	901	-0.44	-8.5%	825	-76	-0.44	-8.5%	825	-76	-0.44	-8.5%	825	-76

Changes Under Scenarios 2005 to 2025: Employment (ftes)

Area	Base 2005 (esti-mate)	Longer term trends				Recent Employment Success				Regional Productivity Transformation			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	2,796	-0.04	-0.8%	2,774	-22	0.30	6.1%	2,966	170	0.31	6.4%	2,975	179
Cheshire & Warrington	408	-0.03	-0.6%	406	-2	0.24	4.9%	428	20	0.37	7.6%	439	31
Cumbria	185	-0.74	-13.8%	160	-26	-0.34	-6.6%	173	-12	-0.51	-9.8%	167	-18
Greater Manchester	1,085	0.15	3.0%	1,117	32	0.43	8.9%	1,181	97	0.52	10.9%	1,203	119
Lancashire	581	0.01	0.1%	582	1	0.26	5.3%	612	31	0.33	6.8%	620	39
Greater Merseyside	537	-0.26	-5.1%	510	-27	0.32	6.5%	572	35	0.07	1.4%	545	8

Forecast Changes Under Scenarios 2005 to 2025: Employment (full and part time)													
Area	**Base 2005 (esti-mate)**	**Longer term trends**				**Recent Employment Success**				**Regional Productivity Transformation**			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	3,360	0.05	1.0%	3,392	32	0.39	8.0%	3,631	270	0.39	8.1%	3,632	271
Cheshire & Warrington	489	0.07	1.3%	495	6	0.34	7.0%	523	34	0.45	9.3%	534	46
Cumbria	230	-0.59	-11.1%	204	-26	-0.18	-3.6%	221	-8	-0.36	-7.0%	214	-16
Greater Manchester	1,291	0.23	4.6%	1,351	60	0.51	10.7%	1,429	138	0.59	12.6%	1,453	162
Lancashire	696	0.10	2.0%	710	14	0.36	7.4%	748	51	0.42	8.6%	757	60
Greater Merseyside	655	-0.18	-3.5%	632	-23	0.40	8.4%	710	55	0.14	2.9%	674	19

Changes Under Scenarios 2005 to 2025: GVA (Workplace Based, 2001 Prices													
Area	**Base 2005 (esti-mate)**	**Longer term trends**				**Recent Employment Success**				**Regional Productivity Transformation**			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	98,347	2.09	51.4%	148,875	50529	2.41	61.1%	158,483	60136	2.57	66.2%	163,443	65096
Cheshire & Warrington	15,862	2.23	55.4%	24,650	8788	2.50	63.8%	25,984	10122	2.75	72.0%	27,289	11427
Cumbria	6,072	1.16	25.9%	7,647	1575	1.57	36.4%	8,284	2212	1.52	35.2%	8,210	2138
Greater Manchester	38,459	2.35	59.0%	61,164	22705	2.63	68.0%	64,593	26133	2.87	76.0%	67,700	29240
Lancashire	19,861	2.13	52.5%	30,295	10433	2.31	57.8%	31,345	11484	2.55	65.5%	32,871	13009
Greater Merseyside	18,092	1.65	38.8%	25,120	7028	2.26	56.3%	28,277	10185	2.09	51.3%	27,373	9281

Changes Under Scenarios 2005 to 2025: Productivity (GVA per fte)													
Area	**Base 2005 (esti-mate)**	**Longer term trends**				**Recent Employment Success**				**Regional Productivity Transformation**			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	35.17	2.14	52.6%	54	18	2.11	51.9%	53	18	2.26	56.2%	55	20
Cheshire & Warrington	38.85	2.26	56.4%	61	22	2.25	56.2%	61	22	2.38	59.9%	62	23
Cumbria	32.75	1.91	46.1%	48	15	1.91	46.1%	48	15	2.04	49.8%	49	16
Greater Manchester	35.46	2.20	54.4%	55	19	2.19	54.2%	55	19	2.33	58.7%	56	21
Lancashire	34.18	2.13	52.3%	52	18	2.05	49.9%	51	17	2.22	55.0%	53	19
Greater Merseyside	33.69	1.92	46.2%	49	16	1.93	46.7%	49	16	2.02	49.1%	50	17

Changes Under Scenarios 2005 to 2025: Employment Rate (ftes as % of w/a pop)													
Area	**Base 2005 (esti-mate)**	**Longer term trends**				**Recent Employment Success**				**Regional Productivity Transformation**			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	0.78		-0.7%	0.77	-0.01		6.2%	0.82	0.05		6.5%	0.83	0.05
Cheshire & Warrington	0.84		-2.5%	0.82	-0.02		3.5%	0.87	0.03		6.1%	0.89	0.05
Cumbria	0.73		-12.1%	0.64	-0.09		-5.0%	0.69	-0.04		-8.2%	0.67	-0.06
Greater Manchester	0.78		0.8%	0.79	0.01		6.9%	0.84	0.05		8.9%	0.85	0.07
Lancashire	0.81		-1.3%	0.80	-0.01		4.1%	0.84	0.03		5.5%	0.85	0.04
Greater Merseyside	0.72		-0.2%	0.72	0.00		12.5%	0.82	0.09		7.1%	0.78	0.05
Changes Under Scenarios 2005 to 2025: GVA per capita													
Area	**Base 2005 (esti-mate)**	**Longer term trends**				**Recent Employment Success**				**Regional Productivity Transformation**			
		% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute	% pa	% overall	2025	Absolute
North West	14.43	1.96	47.3%	21.3	6.8	2.28	56.8%	22.6	8.2	2.43	61.7%	23.3	8.9
Cheshire & Warrington	17.98	1.86	44.7%	26.0	8.0	2.13	52.5%	27.4	9.4	2.38	60.1%	28.8	10.8
Cumbria	12.36	0.96	21.0%	15.0	2.6	1.36	31.1%	16.2	3.8	1.32	29.9%	16.1	3.7
Greater Manchester	15.16	2.18	54.0%	23.4	8.2	2.46	62.7%	24.7	9.5	2.70	70.5%	25.8	10.7
Lancashire	13.84	1.89	45.4%	20.1	6.3	2.06	50.4%	20.8	7.0	2.30	57.7%	21.8	8.0
Greater Merseyside	12.32	1.83	43.8%	17.7	5.4	2.44	61.9%	19.9	7.6	2.27	56.7%	19.3	7.0
Source: Experian forecasts													

Annex Two: List of Consultees

List of Consultees

Individual	Organisation
Peter Crompton	BE Group
Andy Delaney	Colliers International
Mark Clarkson	Eckersley & Co.
Gwynne Furlong	Gwynne Furlong
Simon MacKay	King Sturge LLP
Steve Robinson	Wainhomes
Alastair Skelton	Steven Abbot Associates LLP

Annex Three: Consultee Questionnaire

Consultee Questionnaire

Central Lancashire Housing Requirement Study

Interviewer:____________________________ **Date:**____________________________________

Interviewee:____

Interview guide

Ecorys have been commissioned by the Central Lancashire local authorities (South Ribble, Preston and Chorley) to assess whether the interim, short term approach to lower housing requirement figures for Central Lancashire is fully justifiable and defensible for inclusion in the Core Strategy particularly from economic and housing delivery points of view.

Our assessment will comprise a review and update of the housing and economic evidence base and be informed by the latest available market reports and commentary.

In addition we will be seeking the views of developers and agents with an interest in the area, on the state of the local housing market.

Questions (the answer cells expand automatically)

Question 1

Are you active in the area or currently seeking sites in the area? (Location of land ownership/options/search/developments if possible)
And if active, what type of developments? (Location, type and scale if possible)

Question 2

How would you characterise market conditions at present?
Do you think the outlook will improve, worsen or stay the same over the next two years?

Question 3

In your experience/opinion, what type of site is best suited to current market conditions?

Question 4

In your experience/opinion, which dwelling types are selling and which are not?
Do you think this is likely to change over the next two years? (how and where)

Question 5

In your opinion which areas of Central Lancashire are proving to be resilient markets and which are not? (describe as hot, tepid, and cold sub market areas – see table on final page for reference)
Do you think this is likely to change over the next two years? (how and where)

Question 6

What are the main barriers to housing development in Central Lancashire		
Local issues?	For example:	1 Weak demand due to threat of redundancies 2 Uncertainty over local market conditions 3 Availability of land 4 Other (please specify)
National issues?	For example:	1 Paucity/cost of mortgage/debt finance 2 Uncertain economic outlook (national/global) 3 Other (please specify)

SUB MARKET AREAS	
Chorley	Chorley Town
	West Rural
	Euxton and Buckshaw Village
	Central and East
	Clayton and Whittle-le-Woods
South Ribble	Rural South Ribble
	Bamber Bridge
	Leyland
	Penwortham
Preston	Northern Rural Hinterland
	Inner City and East Preston
	North East Preston
	North West Preston
	West Preston
	City Centre

James Donagh
Principal Consultant

Ecorys UK Ltd
Vincent House,
Quay Place,
92-93 Edward Street,
Birmingham, B1 2RA

Tel +44 (0) 0845 313 7455
Fax: +44 (0) 0845 313 7454
Email: James.Donagh@uk.ecorys.com