FORECASTING ECONOMIC DEVELOPMENT NEEDS
METHOD NOTE

Introduction

1   National planning guidance suggests four alternative approaches to forecast employment land needs, based respectively on 'labour demand', 'labour supply', past take-up, and market evidence. This note discussed our methods for implementing the first two approaches.

2   These 'labour demand' and 'labour supply' analyses are complex and easily confused. In many evidence base studies they are done badly, with no understanding of market economics. The result of bad economics leading to bad policy. The main casualty is housing policy, as many studies grossly overestimate the housing growth required to support a given number of jobs. This is badly counter-productive, because it discourages economic ambition.

3   Our work does not fall into this trap. Since the new planning system was introduced in 2012, Stantec (previously PBA) has been developing an intelligent method to assess employment and housing needs on an integrated basis, working with economic forecasters Experian and demographers John Hollis and NMSS. We have used the method in many housing need assessments, employment land studies, and integrated evidence bases that cover both employment and housing. Our findings have been supported by all the Local Plan Inspectors who have considered them, most recently in examinations of the Chelmsford Local Plan and North Essex Joint Strategic Plan.

4   This note describes aspects our method, focusing on the assessment of economic needs and implications for housing, in line with current national guidance (PPG, February 2019). If and when the Guidance is revised, we will update our method accordingly, as we have done in the past. The underlying principles are likely to remain the same.

The PPG

5   To predict need or demand for employment land, National Planning Practice Guidance (PPG) advises that plan-makers use '*a range of data… such as:*

   a)   *'Sectoral and employment forecasts and projections',* which it also calls *'labour demand';*

   b)   *'Demographically derived assessments of current and future local labour supply',* also called *'labour supply techniques';*

   c)   *'Past take-up of employment land'*

   d)   Market evidence sourced from businesses[1]*,* property agents and developers

6   This note sets out our approach to items a) and b). These two method give rise to much confusion, because they overlap:

   ▪   In practice, as well as labour demand most economic forecasts and projections also take account of labour supply – which in the PPG is covered by method b).

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[1] Paragraph: 027 Reference ID: 2a-027-20190220

- Their assumptions about labour supply are derived both demographically (usually from ONS population projections) and from economic data and modelling (on activity rates, commuting etc).

7   In other words, economic forecasts / projections generally do not just predict labour demand – the number of jobs employers will want to provide, and *will* provide if enough workers are available to fill them. Rather, the forecasts predict the number of jobs that *will* be provided and filled, taking account of both the jobs employers will want to offer (demand) and the jobs that people will be able and willing to fill (supply). Therefore, using economic forecasts / projections combines PPG methods a) and b).

8   But many planning evidence studies do not understand this, partly because the supply side tends to be hidden deep inside economic forecasting models. Consequently, much of evidence put forward at plan examinations and appeals is misleading. This is damaging, especially where the assessment of economic needs spills over into housing needs, producing gross overestimates of the housing required to support future job growth.

Our method

9   In a narrow literal sense, by using the right economic forecasts we can cover both PPG approaches a) and b). because the forecasts take into account both labour demand and labour supply. But this would not do justice to intentions of the guidance. As we understand it, the approaches set out in the PPG have different objectives:

a)   The 'labour demand' approach should produce a market-led answer – the amount of land that the market is expected to take up, provided that the planning authority releases it.

b)   The 'labour supply' approach should produce a policy-led answer - the amount of employment land that would need to be taken up to deliver full employment for the expected population of the area. 'Full employment' means that labour demand matches the capacity of the local labour market:

–   Assuming that housing delivery is in line with the Local Plan requirement or Local Housing Need[2], there will be enough jobs over the plan period to fully utilise the capacity of the local labour market - so unemployment in the area is as low as can reasonably be expected, and economic activity rates are as high as can reasonably be expected;

–   Still assuming that housing is delivered in line with the plan, the demand for labour will not exceed the capacity of the local labour market over the plan period. If demand did exceed supply capacity, to meet labour demand would need additional housing, over and above the planned amount.

10   To provide employment land need based on the labour demand approach (method a), we use standard local economic forecasts. To provide employment land need based on the

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[2] Under current guidance, the minimum Local Housing Need (LHN) is the number of new homes calculated though the standard method. Local Plans may set a requirement (target) above the LHN, for example to implement local growth strategies. Conversely they may set a target below the LHN, if their sustainable development capacity is constrained as per para 11B of the Framework.

labour supply approach (method b), we use separate modelling, as described below. The modelling takes account of commuting across local authority boundaries, as well as the population of the subject local authority. It has quite different implications, depending on the labour market balance between demand and supply capacity, as discussed below.

'Labour supply' approach: not enough jobs

11   In some areas, the forecast labour demand falls short of the area's supply capacity, so that the standard economic forecast delivers less than full employment. In other words, the forecasts show higher unemployment rates, and lower economic activity rates, than is considered normal and desirable. This generally applies to places which are already economically challenged and short of jobs. In such places, it may be advisable for the development plan to provide employment land over and above the economic forecasts, hoping to attract employer demand over and above the forecasts, so the local economy moves towards full employment. The purpose of PPG method b) is to estimate the number of those additional jobs, and translate it into employment land demand.

12   To assess the job number required for full employment, we start from a view of the total population, showing both total numbers and age-sex profile over the plan period (the profile is important because different age and sex groups have very different economic activity rates). By default, as mentioned earlier, local economic forecasters use the ONS economic projections. But in many areas local authorities will aim to provide many more new homes than the official projections imply. This is because they are required to meet the Local Housing Need (LHN) calculated through the government's standard method, which uplifts the projections by an affordability adjustment, up to 40%. As the LHN is a minimum, some authorities will choose to set higher housing targets, which the PPG encourages them to do.

13   In these circumstances, our analysis uses in-house demographic modelling (the NMSS model) to predict the population that will result from housing delivery in line with the housing requirement or assessed need. We then use either the Experian forecasting model or (less sophisticated) in-house modelling to estimate the number of jobs required to deliver full employment – which means the lowest unemployment rates and highest activity rates that can reasonably be expected, given national benchmarks and the history of the area. We then translate those jobs into employment land demand, to estimate how much land would be required to support a fully employed labour market.

14   That 'full-employment' quantum of employment land may be significantly about the demand-based need produced by method a. It should not be automatically translated into an employment land target, because it may over-estimate the amount of land that will actually be taken up, and But as mentioned earlier the Council may wish to over-provide land against the demand-based figure, as part of an economically ambitious strategy aiming to attract demand over and above the method a) forecast. The full-employment number should help guide the amount of such over-provision.

'Labour supply' approach: not enough homes?

15   Conversely, in more dynamic local economies, where buoyant demand for labour and land pushes against restricted land supply, economic forecasts may show a supply-constrained

local labour market. This means that, assuming housing delivery in line with the standard-method Local Housing Need, the area does not have the capacity to fill all the jobs that employers want to provide. In these circumstances, the economic needs assessment spills over into housing needs assessment, and bad evidence causes the most damage, as mentioned earlier.

16   Under the previous PPG, plan-makers were required to uplift the housing need calculated from demographic projections, to produce a number of dwellings that does result in labour supply meeting demand. Under the 2019 PPG this is no longer a requirement. But authorities may choose to match housing targets to future jobs, as a matter of policy. For those authorities, we provide job-led housing need scenarios, as set out below.

17   As also discussed earlier, economic forecasts / projections do not predict labour demand unconstrained by labour supply. Rather, they provide a view of the future that takes account of both expected labour demand and expected labour supply. But many evidence base studies ignore this. The studies lazily equate use of economic forecasts with the PPG's method a), labelled 'labour demand'. To assess whether there will be enough labour supply to meet that demand, they use a separate analysis, based on demographic projections, as per the PPG's method b). This analysis typically underestimates labour supply, because it does not take account of economic mechanisms that match supply and demand, such as changes in economic activity rates.

18   We call this approach 'reverse engineering'. It is logically invalid, because it takes results that already incorporate a view of labour supply and overlays a further view of labour supply, which is inconsistent with the first.

19   Logical flaws may not matter, if they do not make a significant difference in practice. But in this case, reverse engineering does make a large difference. It typically produces a greatly inflated view of the population and housing required to support a given number of future jobs. Often planning authorities are concerned that, if they plan for economic growth, they will be forced also to plan for unsustainable amounts of housing development. The result is that planning thwarts economic ambition – quite the contrary of what it should do.

20   Our in-house method is designed to avoid these pitfalls discussed above. It proceeds in two stages, following the sequence in the PPG.

21   At the first step, in line with the PPG's method a) we use a forecast of labour demand unconstrained by local labour supply[3]. Some local economic forecasts, such as some versions of Cambridge Econometrics, produce this as a standard output. For others, such as Experian, it is an unpublished output that we request specially.

22   At the second step, to provide the PPG's approach b) we start from the housing requirement or assessed housing need, as mentioned earlier. The purpose of the analysis is to determine whether a given level of housing development can produce enough labour supply to meet the

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[3] However, most forecasts still incorporate a view of the *national* labour force, which may operate as a constraint. This is difficult to set aside for technical reasons. In any case it would not be reasonable to set it aside, because the size of the country's labour force depends on factors that planning cannot change, such as births, deaths, immigration policy and State Pension ages.

forecast labour demand. For this, we first estimate the population by age and sex that will result from delivery of the plan's housing requirement (target), as described earlier. We then estimate whether this population will have the capacity to fill the forecast labour demand, using either the Experian forecasting model or (less sophisticated) in-house modelling.

23   In some cases, the analysis may suggest that the forecast population, based on housing targets in the Local Plan, will not produce enough capacity to meet labour demand. In our experience this is unusual. Where, exceptionally, it does occur, we use the NMMS demographic model and economic modelling, either from Experian or in-house to estimate the additional housing supply necessary to ensure that the forecast labour demand is met in full.