Note responding to the Inspector's Action Points 8 and 9 from Initial Hearings

At the hearing sessions, clarity was sought on a number of points related to the HENA. This note seeks to clarify the position of the HENA with respect to:

1. Economic activity rates:
   a. giving clarity on the rates used in the HENA
   b. explaining the reasoning for using those rates;
2. the relationship with the commuting rate assumption and:
3. the dependency ratio

1a. Difference between Employment Rates & Economic Activity Rates

There are two measures of economic activity – the total who are economically active (the 'economic activity rate'); and those who are *employed* and economically active (the 'employment rate.'). The former includes people who are available for work or looking for work but are not employed. The latter relates only to those who are employed. For the purposes of the HENA scenarios we use the employment rate - those who are active and employed - because we are assessing those from the local workforce who might fill workplace jobs. It is this working measure that is described in paragraph 7.4.13 and in the remainder of the section.

The graph at Figure 7.3 is meant as an illustrative demonstration of the variability of local level economic activity rates. This applies equally to both measures of economic activity as described, which are each shown below for clarity. We acknowledge that for consistency purposes it may have been preferable to show the graph for employed activity rather than total economic activity, however both demonstrate the point that regional rates are less volatile. In addition, we note the miss-labelling for item 3 in Table 7.6; this should reference the rate used as being for the South East region, not Oxfordshire. The commentary at paragraph 7.4.15 of the HENA also relates to the economic activity rate for Oxfordshire and not to the employment rate for Oxfordshire. Clarification was asked for as to where the activity rate used in the scenarios was derived from, and for this we confirm that what is described in paragraph 7.4.16 remains the case. That is to say, the rate of 77% in Table 7.6 is used, which represents the long-term average rate for employed, economically active people in the South East region. The data relating to this is shown in Appendix 1 with this note, showing the average rates at the base of the table presented.

For clarity the description of Figure 7.3 of the HENA ought to be amended to that shown below (N.B. the graph is unamended). Further clarity could be achieved by also including a new graph shown as Figure 7.3a as below.

Cambridge Econometrics
Covent Garden, Cambridge
CB1 2HT, United Kingdom

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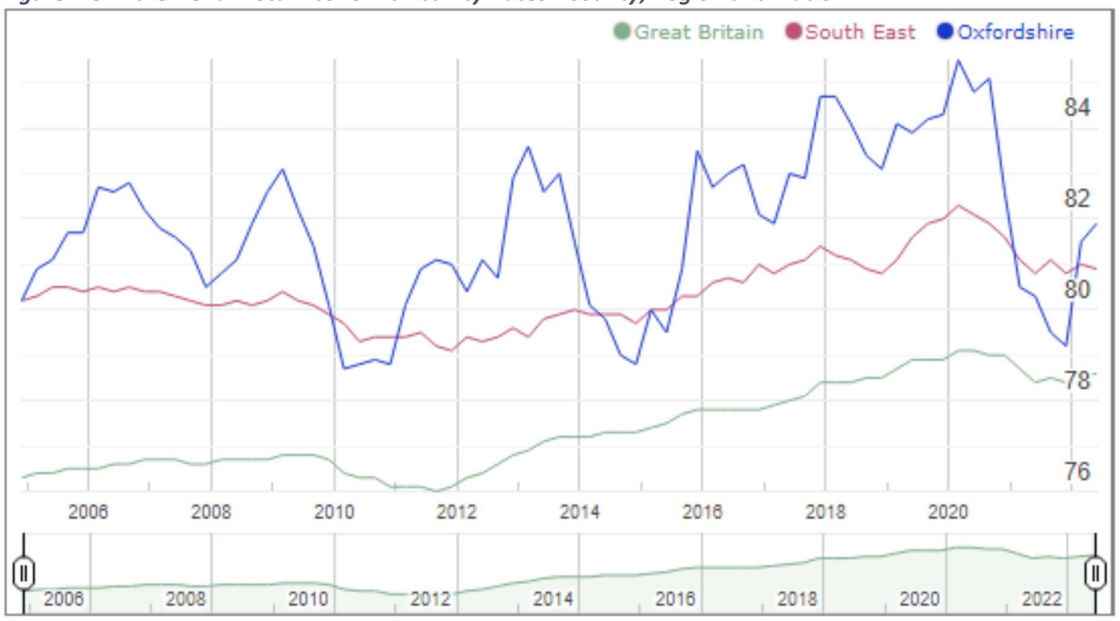
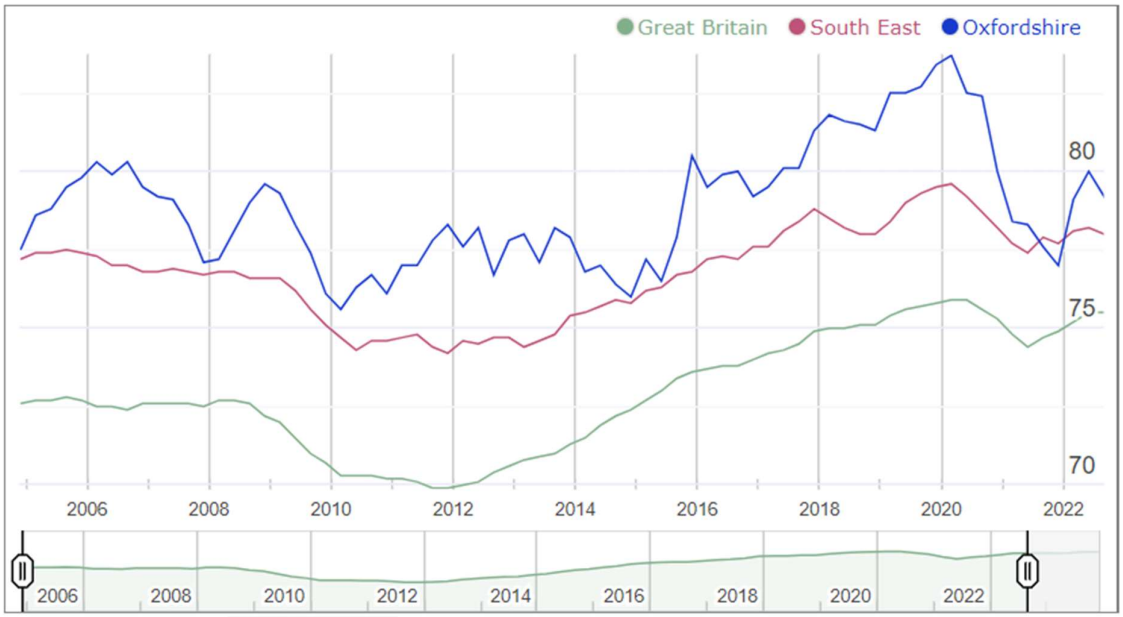
Incorporated in England and Wales

Figure 7.3 in the Hena: Total Economic Activity Rates - County, Region and Nation



Additional Figure 7.3a: Employment Rates – County, Region and Nation



1b. Basis for Use of the Regional rather than Oxfordshire Employment Rate

It is secondly important to clarify the reason for selecting the regional rather than county average. The scenarios have been designed to provide a picture of how housing and employment markets might look with given levels of employment or housebuilding. To construct that picture requires the use of various assumptions, that might involve the use of local, regional or national

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data as appropriate. The modelling approach needs to have regard to what are appropriate assumptions for forecasting housing need.

The HENA uses the long-term regional average rate, which is lower than the local one. The data shows clearly that Oxfordshire has both an exceptionally high economic activity and employment rate. To build this rate into the modelling would be to build on the assumption that it perpetually continues this very high rate that is so far above the mean. It doesn't allow for any labour market slack at all, or the likelihood that the rate 'reverts to mean.' It would be highly irregular, statistically speaking, to base long-term assumptions on a statistic that is fixed so far above the mean.

It is important to note at this point that local employment rates are not some permanent exogenous factor possessed by geographies and their populations, but rather a result of the specific combination of the performance of the local economy and constrained ability of the housing market, and hence local labour market, to adjust to it, which manifests in a relative surplus or deficit of local workers relative to local job opportunities. The balance of this equation puts upward (or downward) pressure on a range of measurable variables, including house prices, employment rates, and net in-commuting. Oxfordshire's persistently high employment rate relative to the national average is a function of its persistently strong economy and relatively constrained housing market. As the graph shows, this situation has now persisted for 20+ years.

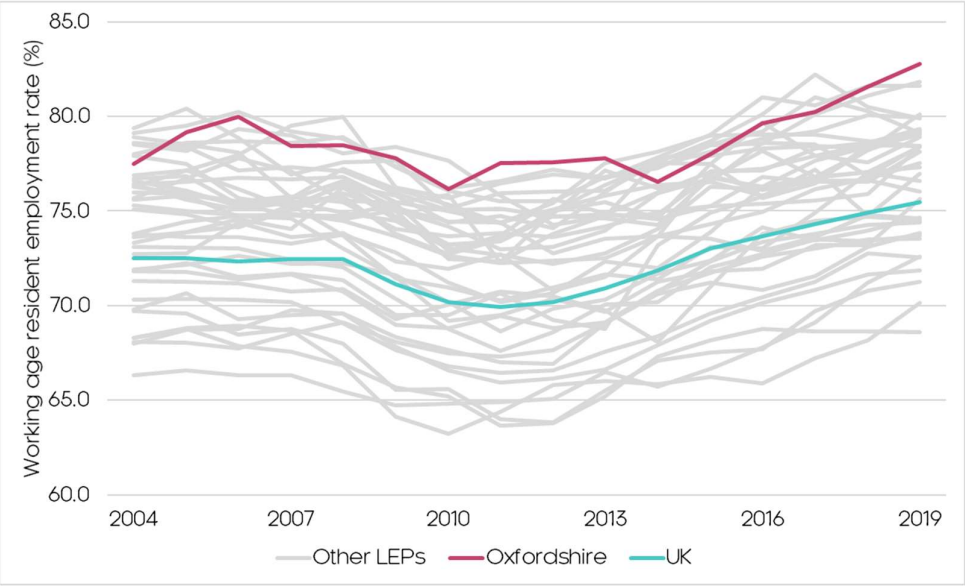
As employment rates are ultimately an output of a combination of factors, of which housing delivery decisions are one, they should not and cannot be misrepresented as a neutral statistic to be inputted into a housing needs assessment. There is no such thing as a *policy off* employment rate: any employment rate chosen represents a specific policy decision as to the future of the area, whether taken deliberately or inadvertently. Selecting an activity rate that corresponds to, and will likely guarantee, the continuation of this pattern is as much of a policy choice as selecting a policy choice more in line with the national average that implies a more even balance between labour supply and demand at the local level in the future.

There should be a degree of slack in the labour market that allows for demand responsiveness and a decent accessible labour pool. 80% employment rates are abnormal, reflective at least in part of a limited housing supply, and should not be taken to be reflective of a 'natural' situation that should be projected forwards. It is necessary to build in (in a statistical sense) some elasticity into the labour markets in order to facilitate their proper functioning. Extreme tightness is neither normal nor desirable because it reduces the pool of labour available for new jobs (i.e. there are no labour reserves), introduces dysfunction in terms of job retention as well as dysfunction in the housing markets. It is not appropriate to build these dysfunctions into the model because the goal of the model is to estimate how many workers are needed in a properly functioning economy. The South East region figure represents a much more normalised picture, and so is statistically appropriate (because there are no other normalised data sets available) as well as appropriate in principle, for these reasons. The SE region is strongly performing itself, so also is not an inappropriately loose labour market on which to base employed activity rates.

Oxfordshire currently experiences the highest house prices and activity rates across the region. The OGNA evidence (GRO014, Figure 5.4.1 – replicated below) showed Oxfordshire had the highest

employment rate across any LEP areas nationally in 2019. The most recent data shows that this remains the case.[1]

Figure 5.4.1: Working age employment rate across 38 LEP areas



Source: ONS, Cambridge Econometrics

OGNA Appendix D furthermore showed that there is a need to address the relationship between jobs growth and housing delivery if affordability is to improve (rather than simply roll forward existing tight labour market and high unaffordability conditions). The NPPF requires assessments of housing need to capture market signals such as these in drawing conclusions on housing need.

As such, it is considered appropriate and sound for the scenarios to show housing needs relative to a normalised activity rate, in line with the regional average. This is a necessary response to the evidence and market signals to address Oxfordshire's labour market pressures and the problems associated with those pressures (housing market accessibility, commuting and infrastructure strains arising from in-commuting); and to plan for labour market balance that does not exacerbate these pressures. To select a housing need figure that normalises extreme labour market pressure only ensures these pressures go unaddressed, and fails to respond to market signals and would therefore not be consistent with NPPF Para 61. The regional rate is considered to represent a more neutral mid-way point between the extremely high employment rate that has been persistent in Oxfordshire, and the lower national rate. The regional rate is informed by Oxfordshire in any event (being within the region) and, like Oxfordshire, is a strongly performing region in economic terms.

At the hearings the Inspector requested a calculation of the effect of replacing the regional employment rate with the Oxfordshire employment rate. For the reasons set out above we do not consider that this is necessary or helpful, however for comparison purposes: The effect of applying the Oxfordshire rate of 79% rather than the SE rate of 77% is to reduce the housing need for the CE-B

[1] ONS – NOMIS: Employment Rate by LEP Area

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scenario from 4406 dwellings across Oxfordshire to 3,776, and to reduce Oxford's need, at 30% of this (2040 distribution), from 1322 to 1132 dpa]

2. Relationship between economic activity ratios and commuting

Clarity was also sought about the potential for any double-counting between economic activity and commuting. It is important to note that at no point do the scenarios 'count' or sum commuters and workers. These are dynamic, differently sized groups *within* the global pool of labour supplying the FEMA. Their respective size changes depending on activity rates or the assumption made for how many workers are externally supplied. The scenarios can identify the dynamic changes that would occur if assumptions for external labour are changed and if assumptions for numbers actively working and meeting labour demand change. So both external labour (commuting) and activity rates are independently and sequentially assessed in the scenarios for their effects.

To illustrate this, the steps outlined below demonstrate this process and show the differences from using different activity rates for the selected CE baseline:

- 460k workers to meet 480k labour demand jobs
- ASSUMPTION: 13k of these will be external (equalling 9k commuters)
- This means 446k will be residents
- At .79 you need 3,776 homes to house them AND remaining economic dependent and non-working population
- At 0.7 (0.767) you need 4,406 homes

Thus, the jobs expected to arise in the district will be met by a) population growth within Oxfordshire (including young people who will reach the age of economic activity by 2040), b) in-migration and c) the workers who will commute into Oxfordshire but continue to live outside. The external labour level is set first, then the resident labour supply is understood (made up of those who move in and demographic increases). The economic activity rate is applied only to resident workers (cohorts a and b). Therefore, there is no double counting.

3. Dependency Ratio

At the hearings, it was asked that some further explanation of this assumption be provided, which we are happy to do here. Having determined the level of labour demand and the supply to meet it via the working population activity ratio, the dependency ratio determines the 'rest' of the population who are not participants in the labour market (such as children and those who are retired). Together, the activity and dependency assumptions tell us how big the whole population needs to be in order to meet the identified labour demand.

For this estimate it is appropriate to assess the demographic structure of the Oxfordshire population to determine the size of the non-working age population. Oxfordshire's population structure is more focused towards people of working-age than the region. The approach to this is described in paragraph 7.4.11, where the proxy of the 16-66

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population is used to represent the 'dependency ratio'. This identifies inactive non-participants in the labour market and completes the assessment of the total population size for the scenario.

In the hearings, it was suggested that if the Oxfordshire population for the dependency ratio was used, this might appear at odds with the regional assumption used for the activity rate. This is not the case however, due to the approach used for the scenarios, where each step is calculated individually, with a clear rationale for each. The use of the regional employment rate is necessary to address the labour market tightness described above; whereas in considering the dependency rate, it is important to reflect Oxfordshire's specific population structure.

Summary of approach

Overall, the aim of the scenarios is show what will be needed to start to address two of the most pressing challenges in the area –housing affordability and exceptionally tight labour market, itself generated by a lack of labour supply arising from insufficient housing supply. It is important therefore, not to interpret the scenario as an active policy prescription, rather an indicator of the level of housing supply needed to 'loosen' the labour market and support the potential to improve affordability so that these twin challenges can be tackled. The evidence responds to market signals, as required by the NPPF.

We do recognise that in seeking to provide an alternative housing need calculation to the standard method, a degree of complexity is perhaps inevitable, and with this comes an additional challenge to explain the approach clearly to readers and stakeholders. To this end, we have provided two simple "logic models" at Appendix 2 with this note, to further support understanding of the scenarios developed for the HENA. These are based on a simple set of sequential questions that each step of the scenarios seek to address.

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APPENDIX 1: ECONOMIC ACTIVITY DATA: ONS ANNUAL POPULATION SURVEY 2004-2023

annual population survey

Source	ONS Crown Copyright Reserved [from Nomis on 10 June 2024]
Analysis	variable
Confidence	95% confidence interval of percent figure (+/-)

variable	Economically Active Employment rate - aged 16-64					
geography	Oxon		South East		Great Britain	
date						
Jan 2004-Dec 2004	77.5	70,300	77.2	3,971,900	72.6	27,057,800
Apr 2004-Mar 2005	78.6	71,000	77.4	3,991,400	72.7	27,164,400
Jul 2004-Jun 2005	78.8	72,900	77.4	4,007,400	72.7	27,233,700
Oct 2004-Sep 2005	79.5	73,600	77.5	4,019,700	72.8	27,322,000
Jan 2005-Dec 2005	79.8	75,000	77.4	4,027,300	72.7	27,364,600
Apr 2005-Mar 2006	80.3	74,700	77.3	4,032,700	72.5	27,380,300
Jul 2005-Jun 2006	79.9	72,300	77.0	4,027,200	72.5	27,430,600
Oct 2005-Sep 2006	80.3	73,400	77.0	4,038,400	72.4	27,463,200
Jan 2006-Dec 2006	79.5	70,900	76.8	4,040,800	72.6	27,592,100
Apr 2006-Mar 2007	79.2	68,800	76.8	4,052,400	72.6	27,671,200
Jul 2006-Jun 2007	79.1	71,000	76.9	4,069,200	72.6	27,757,700
Oct 2006-Sep 2007	78.3	69,000	76.8	4,074,600	72.6	27,803,300
Jan 2007-Dec 2007	77.1	67,200	76.7	4,080,900	72.5	27,850,200
Apr 2007-Mar 2008	77.2	69,900	76.8	4,091,900	72.7	27,953,900
Jul 2007-Jun 2008	78.1	70,400	76.8	4,099,700	72.7	28,013,400
Oct 2007-Sep 2008	79	73,900	76.6	4,099,300	72.6	28,040,800
Jan 2008-Dec 2008	79.6	74,700	76.6	4,104,300	72.2	27,956,600
Apr 2008-Mar 2009	79.3	76,800	76.6	4,109,800	72.0	27,893,300
Jul 2008-Jun 2009	78.3	75,400	76.2	4,091,000	71.5	27,723,000
Oct 2008-Sep 2009	77.4	75,800	75.6	4,065,300	71.0	27,599,700
Jan 2009-Dec 2009	76.1	74,900	75.1	4,045,500	70.7	27,508,700
Apr 2009-Mar 2010	75.6	72,000	74.7	4,026,600	70.3	27,392,600
Jul 2009-Jun 2010	76.3	73,900	74.3	4,016,400	70.3	27,442,400
Oct 2009-Sep 2010	76.7	71,700	74.6	4,037,600	70.3	27,478,900
Jan 2010-Dec 2010	76.1	72,500	74.6	4,045,000	70.2	27,484,600
Apr 2010-Mar 2011	77	76,500	74.7	4,054,200	70.2	27,521,700
Jul 2010-Jun 2011	77	76,700	74.8	4,063,700	70.1	27,516,300
Oct 2010-Sep 2011	77.8	78,500	74.4	4,048,800	69.9	27,479,600

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Jan 2011-Dec 2011	78.3	80,800	74.2	4,045,200	69.9	27,546,800
Apr 2011-Mar 2012	77.6	77,100	74.6	4,064,200	70.0	27,572,500
Jul 2011-Jun 2012	78.2	77,600	74.5	4,058,300	70.1	27,607,900
Oct 2011-Sep 2012	76.7	75,100	74.7	4,063,300	70.4	27,698,300
Jan 2012-Dec 2012	77.8	77,800	74.7	4,065,100	70.6	27,759,100
Apr 2012-Mar 2013	78	77,100	74.4	4,050,900	70.8	27,844,300
Jul 2012-Jun 2013	77.1	76,500	74.6	4,063,200	70.9	27,905,800
Oct 2012-Sep 2013	78.2	80,200	74.8	4,074,600	71.0	27,963,400
Jan 2013-Dec 2013	77.9	78,700	75.4	4,105,600	71.3	28,069,200
Apr 2013-Mar 2014	76.8	78,700	75.5	4,115,400	71.5	28,188,500
Jul 2013-Jun 2014	77	80,000	75.7	4,133,500	71.9	28,337,100
Oct 2013-Sep 2014	76.4	80,000	75.9	4,150,100	72.2	28,485,800
Jan 2014-Dec 2014	76	79,100	75.8	4,147,600	72.4	28,585,700
Apr 2014-Mar 2015	77.2	83,700	76.2	4,174,900	72.7	28,751,800
Jul 2014-Jun 2015	76.5	81,700	76.3	4,187,000	73.0	28,917,600
Oct 2014-Sep 2015	77.9	81,800	76.7	4,213,000	73.4	29,076,100
Jan 2015-Dec 2015	80.5	87,000	76.8	4,222,500	73.6	29,208,300
Apr 2015-Mar 2016	79.5	81,100	77.2	4,249,700	73.7	29,287,500
Jul 2015-Jun 2016	79.9	80,800	77.3	4,264,400	73.8	29,358,100
Oct 2015-Sep 2016	80	82,100	77.2	4,261,800	73.8	29,414,600
Jan 2016-Dec 2016	79.2	82,400	77.6	4,293,300	74.0	29,506,000
Apr 2016-Mar 2017	79.5	84,900	77.6	4,296,300	74.2	29,609,100
Jul 2016-Jun 2017	80.1	85,000	78.1	4,323,000	74.3	29,689,100
Oct 2016-Sep 2017	80.1	84,900	78.4	4,340,600	74.5	29,781,200
Jan 2017-Dec 2017	81.3	85,500	78.8	4,365,500	74.9	29,946,000
Apr 2017-Mar 2018	81.8	85,900	78.5	4,352,100	75.0	30,000,900
Jul 2017-Jun 2018	81.6	85,600	78.2	4,341,800	75.0	30,034,300
Oct 2017-Sep 2018	81.5	83,500	78.0	4,334,800	75.1	30,087,400
Jan 2018-Dec 2018	81.3	83,900	78.0	4,335,900	75.1	30,116,600
Apr 2018-Mar 2019	82.5	87,700	78.4	4,361,000	75.4	30,225,700
Jul 2018-Jun 2019	82.5	86,600	79.0	4,397,300	75.6	30,326,600
Oct 2018-Sep 2019	82.7	85,000	79.3	4,417,700	75.7	30,388,600
Jan 2019-Dec 2019	83.4	85,200	79.5	4,429,100	75.8	30,427,000
Apr 2019-Mar 2020	83.7	86,500	79.6	4,440,200	75.9	30,518,500
Jul 2019-Jun 2020	82.5	84,100	79.2	4,417,600	75.9	30,509,000
Oct 2019-Sep 2020	82.4	81,400	78.7	4,391,500	75.6	30,380,200
Jan 2020-Dec 2020	80	73,800	78.2	4,365,800	75.3	30,259,600
Apr 2020-Mar 2021	78.4	68,900	77.7	4,336,800	74.8	30,073,700
Jul 2020-Jun 2021	78.3	69,500	77.4	4,321,000	74.4	29,918,500
Oct 2020-Sep 2021	77.6	70,100	77.9	4,350,600	74.7	30,022,200

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Jan 2021-Dec 2021	77	72,700	77.7	4,338,500	74.9	30,097,900
Apr 2021-Mar 2022	79.1	77,600	78.1	4,366,100	75.2	30,262,200
Jul 2021-Jun 2022	80	81,700	78.2	4,378,000	75.5	30,408,100
Oct 2021-Sep 2022	79.2	79,000	78.0	4,365,800	75.5	30,431,100
Jan 2022-Dec 2022	80.6	84,300	78.1	4,376,600	75.6	30,498,400
Apr 2022-Mar 2023	78.2	81,300	78.0	4,374,100	75.5	30,488,500
Jul 2022-Jun 2023	79	79,500	78.3	4,399,200	75.6	30,554,200
Oct 2022-Sep 2023	81.1	86,800	78.5	4,415,800	75.8	30,651,200
Jan 2023-Dec 2023	83.8	85,100	79.3	4,462,600	75.8	30,696,300
Long-term average (20 yrs)	**79**		**77**		**73**	

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APPENDIX 2: SCENARIO LOGIC MODELS

Scenario Objective (Housing Led):
To show how many jobs an assumed number of homes (SM/SM adjusted) will support, and how much external labour may be needed as a result.

QUESTION ADDRESSED	METHOD
What level of homes is being assumed?	Standard method figure or SM adjusted
How many people will this generate?	Residents per dwelling
How many of them will be workers?	Economic activity rates
How many workers will be needed to fill the number of workplace jobs?	Difference between workplace workers and resident workers
What is the resulting worker deficit or surplus?	Workplace workers less resident workers
How many commuters might this deficit or surplus generate?	Estimates for numbers of external workers working from home and at workplace
What might be the housing market effect?	Job to dwelling ratio as proxy for housing demand

Scenario Objective (Employment Led):
To show how many homes will be needed to support an assumed level of employment (projected), and how much external labour may be needed as a result.

QUESTION ADDRESSED	METHOD
What level of employment is being assumed?	Employment projection or economic development projection
How many workers are needed for the jobs?	Jobs per worker
How many more or fewer workers will be needed locally to meet demand for workers?	Labour supply deficit/surplus
What will be the size of the non-working local workforce?	Working economic activity rate
What will be the size of the non-working *age* population?	Dependency rate
How many homes will be needed to house these populations?	Population per dwelling
How many commuters would the labour supply deficit/surplus generate?	Estimates for numbers of external workers working from home and at workplace
What might be the housing market effect?	Job to dwelling ratio as proxy for housing demand

CONCLUSION: Either, select one of the housing number assumptions based on the level of employment supported and the consequent labour supply and housing market effects;

OR; select one of the assumed levels of employment and the number of homes required to support that level and the consequent labour supply and housing market effects.

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