

Insight focus

NOVEMBER 2020

Future Wales – Looking forwards or backwards?

Future Wales – The National Development Framework (NDF) was laid before the Senedd for a 60 day ‘consideration period’ on 21 September 2020. The intention is that it will be published in its final version in February 2021. Welsh Government has recently also commenced consultation on the proposed formation of Corporate Joint Committees that will oversee the production of Strategic Development Plans (SDPs).

In this Insight we consider the socio-economic implications of structural demographic issues surrounding the ageing population of Wales. These issues are highlighted but not resolved by Future Wales nor is any clear guidance offered on how they might be addressed in future SDPs and Local Development Plans (LDPs). Trend based population and household projections form a logical basis for considering demographic led issues in development plan preparation but to what extent do we want to repeat the trends of the past?

Future Wales will sit at the top of the development plan hierarchy and will in time inform the production of regional SDPs and LDPs. First Minister, Mark Drakeford, in his foreword to Future Wales states that:

“This NDF sets out where we think we should try to grow and the types of development we need over the next twenty years to help us be a sustainable and prosperous society.”

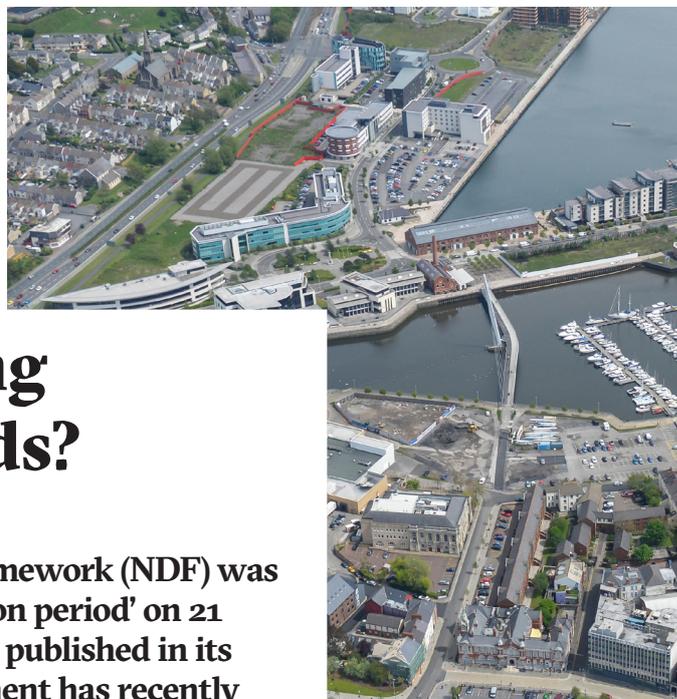
As may be expected Future Wales sets lofty ambitions for the kind of place Wales could be in 2040 encapsulated through the identification of 11 Outcomes. It is very difficult to disagree with

these outcomes which include: *“...work in connected,*

inclusive and healthy places...tackle health and socio-economic inequality through sustainable growth...places where prosperity innovation and culture are promoted...with biodiverse, resilient and connected ecosystems...etc.”

Future Wales includes a helpful analysis of many of the issues and challenges that need to be overcome to deliver these outcomes. There is, however, a lack of detail on how many of these positive outcomes are to be achieved particularly in relation to social and economic issues. Instead, it is assumed that these challenges are delegated to the forthcoming SDPs and LDPs.

There is a very clear message that Welsh Government is looking at different models of delivery going forward with an increased emphasis on the role of public sector. The lack of any national policies setting out objectives for economic growth or wider housing delivery raise question marks about the role of the private sector in delivering the outcomes sought by Future Wales.



© Alamy

HEADLINE FIGURES

BETWEEN 2020 AND 2040:

+4.3%	total population growth
-1.1%	decline in population aged 16-64
+27.7%	growth in population aged 65+
+101	increase in dependents aged 65+ per 1,000 working age

WALES COMPARED TO UK:

72%	GVA per worker in Wales compared to UK average
26.2%	Wales residents aged 20-24 with a degree-level qualification, cf. 30.4% in the UK

LICHFIELDS

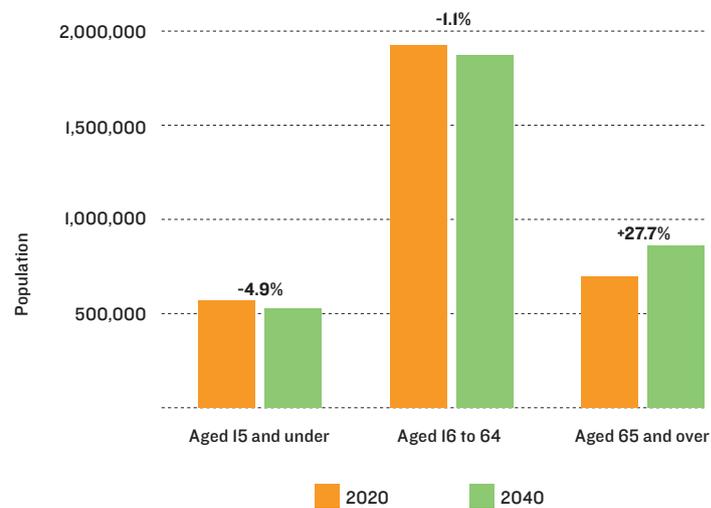
Increased social and economic dependency

As with most of the western world, Wales has an ageing population. Future Wales highlights this as an issue but offers little guidance on how increased old age-dependency (defined as the balance between those of working age and those aged 65 and older) might be addressed through the development plan process. Unless this issue is addressed Wales will be faced with unsustainable social care budgets and a proportionately shrinking workforce to fund essential public services.

The population of Wales is forecast to grow by 4.3% between 2020-2040. This, however, hides more complex and concerning trends:

- Reduction in population of under 16s (-4.9%);
- Slight reduction in population of working age (-1.1%); and
- Increase in population of pension age (+27.7%).

Figure 1 Projected population change in Wales by age (2020-2040)



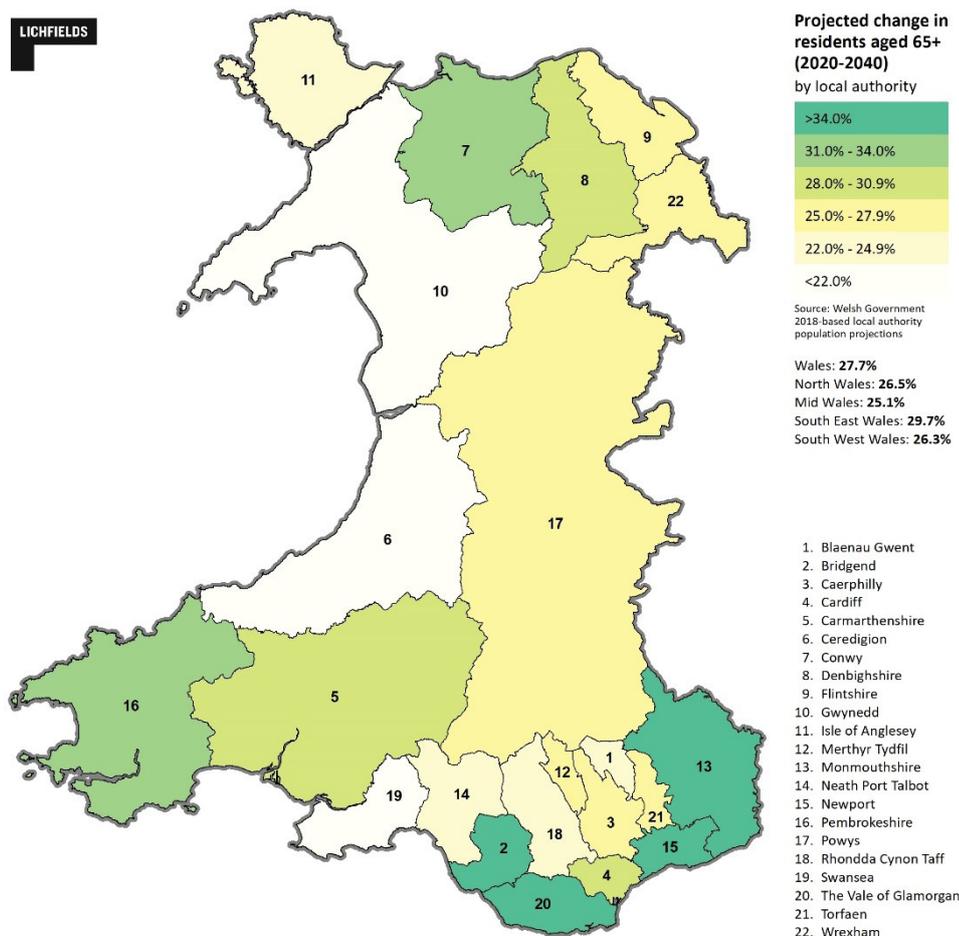
Source: Welsh Government 2018-based population projections / Lichfields analysis



The highest proportional increases in the population aged 65 and older between 2020 and 2040 are expected in local authorities in the South East: Monmouthshire (35.6%), the Vale of Glamorgan (35.2%), Bridgend (34.4%) and Newport (34.3%).

Analysis of trend-based projections indicates there will be increasing levels of negative natural

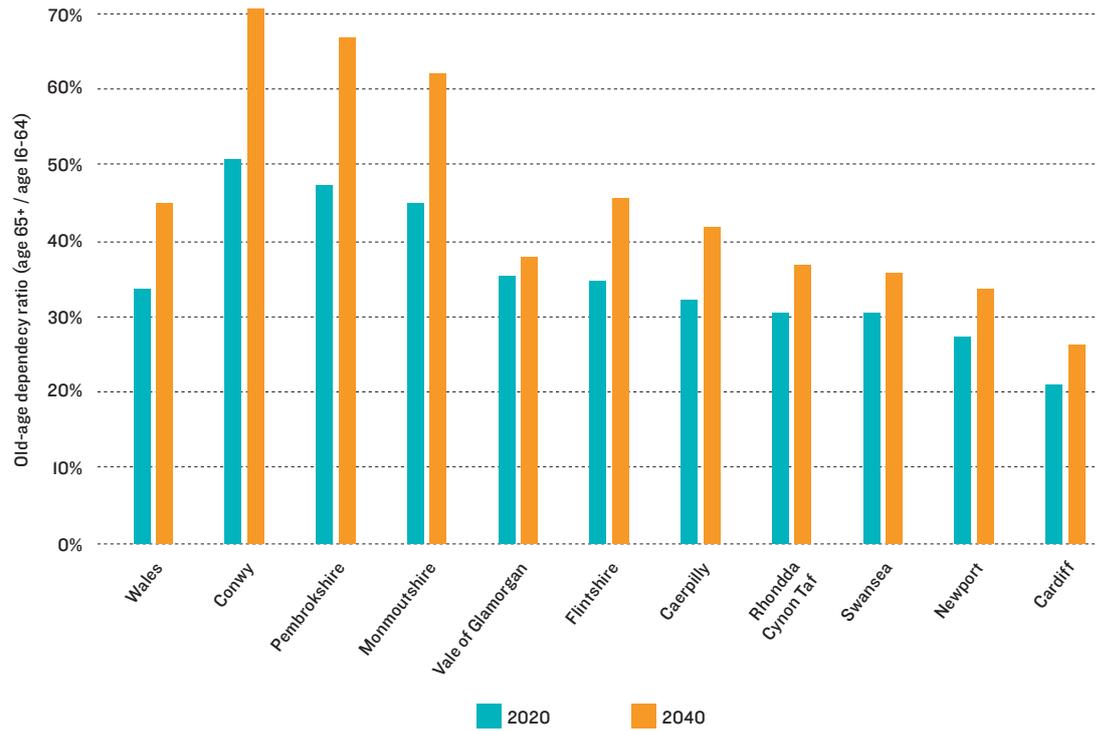
population change across Wales every year (a loss of 3,209 residents in 2019-20, increasing to a loss of 7,673 residents in 2039-40). During this period, net in-migration will increase from 11,143 in 2019-2020 to 13,690 in 2039-2040. This modest increase in net in-migration is not sufficient to counterbalance the loss of population from reducing natural change.



The outcome is an increase in the number of dependents aged 65 or over per 1,000 of working age from 347 in 2020 to 448 in 2040. However, this masks a wide variation by local authority across Wales. In Conwy, the old-age dependency ratio is projected to increase from 50.2% to 70.4% people, whilst in Cardiff, an increase is expected from 21.3% to 26.6% of the working age population. The projected reduction in the population of under 16s is also particularly concerning, as this will further reinforce the absolute decline in workforce numbers.

As well as implications for social and economic dependency the ageing population will require appropriate policy responses that seek to ensure that there is adequate specialist housing available to meet changing demographic needs. Similarly, the government's placemaking agenda with its focus on improving health outcomes will also be of importance in moderating the impacts of increased dependency ratios. These are issues we will return to in future Lichfields Insights.

Figure 3 Projected change in old-age dependency ratios



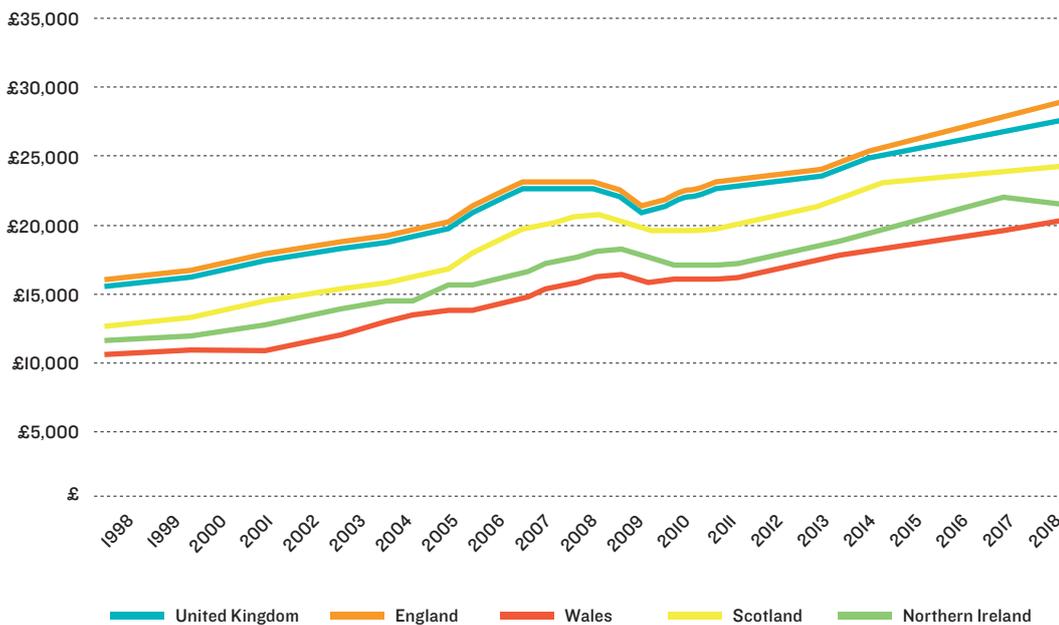
Source: Welsh Government 2018-based population projections / Lichfields analysis



It is anticipated therefore that development plans will, as required by Future Wales, target sustainable economic growth that encourages retention and growth of the workforce, particularly skilled workers. This would have the impact of increasing net migration within those of working age to the social and economic benefit of the nation.

Future Wales does not set out specific economic growth targets. Instead these are delegated to Regional Economic Frameworks with the expectation that they will also take emerging regional growth deals into account. On average GVA per worker in Wales in 2018 was £20,700 compared to the UK average of £28,700 (72% of the UK average).

Figure 4 Average GVA per head of population



Source: ONS Regional Gross Value Added (2018) (provisional)

Despite steady improvements, economic activity, wages and productivity in Wales are still significantly lower than the UK average. There are fewer people working in higher skilled occupations in Wales and policy interventions are required not only to increase GVA but to provide the economic opportunities to attract and retain a skilled workforce (i.e. increase net in-migration).

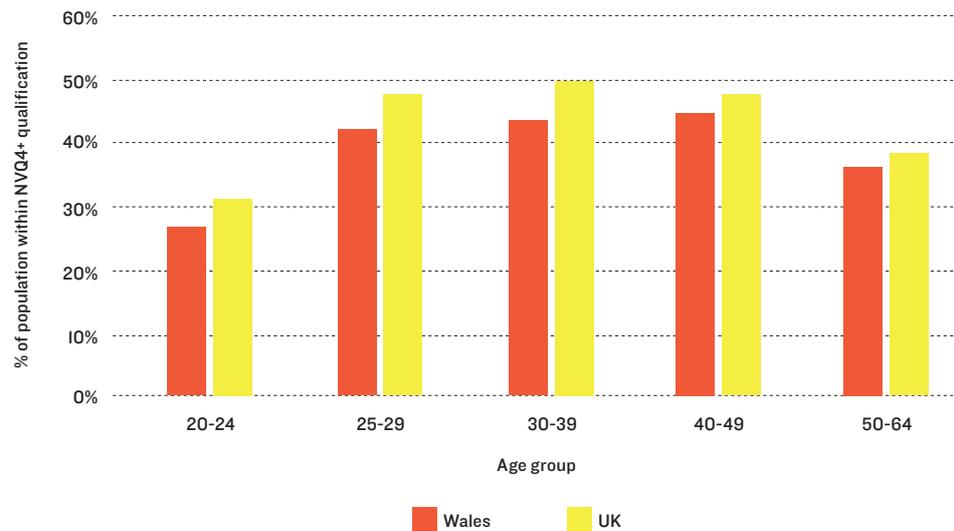
Research and innovation are recognised by Future Wales as the twin drivers that will be fundamental to the Welsh economy in seeking competitive economic advantage and driving productivity. Future Wales recognises the important role of universities in leading innovation and research, not only in supporting local communities and businesses but by attracting students from all around the world. The proportion of highly qualified young people in Wales is however still lower than in the UK.

In Wales, 26.2% of residents aged 20-24 (i.e. the age group of current and recent students) were qualified to degree-level or above (NVQ4+), compared to 30.4% across the UK – a difference of 4.2 percentage points. This gap increased to 6.8 percentage points for those aged 25-29, indicating that after obtaining a degree in Wales, many graduates leave to work elsewhere in the UK. It is essential that we seek to reverse this trend. It is also interesting to note that the qualification gap between Wales and the rest of the UK decreases in older age groups. This is likely to be a function of more qualified people moving to Wales or moving back to Wales later on, rather than starting their careers here. It could also reflect historical trends in obtaining degree-level qualifications.



© Alamy

Figure 5 Educational qualification to degree level or above by age



Source: ONS Annual Population Survey (2019)

It is perhaps surprising that Future Wales as the top-level development plan does not set out a clearer national economic strategy. Instead it requires that SDPs are informed by and support growth deals and that Regional Economic Frameworks are prepared in each of the four regions. In turn these frameworks and growth deals should shape strategic locational decisions on housing, economic growth, key services and essential infrastructure.

It is evident that delivery of the positive economic and social outcomes sought by Future Wales must be based on a break from the existing demographic trends. Going forward Wales

must retain a higher proportion of our young population and reverse the decrease in net immigration to rebalance and finance the ageing population structure.

This will require the next round of development plans to include appropriate policy led adjustments to ensure that these positive outcomes can be delivered. This will have implications for the level of employment, housing and community infrastructure that these plans seek to allocate. This will also be the subject of a future Lichfields Insight.

Whilst Future Wales doesn't set out employment or housing land requirements it does include baseline future housing estimates based on the Statistics for Wales, Estimates of Additional Housing Need in Wales (2019-based). These Welsh Government projections differ from previous trend-based projections in that they include an element of 'policy-on' targets with regards to future affordable housing delivery. By contrast the market housing element is purely trend based with no policy adjustment.

Whilst Future Wales sets out a clear policy aspiration to significantly increase affordable housing delivery it fails to set out a national policy for overall housing delivery. References to market housing requirements are mixed, initially recognising the need for and importance of market housing delivery but then laying the blame for reduced housing output at the door of the private house building industry.

"While market housing continues to play a vital and important role in responding to housing need, to address the identified housing need in Wales a shift in the delivery model is required by building affordable homes at scale and pace. As illustrated, the delivery of homes has decreased since greater reliance has been placed on the private sector to meet this basic human need. To address this we will support a more balanced approach with local authorities, registered social landlords and small and medium sized construction and building companies encouraged to build more homes."

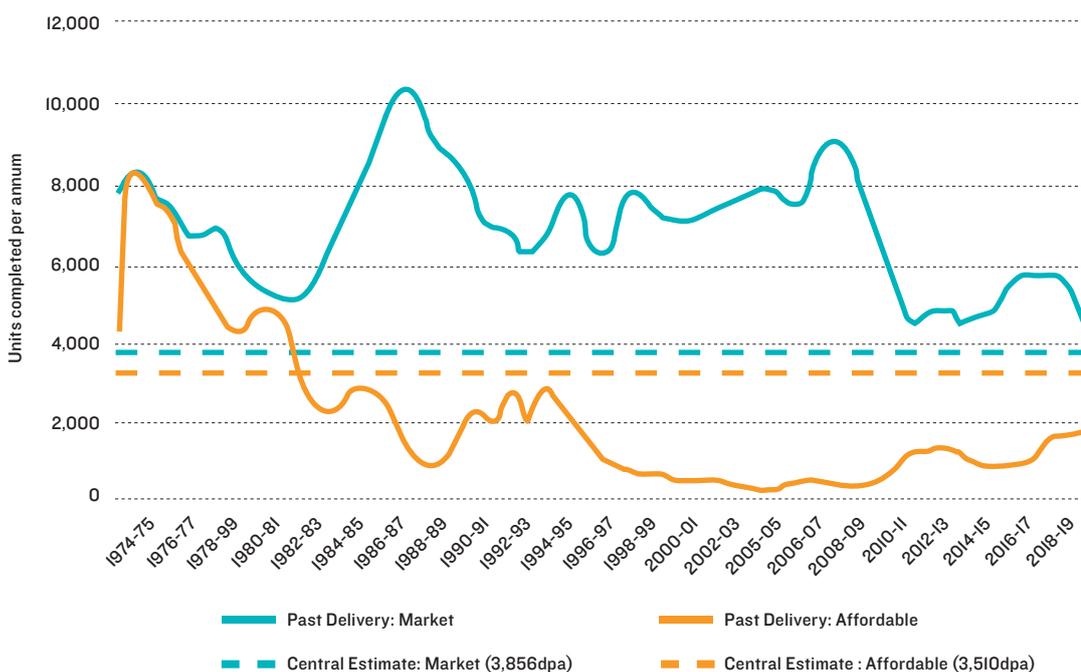
Future Wales states that the Central Estimates are to be used to inform the production of housing requirement figures in SDPs. It is important first however to understand the limitations of these estimates. Welsh Government in its statistical article makes clear that the Estimates:

- Provide a range of need for additional housing units based on past trends and best available data;
- Estimate what the tenure split of housing need could be given a set of assumptions;
- Form a basis of discussion for policy decisions;
- Are not official statistics; and,
- Should not be used as housing targets.

For the period 2019-2024 the Central Estimates give an Overall Housing Need (OHN) of 7,400 dwellings per annum (dpa) which includes 1,100 additional homes per annum to clear Existing Unmet Need (for affordable housing), and a Newly Arising Need of 6,300 dpa 2019-2024.

The Estimates of Additional Housing Need in Wales are then split by tenure. The estimates assume that all Existing Unmet Need will be addressed through provision of additional affordable housing in the next five-year period. For Newly Arising Need affordability assumptions are made based on median private rents and median household income.

Figure 6 Comparison of past housing delivery and Welsh Government Central Estimates of housing need



Source: Welsh Government Central Estimates of Additional Housing Need in Wales (2019-based)

Based on the data sources and assumptions used, the central estimate scenario suggests that the additional homes are split 52% for market housing (3,856dpa) and 48% for affordable housing (3,510dpa).

Future Wales states that:

"The national and regional estimates of need do not reflect future policies or events and are not a Housing Requirement for Wales or the regions. However, the estimates do provide part of the evidence and context on which housing policy and requirements can be based. The estimates of market and affordable housing need should inform the housing requirements set out in Strategic and Local Development Plans and it is expected the housing requirements will differ from the estimates of housing need."

It should be noted that the OHN of 7,400dpa (2019-2024) is significantly below previous estimates of national housing need. In 2015 the Public Policy Institute for Wales commissioned an estimate of the need and demand for housing 2011-2031. This was undertaken by Alan Holmans and suggested that there was a need for 8,700 new homes each year, with 5,200 (60%) of these in the market sector and 3,500 (40%) in the social sector.

Future Wales includes a graph recording new dwelling completions by tenure since 1974 with private sector housing delivery ranged from 4,489 to 10,133dpa. The current OHN estimate of need for market housing at 3,900dpa is therefore

below any historic observed level of delivery since 1974. This conclusion seems at odds with general sentiment surrounding the need for additional housing of all tenures.

There is a need for increased levels of affordable housing delivery and the Welsh Government's stated objectives in this sector are ambitious. There are some local authorities such as Cardiff that are making positive strides to deliver new homes directly; however, there will inevitably be a lead in time before the wider local authority sector across Wales is geared up to deliver at the scale and pace sought in Future Wales. Crucially, the scale of difference between the Central Estimates and past completions indicates that a fundamental change in how affordable housing is delivered will be needed in order to achieve this level of provision.

The presentation of the Central Estimates with a 'policy-on' adjustment for affordable housing delivery but no similar adjustment for market delivery is, in Lichfields' view, misleading and gives a false and unrealistic expectation of future affordable housing percentages. Whilst the intention of Welsh Government is that there will be increased direct delivery of affordable housing in Lichfields view this would be further boosted if there were a similar increase in market delivery allied to viable affordable housing policies in development plans.

Conclusions

Future Wales identifies the key economic and social challenges that need to be addressed and overcome to deliver a more prosperous and inclusive Wales by 2035. It is light on the specific policy choices that will need to be made to deliver these outcomes leaving the details to SDPs and LDPs. This may not be a bad thing given the greater opportunity for public engagement in the preparation of these documents and their independent public scrutiny.

The estimates of housing need like the population projections from which they are largely derived are heavily influenced by past patterns of demographic change. To a significant extent they are largely backwards facing. Future Wales sets out a far more optimistic picture of the economic and social outcomes that we should be planning for when viewed against the recent past.

Future Wales and the Development Plan Manual make it clear that SDPs and LDPs in arriving at employment and housing land requirements will need to look beyond population and household projections. If Future Wales' desired economic and social outcomes are to be achieved, then significant 'policy on' adjustments will be required to trend based population projections particularly focused at maintaining and increasing the resident population of working age.

Disclaimer

This publication has been written in general terms and cannot be relied on to cover specific situations. We recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Lichfields accepts no duty of care or liability for any loss occasioned to any person acting or refraining from acting as a result of any material in this publication. Lichfields is the trading name of Nathaniel Lichfield & Partners Limited. Registered in England, no.2778116. Registered office: Lichfields, The Minster Building, 21 Mincing Lane, London, EC3R 7AG © Nathaniel Lichfield & Partners Ltd 2020. All rights reserved.

Contact Us

Birmingham

Jon Kirby
jon.kirby@lichfields.uk
0121 713 1530

Bristol

Andrew Cockett
andrew.cockett@lichfields.uk
0117 403 1980

Cardiff

John Cottrell
john.cottrell@lichfields.uk
029 2043 5880

Edinburgh

Nicola Woodward
nicola.woodward@lichfields.uk
0131 285 0670

Leeds

Justin Gartland
justin.gartland@lichfields.uk
0113 397 1397

London

Matthew Spry
matthew.spry@lichfields.uk
020 7837 4477

Manchester

Simon Pemberton
simon.pemberton@lichfields.uk
0161 837 6130

Newcastle

Jonathan Wallace
jonathan.wallace@lichfields.uk
0191 261 5685

Thames Valley

Daniel Lampard
daniel.lampard@lichfields.uk
0118 334 1920