



NATIONAL PLANNING FRAMEWORK 4 HOUSING LAND REQUIREMENTS

A FRAMEWORK FOR LOCALLY ADJUSTED ESTIMATES

HOMES FOR SCOTLAND (HFS) APRIL 2021

The Scottish Government has published “initial default estimates” of housing need and demand in Scotland and of the corresponding housing land requirements (HLRs). It has asked local authorities to work with stakeholders to produce “locally adjusted estimates” that fit with policy ambitions and are mindful of the consequences of setting targets that are lower than recent completion levels. The final HLRs will be included in National Planning Framework 4 (NPF4).

This is one of a set of four HFS resources intended to inform local and national decision-makers to ensure NPF4 does not under-plan for housing:

1. **HFS framework for locally adjusted estimates** (this note).
2. Overcoming housing need and demand assessment limitations.
3. Policy thinking for locally adjusted estimates.
4. Excel spreadsheet reflecting HFS all-tenure target of at least 25,000 homes each year.

This note provides a summary how HFS has considered the initial default estimates.

CONTEXT

The Scottish Government has issued ‘initial default estimates’ to stimulate local discussions on National Planning Framework 4 minimum all-tenure HLRs.

These equate, when annualised, to minimum HLRs of 141,898, (or 14,189 a year), for which Local Development Plans (LDPs) across Scotland would collectively need to identify housing land capacity.

That figure includes a “flexibility allowance” of 29,143 (or 2,914 a year) which recognises the potential for some of the land identified in those LDPs to remain undelivered. The minimum housing land requirement therefore reflects estimated need and demand for just 112,750 homes (or 11,275 a year).

Whether looking at the annualised 14,189 “initial default estimate” minimum HLR, or at the 11,275 homes a year that figure is designed to support, this is far fewer homes than Scotland is currently building (22,596 homes were built in 2019), and fewer than have been built at any point in the post-war period.

Given that the minimum HLRs will cover the ten-year period beginning when NPF4 is adopted in spring 2022, this is a crucial issue at a time when Scotland still faces a shortage of housing of all tenures.

The Scottish Government has asked local authorities to engage with stakeholders to agree “locally adjusted estimates”. In this note, HFS sets out how local authorities can use this opportunity to ensure recent achievements in increasing housing delivery are not lost.

In reviewing the initial default estimates and scoping the potential HLRs we hope will emerge from this process, HFS has considered the following:



EXISTING NEED AND NEWLY FORMING HOUSEHOLDS

The Scottish Government has used its Housing Need and Demand Assessment (HNDA) toolkit to count existing household need and estimate newly forming households (using National Records for Scotland projections). It has not adjusted the HNDA process, or its output, to reflect limitations raised by HFS in response to the March 2020 Housing Technical Discussion Paper.

HFS ASKS Local Authorities to:

1. Note that not all types of existing household need are included in the HNDA count.
2. Consider the options HFS has identified for quantifying / accounting for those households.
3. Note the risks of relying on past trends to estimate future household formation and consider the options HFS has identified for overcoming that issue.

See HFS note on overcoming HNDA Limitations for more information.

COMPLETIONS LEVELS AND POLICY THINKING

In 2019, Scotland built 22,596 homes of all tenures, the most successful year for housing delivery since the global financial crisis (GFC). The Scottish Government has celebrated this recovery¹.

¹ [Transforming Places Together](#) celebrates the 30% increase in home building from 2013/14 to 2018/19

The Scottish Government has asked authorities to consider the gap between their initial default estimates and completions data but, rather than focusing on the 2019 numbers, their spreadsheet reflects the completions achieved in the 10 years since the GFC. HFS considers this a regressive measure as delivery in that period has consistently grown year-on-year as we emerged from the crisis.

HFS ASKS Local Authorities to:

4. Use their area's completion figures for 2019 as their point of comparison and, where these exceed the initial default estimates, use their locally adjusted estimates to close that gap.
5. Consider the opportunity cost of supporting figures which suggest a contraction rather than an ongoing increase in all-tenure housing delivery.
6. Use their locally adjusted estimates to reflect local and national policy ambitions and support increased delivery.

See separate HFS note on Policy Thinking for Locally Adjusted Estimates for more information.

FLEXIBILITY

The Scottish Government has added a 'flexibility allowance' of 30% for rural areas and 25% for urban areas. This "represents a contingency or over-programming of land to reflect the longer timescale of new development plans and allow for changes in sites coming forward". HFS supports the use of generous flexibility margins to mitigate the further under-supply of homes.

HFS ASKS Local Authorities to:

7. Support the flexibility rates proposed by the Scottish Government.

LOCALLY ADJUSTED ESTIMATES: HFS MODEL BASED ON 2019 COMPLETIONS

The detailed Excel table provided separately sets an alternative starting point for considering the minimum HLRs that NPF4 should set for Scotland and for each local authority area.

It shows the contrast between the Scottish Government's initial default estimates of need and demand and the number of homes of all tenures that HFS and others² have identified as required.

² The 2015 Commission on Housing and Wellbeing suggested an interim target of 23,000 homes a year to 2020. This target would need to be increased to account for that level of delivery not yet having been achieved. More recently, a 2018 report by Professor Glen Bramley, for Crisis and the National Housing Federation, concluded that 26,000 new homes per year were needed in Scotland over the next 15 years.

	Homes Required (Annualised)	Homes Required over 10 Years	Flexibility Allowance	Housing Land Requirement over 10 Years
Initial Default Estimate ³	11,275	112,750	29,143	141,893
HFS minimum delivery target	25,000	250,000	67,269	317,269

HFS ASKS Local Authorities to:

8. Consider the benefits of a minimum Housing Land Requirement that would support a modest increase (10.6% at the pan-Scotland level) on current (2019-based) delivery levels.
9. Support the HFS-modelled housing delivery targets and corresponding housing land requirements unless there are locally evidenced alternatives that would deliver equivalent benefits and achieve the policy ambition of increasing housing delivery.

HFS SUMMARY POSITION

HFS believes the minimum HLRs for NPF4 should be set at levels that support the delivery of at least 25,000 homes of all-tenures each year. In line with the Scottish Government objective of delivering more homes, this represents a 10.6% increase on the 22,596 homes built in Scotland in 2019.

³ Corrections have been made here (and throughout this set of documents) to the Scottish Government initial default estimate figures and calculations for flexibility allowances and minimum HLRs issued in February 2021. These slightly increase the Scottish Government's pan-Scotland flexibility allowance and minimum HLR, by 243 homes each.



NATIONAL PLANNING FRAMEWORK 4: MINIMUM HOUSING LAND REQUIREMENTS

OVERCOMING HOUSING NEED AND DEMAND ASSESSMENT LIMITATIONS

HOMES FOR SCOTLAND (HFS) APRIL 2021

The Scottish Government has published “initial default estimates” of housing need and demand in Scotland and of the corresponding housing land requirements (HLRs). It has asked local authorities to work with stakeholders to produce “locally adjusted estimates” that fit with policy ambitions and are mindful of the consequences of setting targets that are lower than recent completion levels. The final HLRs will be included in National Planning Framework 4 (NPF4).

This is one of a set of four HFS resources intended to inform local and national decision-makers to ensure NPF4 does not under-plan for housing:

1. HFS framework for locally adjusted estimates.
2. **Overcoming housing need and demand assessment limitations** (this note).
3. Policy thinking for locally adjusted estimates.
4. Excel spreadsheet reflecting HFS all-tenure target of at least 25,000 homes each year.

This note highlights some limitations of the HNDA toolkit and its ability to fully support planning for housing. Options for overcoming these limitations are also identified.

CONTEXT

The Scottish Government has initiated work to establish minimum all-tenure HLRs for each part of Scotland for inclusion in National Planning Framework 4 (NPF4), the emerging national development plan for Scotland.

Using its Housing Need and Demand Assessment (HNDA) toolkit, the Scottish Government has already generated “initial default estimates” of those minimum HLRs, asking local authorities to review them and, if they wish, propose “locally adjusted estimates”. The Scottish Government will then consider what minimum HLRs to include in the draft version of NPF4 that it will consult on in autumn 2021.

The Scottish Government’s initial default estimates, when annualised, equate to minimum HLRs of 141,893 (or 14,189 a year). Local Development Plans (LDPs) across Scotland would collectively need to identify housing land with capacity for at least that number of homes.

That figure includes a “flexibility allowance” of 29,143 homes (2,914 a year) which recognises the potential for some of the land identified in those LDPs to remain undelivered. The annualised minimum HLR of 14,189 therefore reflects estimated need and demand for just 11,275 homes a year.

Whether looking at the 14,189 “initial default estimate” minimum HLR, or at the 11,275 homes that figure is designed to support, this is far fewer homes than Scotland is currently building (22,596 homes were built in 2019) or has built at any point in the post-war period.

Given that the minimum HLRs will cover the ten-year period beginning when NPF4 is adopted in spring 2022, ensuring these targets are informed and ambitious is essential given Scotland still faces a shortage of housing of all tenures.

This note highlights the limitations of the HNDA toolkit and its ability to fully support planning for housing. The limitations relate to:

- The count of existing household need.
- The estimate of newly forming households.

Options for overcoming these limitations are also identified, to help inform local and national thinking and discussions.

SUMMARY OF HNDA TOOLKIT LIMITATIONS AND POTENTIAL SOLUTIONS

It is important to understand why such low and unrecognisable figures have been generated through the Scottish Government's HNDA exercise. In summary, the issue lies in limitations that are built into the HNDA toolkit which affect both the count of existing household need and the estimate of newly forming households.

HFS wants to help ensure the Scottish Government and local authorities understand, acknowledge and respond to these limitations to avoid an NPF4 that embeds a culture of under-planning for new homes.

There are three components to the Scottish Government's initial default estimates:

1. Count of existing household need
2. Estimate of newly forming households
3. Flexibility allowance

The Scottish Government has used the HNDA toolkit to calculate the first two components and has set flexibility allowances at 25% for urban areas and 30% for rural areas. At the pan-Scotland level, this results in the following estimates of need and demand and minimum HLRs:

Figure 1:

Component	Scottish Government Figure	Annualised Figure
1. Existing Household Need	15,175	1,575
2. Newly Forming Households	97,000	9,700
(1+2 = need and demand)	112,750	11,275
3. Flexibility	29,143	2,914
NPF4 Minimum HLR	141,893	14,189

The table below summarises the limitations with these aspects of HNDA setting, and some potential solutions:

Figure 2:

Component	Limitations	Potential Solution
Existing Need Count	As explained below, the HNDA toolkit count is based on a very narrow definition of unmet need.	Household survey to identify wider range of types of existing household need. <u>or</u> Proxy estimate for households with those wider forms of existing need.
Newly Forming Households Estimate	Household projections are based on past trends. They are policy blind. The principal projection (the HNDA default setting) underestimates what happens in practice.	Scottish Government to amend HNDA toolkit to acknowledge and/or address limitations, to increase user confidence in departing from the principal projection

The remainder of this note elaborates on the issues and solutions summarised in Figure 2.

EXISTING NEED COUNT

Issue 1: Definition of Existing Household Need

The HNDA toolkit only counts two types of existing need:

- homeless households in temporary accommodation; and
- households of more than 1 person which are both overcrowded and concealed.

That is a very narrow definition. Other types of existing household need exist but the HNDA toolkit does not acknowledge or attempt to count them. Examples are given in Figure 3 below.

Figure 3:

Type of Existing Household Need	Description and Example
An overcrowded (but not concealed) household.	A household living in a home that has too few bedrooms for the family members (for example a family with a boy and a girl but only 2 bedrooms).
Households that are concealed (but not overcrowded).	A household that wants but does not have a home of their own (for example a young family living with grandparents).
Single person households in need (even if both overcrowded and concealed) (e.g. adults living in HMOs or with friends / parents / other relatives).	For example, an adult son or daughter forced by circumstance to be still living with a parent. If they wanted to form a home with a partner they would be 'counted', as a single person they are not.
Those living in homes that are physically unfit .	For example, a family living in a home with very poor condition roof / walls / ceiling.
Households in homes that are not affordable to them.	For example, a family that is struggling financially and spending more than 50% of their income on housing costs.
Households in unsuitable homes.	For example, a family with children living in a home with no private outdoor space.

Some local authorities may already be aware of this limitation and so may not want to rely on the HNDA existing need count for wider HNDA work, or on the Scottish Government count of existing household need undertaken for this NPF4 exercise. For example, Highland Council chose not to use the default count of existing need in its 2015 HNDA because it found it could get a more robust approach using an in-house method based on an assessment of the current living arrangements of each applicant on the Highland Housing Register. Other authorities may be less confident in departing from the default HNDA settings in case this leads to their HNDA evidence failing to achieve its 'robust and credible' status.

The Scottish Government has not itself, in this NPF4 exercise, acknowledged or acted to address the narrow definition of existing household need. HFS has previously attempted to help the Scottish Government do this by raising the issue in its April 2020 responses to both the NPF4 Call for Ideas and the NPF4 Housing Technical Discussion Paper. The Scottish Government has not indicated its view on the issue in its summary of the responses to those consultations, or subsequently. Nonetheless, we hope this new note will help the Scottish Government's understanding of, and reaction to, the issue before it affects NPF4.

The narrow definition has resulted in the very low count of existing household need shown in Figure 1 above.

HFS notes that homeless households who are not yet in temporary accommodation (i.e. people who are unintentionally homeless but have not identified themselves to and/or been placed in temporary accommodation by the housing authority) are also excluded from the Scottish Government count. This further suppresses the data on existing household need.

Potential Solutions to Issue 1:

The measure of existing household need should be broadened to include the overlooked households listed in Figure 3 above.

Better data on the household need types included in Figure 3 could be gained by supplementing the HNDA toolkit method with household survey work to get a fuller picture of existing need across this fuller range of household circumstances.

In the longer term, the Scottish Government could use its transformational digital planning strategy to create a new platform giving itself and local authorities access to an online research panel comprising households in all parts of Scotland. That could be used to estimate quickly and reliably, with up-to-date primary information, how many households in Scotland (or any part of Scotland) are in housing need at any point in time.

Within the confines of the NPF4 Housing Land Requirements workstream, the Scottish Government, local authorities or another stakeholder could use an existing commercial platform or practitioner to undertake household surveys of existing need at this time.

An even shorter-term solution would be to add an "existing need buffer" on top of the existing household need count. This would be a locally informed estimate of the additional number of households likely to be in existing household need but currently overlooked by the default HNDA toolkit approach.

Undertaking a household survey, or at least using an existing need buffer, will also address a secondary issue of poor data quality in the source materials for the Scottish Government count. There are gaps in the data on overcrowding taken from the Scottish Household Condition Survey 2016-18ⁱ. There are also issues with the data on concealed householdsⁱⁱ.

Local authorities will also, and separately, want to make a local adjustment to account for homeless households that are not yet in temporary accommodation and are therefore not included in the Scottish Government count.

NEWLY FORMING HOUSEHOLD ESTIMATE

Issue 2: Limitations of Household Projections

The HNDA toolkit uses National Records of Scotland (NRS) household projections to estimate how many new homes will be required for newly forming households. The “estimate of newly forming households” element of the Scottish Government’s initial default estimate figures is based on the 2018-based household projections which were published in 2020.

This component of the initial default estimates assumes that, during the NPF4 period (2022 to 2032), household growth will continue to happen at the same rate it did in the time period on which the 2018-based household projections are based. The projections assume a continuation of past trends, irrespective of any changes to policy or wider circumstances. No planning or wider policy thinking has been applied to whether (a) household formation rates might be different to the projections or (b) policy ambitions at the local and national levels make it desirable to plan for different household formations rates.

The NRS itself acknowledges the limitations of its projectionsⁱⁱⁱ, and states that they are not policy-based forecasts of what the Scottish Government expects to happen. They do not try to forecast possible future changes that may alter these trends. For example:

- economic change (e.g. recession patterns will be projected to continue even in a boom)
- social changes (e.g. migration policies, birth rates)
- imbalances between housing supply and demand (whatever the cause)
- the potential impact of the COVID-19 pandemic (such as on housing choices and options)

Commenting on the reliance of the projections on past-trends, Professor Glen Bramley^{iv} has said: *“...this raises the very real possibility of the effects of historic under-supply of new housing being perpetuated. If household growth has been artificially suppressed by the undersupply of new housing, then basing future need calculations on those lower growth figures will by necessity under-estimate that need.”*

A further reason to reduce reliance on the NRS household projections when planning for the homes Scotland will need in the future, is that they have proven to be poor projections of what happens in practice. A comparison of projections and completions in Midlothian provides an example. Midlothian chose to increase its housing land supply in its current LDP, resulting in a significant increase in housing completions between 2012 and 2019, supporting real-life demand and choice for new household formation, and outstripping the level of household growth set out in previous projections that had reflected a previous period of under-delivery. Midlothian could have chosen to plan for fewer homes, using the low projections as evidence. Had it done so, it would have been under-planning for new homes and suppressing the ability of new households to form. The increase in housing completions and new households that Midlothian’s proactive approach to land supply supported is now reflected in the 2018-based household projections, showing strong projection household formation compared to other authority areas where planning and other factors have suppressed household formation.

See Appendix 1 for a more detailed look at projections and completions in Midlothian.

Potential Solution to Issue 2:

Local authorities should be given greater support by the Scottish Government to recognise and balance the limitations of the household projections that are built into the HNDA toolkit.

As a minimum, the Scottish Government should provide clear advice on limitations of the default HNDA approach to estimating housing need and demand arising from newly forming households. This would mirror the transparent and helpful approach taken by NRS. It would give users of the HNDA toolkit the information they need to decide whether they want to overcome those limitations when planning for housing at the local, regional, or national level. This would reduce the risk to policy ambitions. It would increase the confidence of local users to use their own scenarios and assumptions to override the default HNDA settings.

A preferable and fuller solution would be for the Scottish Government to proactively address the household projection limitations set out in this paper and change the HNDA toolkit to make sure those limitations do not result in under-planning for new homes across Scotland. A Scotland for The Future (the Scottish Government's new Demographic Strategy) makes it clear that Scotland as whole needs inward-migration to boost the population, especially young people, and people of working-age. To reflect that ambition, the Scottish Government could change its advice to HNDA users and recommend they look at the full range of projections, from low through the default 'principal projection' to high. The best outcome may lie between the principal projection (which tends to under-predict household formation) and the high migration scenario (which tends to over-predict household formation, but to a lesser degree).

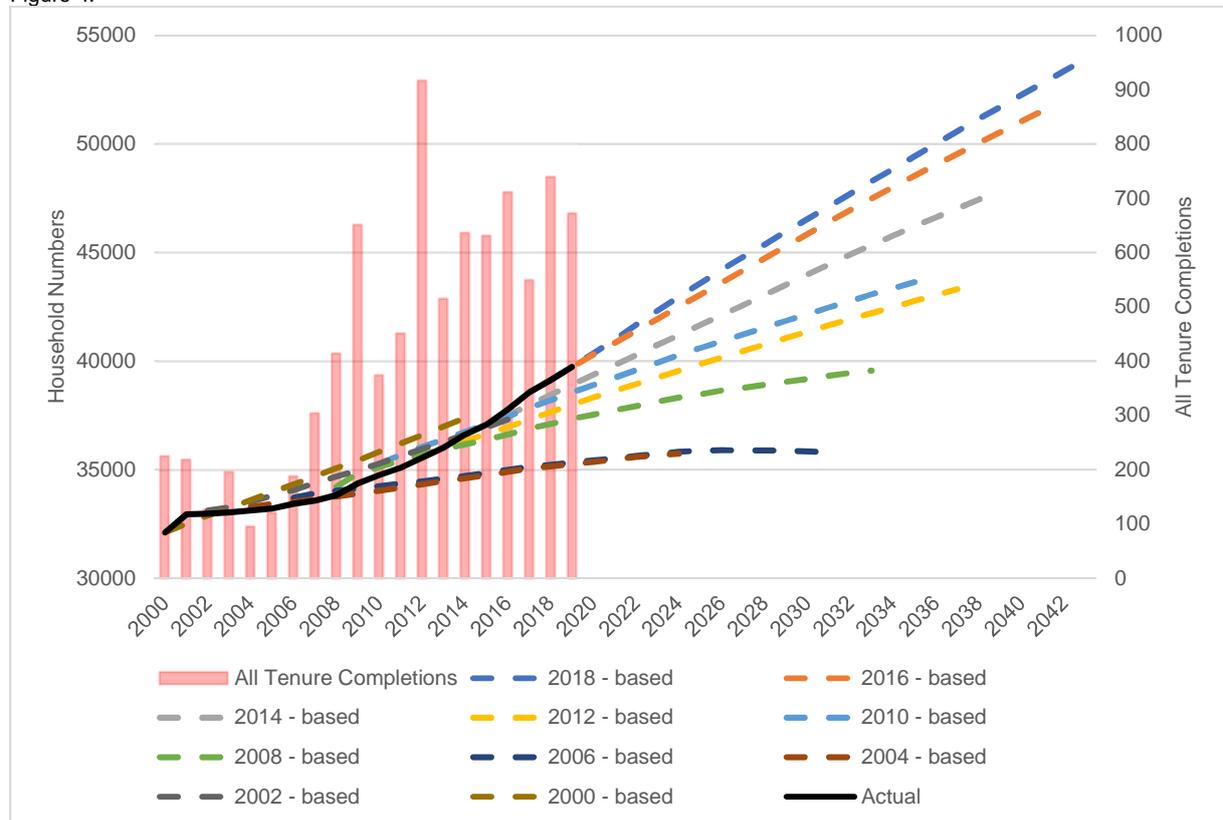
CONCLUSIONS

1. The way the HNDA toolkit counts existing household need provides low estimates because it is based on too-narrow a definition of existing household need.
2. Household projections are based on past trends and current iterations are subdued following the global financial crisis. The projections cannot be relied on as estimates of the number of new households that will form in the future.
3. There are options available to those with an interest in ensuring planning for housing (both affordable and market) is based on fuller evidence and aligned to policy.
4. Action and positive encouragement by the Scottish Government could increase HNDA user confidence in using local evidence and policy ambitions to improve the quality of HNDA data.

Household Growth: Projections v Practice: A Midlothian Case Study

Figure 4 compares NRS household projections for Midlothian over time to actual changes. Midlothian provides a good example of how much the projections can vary over time, and how sensitive they are to policy and practice changes over a relatively short period of time.

Figure 4:



Between 1997 and 2000, private housing completions in Midlothian averaged 270 homes a year. The 2000 and 2002-based projections assumed that rate of home building household growth would continue. In practice, private completions between 2001 and 2005 averaged just 129 homes a year. There was a strong market, but the housing land supply was very constrained. The next two sets of projections (2004 and 2006-based) reflected that constraint, projecting subdued growth for 20 to 25 years, and even a slight decline in the longer term.

After 2005, constraints on the land supply gradually lessened and private completions increased. Between 2006 and 2010 the average private completions were 227 homes a year. The projections began to show stronger household growth again. However, actual household growth was a lot higher, because Councils in the Edinburgh city-region took a policy decision to allow a sizable proportion of Edinburgh’s housing need and demand to be provided for through home building in Midlothian and other local authorities in the Edinburgh city-region. Additional housing land was released and, between 2012 and 2019, private completions averaged 578 homes a year. This is now reflected in the 2016 and 2018 projections.

The Midlothian example shows that simply having a strong housing market will not ensure enough homes can be built to meet need and demand. The low pre-recession completion rates show this. Enough land must also be supplied. By pro-actively releasing more land, Midlothian Council managed succeeded in counteracting the drop-off in housing completions since the global financial crisis.

References

i

Low sample sizes in some areas means there is no usable data for some authorities. No 'confidence intervals' are used to address potential uncertainty with the data.

ii

The methodology is essentially a pro-rata of the 2011 Census proportioned to the current number of households. Housing pressures since the last census make it likely is a higher rate of concealed households now compared to 2011.

iii

National Records of Scotland, 29 September 2020, Household Projections for Scotland (2018-based), National Records of Scotland. See pages 9 and 65 of the [report](#).

iv

Professor Glen Bramley, November 2018, Housing supply requirements across Great Britain: for low-income households and homeless people; Crisis and National Housing Federation



NATIONAL PLANNING FRAMEWORK 4 HOUSING LAND REQUIREMENTS

POLICY THINKING FOR LOCALLY ADJUSTED ESTIMATES

HOMES FOR SCOTLAND (HFS) APRIL 2021

The Scottish Government has published “initial default estimates” of housing need and demand in Scotland and of the corresponding housing land requirements (HLRs). It has asked local authorities to work with stakeholders to produce “locally adjusted estimates” that fit with policy ambitions and are mindful of the consequences of setting targets that are lower than recent completion levels. The final HLRs will be included in National Planning Framework 4 (NPF4).

This is one of a set of four HFS resources intended to inform local and national decision-makers to ensure NPF4 plans appropriately for housing:

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2. Overcoming housing need and demand assessment limitations.
- 3. Policy thinking for locally adjusted estimates** (this note).
4. Excel spreadsheet reflecting HFS all-tenure target of at least 25,000 homes each year.

This note highlights the policy thinking that HFS believes should be applied when establishing the minimum housing land requirements (HLRs) for National Planning Framework 4 (NPF4).

SUMMARY

This note seeks to assist local authorities in replacing the initial default estimates published by the Scottish Government with locally adjusted estimates which:

- **Support the objective of delivering more homes**, rather than accepting estimates of need and demand that are 50% lower than the number of homes built in 2019.
- **Strengthen the plan-led system and provide greater certainty**, rather than setting HLRs so low that increasing delivery would require 60% of homes to be built on unallocated land.
- **Support local and national demographic ambitions to increase population**, including the population of young and working-aged people.
- **Recognise the interdependency between the supply of private and affordable homes** and plan for the volume of private homes needed to achieve the 100,000 affordable homes target.
- **Support rather than threaten construction jobs and the wider economic benefits** of home building.
- **Recognise market signals and the impact of unmet demand for new homes on house price inflation**, and the risk this poses to inclusive growth and the public purse.

CONTEXT

The Scottish Government has initiated work to establish minimum HLRs for each part of Scotland for inclusion in NPF4, the national statutory development plan for Scotland to 2050. Initial default estimates for the minimum HLRs, published on 23 February 2021, have three components:

1. Count of existing household need.
2. Estimate of newly forming households.
3. Flexibility allowance.

The Scottish Government has used the HNDA toolkit to calculate the first two components and has set flexibility allowances at 25% for urban areas and 30% for rural areas. At the pan-Scotland level this results in the following initial default estimates of need and demand and minimum HLRs:

Figure 1:

Component	Scottish Government Figure	Annualised Figure
1. Existing Household Need	15,750	1,575
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(1+2 = need and demand)	112,750	11,275
3. Flexibility	29,143	2,914
NPF4 Minimum HLR	141,893	14,189

The above compares with the 22,596 new homes of all tenures built in 2019. This was the best year for delivery since the global financial crisis (GFC) and the culmination, to date, of a long recovery from that recession. In the context of that positive achievement, the Scottish Government's initial default estimates are a confusingly low starting point for discussion.

If adopted, the Scottish Government initial default estimates would require local authorities to allocate, between them, land with capacity for 141,893 homes across Scotland in the 10-year period from 2022. That averages 14,189 homes a year.

It is important to be clear that this is the minimum amount of land to be identified, not the number of homes to be built. The minimum number of homes the Scottish Government estimated to be required to meet need and demand is even lower, just 11,275 homes a year. The remainder is a flexibility allowance designed to guard against non-delivery of some allocated sites. Scotland has not built that few homes at any point in the post-war period. Even in 2012, when the GFC was hardest felt, Scotland delivered 15,053 homes.

HFS believes NPF4 should give unequivocal support for a continued increase in housing delivery across Scotland. As well as being essential in its own right, this is also a vital catalyst for wider policy ambitions. Ambiguous planning puts too much at risk.

That is why the HFS manifesto for this year's Scottish Parliament election seeks cross-party support for the delivery of at least 25,000 new homes a year. This is a modest increase of 10.6% on 2019 delivery levels. It is in line with previous recommendations from a range of expertsⁱ and, with Scottish Government aspirations to increase housing delivery.

Figure 2:

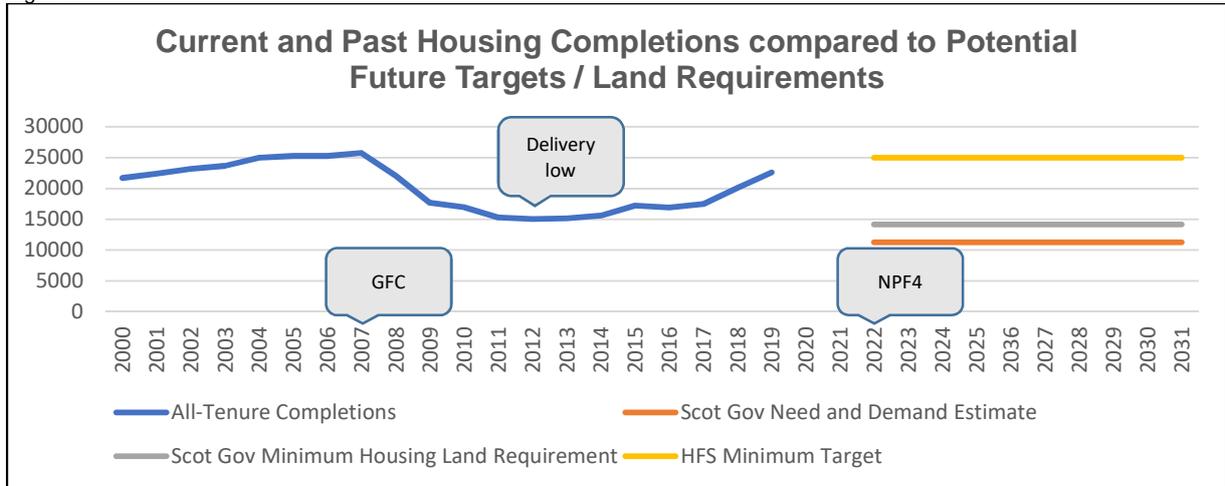


Figure 2 shows how we only require a 10.6% increase to reach this figure, and how regressive a downturn in ambition the Scottish Government's initial figures represent by comparison.

PLANNING REFORM OBJECTIVES ON HOUSING, PLANS, AND INFRASTRUCTURE

Since the current programme of planning reform was first announced in 2015, increasing the delivery of new homes has been a cross-cutting objective. Strengthening the plan-led system has been a constant aim. Recent confirmations of this from the Minister for Housing include, in his Ministerial Forward to the NPF4 Position Statement, "...we still have more to do to deliver the homes that people need".ⁱⁱ Also, in answer to a recent portfolio question, "I want to see more homes across Scotland...".ⁱⁱⁱ

If Local Development Plans (LDPs) identify land with capacity for as few as 14,189 homes, the objective of delivering more homes could only be achieved if at least a further 8,408^{iv} (63% of total supply) were built on unallocated land. This is at odds with the separate planning reform objective of strengthening the plan-led system. It also creates significant complications for infrastructure planning and delivery, and creates uncertainty for communities, something which is contrary to the planning reform objectives.

DEMOGRAPHIC CHALLENGES AND AMBITIONS

Scotland's first population strategy, A Scotland for the Future^v, was published by the Scottish Government on 15 March 2021 and is supported by COSLA. It calls for a nationwide response to demographic challenges that face Scotland at the local and national level. For example, it aims to boost Scotland's population, including by attracting families to Scotland from other parts of the UK. It also identifies a potential link between a lack of adequate housing and reduced birth rates^{vi}.

Building more affordable homes, and shared equity schemes for "*those who really need to buy a home*", is action 2 of 36 actions identified. However, there is no corresponding action to build or support the delivery of more private homes, though in action 23 the Scottish Government does say it will "*continue to drive forward planning reform to improve how we plan our future places and support local government in considering planning as a strategic tool to respond to population change*".

NPF4 would be the obvious delivery vehicle for this action, but HFS does not believe the NPF4 minimum HLRs approach that the Scottish Government has embarked upon can support it. Allowing LDPs to allocate land for 37% fewer homes than are already being delivered, NPF4 is more likely to become a barrier to achieving the Scottish Government's demographic ambitions.

AFFORDABLE HOUSING

NPF4 housing policy and minimum HLRs will need to make sense in the context of Housing to 2040, which sets a target of delivering 100,000 affordable homes over the 10-year period to 2031/32. That equates to 10,000 affordable homes a year^{vii}. 7,000 will be for social rent. It is simply not possible to reconcile the Scottish Government's initial default estimates for the NPF4 minimum HLRs with that target.

Firstly, the Housing to 2040 affordable housing target relates to the number of homes the Scottish Government wants to see delivered, whereas the current proposal is that NPF4 will not set targets for housing delivery, only the capacity of land to be identified. The Scottish Government has assumed, rightly, that fewer homes will be built than are planned for, because experience shows that not all allocated sites go on to be built. That is a sound assumption which justifies adding the Scottish Government's proposed flexibility allowances on top of the number of homes that are actually desired to be built. It does not, however, help ensure the right number of homes of all tenures are being planned for.

The Scottish Government figures that are currently on the table could see land allocated for as few as 14,189 homes across Scotland each year, with an inbuilt assumption that only 11,275 homes may be delivered.

Subtracting 10,000 affordable homes leaves only 1,275 homes a year for private tenures. Even if the Scottish Government's fuller 14,189 figure was used (which would require every site allocated by every authority to be built within 10 years, something the Scottish Government itself recognises is unlikely), the remaining share for market housing is only 4,189 homes a year. The Scottish Government cannot expect so few market homes to be able to support 10,000 affordable homes. This undersupply on homes of all tenures will, conversely, put pressure on local authorities to provide more even more affordable homes than the 10,000 per year already targeted.

At present, there are more questions than answers on how the Scottish Government sees the interrelationship between the delivery of private and affordable homes. If the Scottish Government continues to take a passive role in all-tenure delivery aspirations, then local authorities will be left to grapple with how to play their part in delivering the Housing to 2040 target whilst being led by NPF4 to believe that planning for significantly fewer homes is a reasonable option.

In 2019, 5,909 affordable homes were built in Scotland. That was 26% of the homes built that year. That is higher than previous trends that show, over the last 5, 10 and even 20-year period, approximately 20% of the new homes built in Scotland have been affordable housing.

If the Scottish Government adopts minimum HLRs that allow land to be adopted with capacity for as little as 14,189 homes of all tenures, it can only expect to yield, at most, 3,689 affordable homes from that land. And that is dependent on:

- all the allocated sites delivering homes to their full capacity within ten years; and

- funding, policy, and wider circumstances allowing the 26% affordable housing yield of 2019 to continue.

In wider discussions on NPF4 policy there are many moving parts that could have a significant impact on development cost and viability. It is impossible at this time to assess whether private development can continue to act as a catalyst for affordable housing delivery at its current rate, let alone an increased rate. The Scottish Federation of Housing Associations has calculated^{viii} that the cost of building a new home rose by at least £20,000 during the last parliament, and that is before the cost implications of NPF4 are known.

If policy and wider circumstances were to remain equal, then achieving 10,000 affordable homes would require a corresponding all-tenure housing target of 38,462. However, the direction of policy appears to be making the delivery of new homes, including affordable homes, more expensive. It is therefore likely that, without intervention, the number of new homes being delivered through the planning system could drop substantially under NPF4.

Therefore, moving from the 4,500^{ix} affordable completions of recent years to 10,000 a year is not a simple matter of “strengthening requirements for affordable housing provision in NPF4.”^x

Economy

A Scotland for the Future recognises the link between population growth and economic growth, signposting a Scottish Fiscal Commission forecast that growth in Scottish GDP is likely to be significantly lower than in the UK, primarily because of slower population growth in Scotland.

Scotland’s housing market has been resilient in the face of the Covid-19 pandemic, with sustained demand (see next section). The home building sector has worked hard to serve that demand. Unlike so many other parts of Scotland’s business base, it has been able to stay productive, supporting jobs and contributing towards Scotland’s economy and prospects of recovery. This should be welcomed but the approach to NPF4 minimum HLRs puts the continuation or growth of current delivery, and its associated economic benefits, at risk.

The following table sets out just a few of the economic benefits arising from home building in Scotland. These figures are based on research undertaken for HFS by Lichfields in 2015.

Figure 3:^{xi}

Measure	Per Home ^{xii}	Achieved in 2019 ^{xiii} (22,596 homes built)	Uplift if 25,000 homes built	At risk if 11,125 homes built
Jobs^{xiv}	4	89,472	10,528	45,884
GVA^{xv}	£ 205,000	£4.6 bn	£0.5 bn	£2.4 bn
Local Spend Year 1^{xvi}	£ 5000	£111m	£13 m	£57 m
Council Tax^{xvii}	£990	£22 m	£2.6 m	£11 m
£75^{xviii}	£5,378	£120 m	£14 m	£61 m

Inclusive Growth

In 2007, immediately before the GFC, the Scottish Government was so concerned about continuing house price inflation that it launched the Firm Foundations discussion paper that proposed housing delivery should increase by 40% from 25,000 homes a year to 35,000.

In 2021, house price inflation remains very high, yet the Scottish Government has adopted an approach to its NPF4 minimum HLRs which risks planning for 37% fewer homes than are currently being built. That drop increases to 50% when you factor in the sound assumption that not all of the land allocated for housing will have homes built on it in practice.

The Scottish Government remains concerned about house price inflation, but it has not developed a new policy or strategy to mitigate against it. Housing to 2040 recognises the fact that many people aspire to own their own home, but it aims to move away from this and bring Scotland “more in line with some of our European neighbours, for instance Germany, Austria and Switzerland, where home ownership has not been the default tenure of choice”. It recognises the need for affordable home ownership and undertakes to “work with the development and construction industries to explore ways in which future sales volumes can be less volatile and the risks associated with housing development reduced so that prices become more affordable to those on moderate incomes.” It does not, however, articulate how this might be achieved in a way that is different to the Firm Foundations approach of building more homes.

Market Demand Evidence

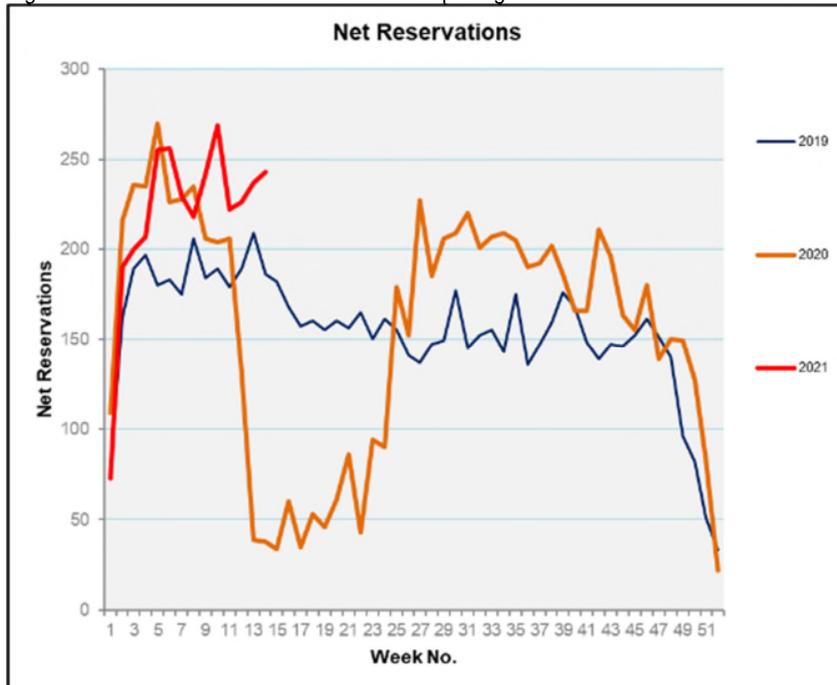
The Scottish Fiscal Commission^{xix} has reported on the higher level of residential LBTT transactions that took place in the second half of 2020-21, referring to Revenue Scotland data showing that, since June 2020, there has been a higher proportion of transactions in the top two bands of LBTT than in previous years. It expects this to offset the effects of the lockdown that saw construction sites closed for a period at the start of the financial year, predicting residential LBTT transactions for 2020-21 being just 9 per cent below 2019-20. As current lockdown rules do not restrict the housing market, it does not expect the pandemic to significantly affect transactions in 2021-22.

HFS real time market data on net reservations supports this expectation. As illustrated in Figure 4 (below), net reservations dropped significantly during the first lockdown in Q2 2020 (weeks 14 – 26). There were only 971 net reservations in that period, 53.6% fewer than in the corresponding quarter of 2019.

However, once construction sites reopened, and with the benefit of the LBTT holiday, net reservations recovered over the next two quarters of 2020: on average 33% higher during Q3 2020 and 20% higher during Q4 2020 than in the corresponding quarters of 2019.

This boost in net reservations has clearly been sustained going into 2021, with net reservations during Q1 up 11.1% on Q1 2020 and up 21.7% on Q1 2019. There are unusually long waiting times (sometimes over a year) between people reserving a new home and being able to move into them, suggesting a significant gap between supply and demand. Home builders can bridge that gap by increasing supply in line with the sustained demand they are seeing firsthand but can only do so with the right policy support in place and if a generous land supply is maintained.

Figure 4: HFS Real Time Market Data 2021 Reporting^{xx}



Summary and Conclusions

The initial default estimates of housing need and demand, and the corresponding HLRs, are much too low and do not make sense when compared to current delivery levels and policy ambitions.

- 1. They do not support the policy objective of delivering more homes.**
- 2. They do not support the policy objectives of strengthening the plan-led system and increasing certainty.**
- 3. They do not support local or national demographic ambitions to increase population.**
- 4. They do not support the delivery of 100,000 affordable homes.**
- 5. They will increase pressure on house price inflation, putting pressure on the public purse by increasing reliance on affordable housing.**
- 6. They put construction jobs at risk and reduce the home building sector's ability to support the local and national economic recovery.**

Local authorities are asked to consider the issues set out in this note, which are of local as well as national significance. We ask that you work with HFS, as well as local stakeholders including home builders working in your area, to identify locally adjusted targets. It is our firm view that only targets which are in line with, or a continued improvement on, current completion levels can meet housing need and demand and deliver on the wider policy ambitions we have identified.

Please support the continuing recovery of housing deliver in Scotland and do not let this ambiguous start to NPF4 target-setting frustrate the future achievement of wider objectives.

References

- ⁱ The 2015 Commission on Housing and Wellbeing suggested an interim target of 23,000 homes a year to 2020. This target would need to be increased to account for that level of delivery not yet having been achieved. More recently, a 2018 report by Professor Glen Bramley, for Crisis and the National Housing Federation, concluded that 26,000 new homes per year were needed in Scotland over the next 15 years.
- ⁱⁱ Kevin Stewart MSP, Minister for Housing, Foreword to NPF4 Position Statement, November 2021
- ⁱⁱⁱ Kevin Stewart MSP, Minister for Housing, in answer to a portfolio question from Graham Simpson MSP
- ^{iv} This is calculated by subtracting the annualised 14,165 initial default estimate from the 22,596 homes delivered in 2019 and adding 1 home.
- ^v A Scotland for the Future: the opportunities and challenges of Scotland's growing population; The Scottish Government; 15 March 2021
- ^{vi} "Depending where families live, they may not have adequate housing to raise a family, or at least the family size they wish to have either due to supply or cost. If individuals do not have certainty about their housing then this can also impact on their decision." P29, A Scotland for the Future
- ^{vii} It is not clear how many of the 10,000 affordable homes a year are expected to be new homes, but a significant proportion of them are likely to be.
- ^{viii} The Cost of Compliance, SFHA, 1 April 2021
- ^{ix} Average annual completion rates for affordable homes have been 4,562 over that past five year (2015-2019), 4,634 over the past ten year (2010 to 2019) and 4,405 over the past twenty years (2000-2019).
- ^x Strengthening requirements for affordable housing provision was mooted as a potential policy change for NPF4 in the Scottish Government's NPF4 Position published in November 2020
- ^{xi} GVA is 2013-based. All other measures are 2014-based. No adjustments have been made for inflation, Council Tax increases, s75 contribution policy increases or other circumstantial changes. HFS is in the process of updating this figures to reflect circumstances in 2021.
- ^{xii} 'Per Home' figures based on 15,563 homes built in 2015 and the benefits our research shows they generated.
- ^{xiii} In 2019 Scotland built 22,596 homes of all tenures
- ^{xiv} Each new home creates and supports 4.07 jobs. This has been rounded to 4 for these calculations.
- ^{xv} Each new home generates £205629 to GVA This has been rounded to £205,000 for these calculations.
- ^{xvi} Occupants spend on average £5,000 more in the local economy in the year they buy a new home
- ^{xvii} Each new home contributes on average £990 a year in Council Tax
- ^{xviii} Each new home generates on average £5378 in Section 75 Developer Contributions
- ^{xix} Scottish Fiscal Commission, Scotland's Economic and Fiscal Forecasts, January 2021. See pages 73 to 75.
- ^{xx} HFS Real Time Market Data Reporting 2021. The Market Data provides a representative data sample from 20 HFS homebuilder members, operating across all market areas and homebuilder sizes.
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