



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
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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).

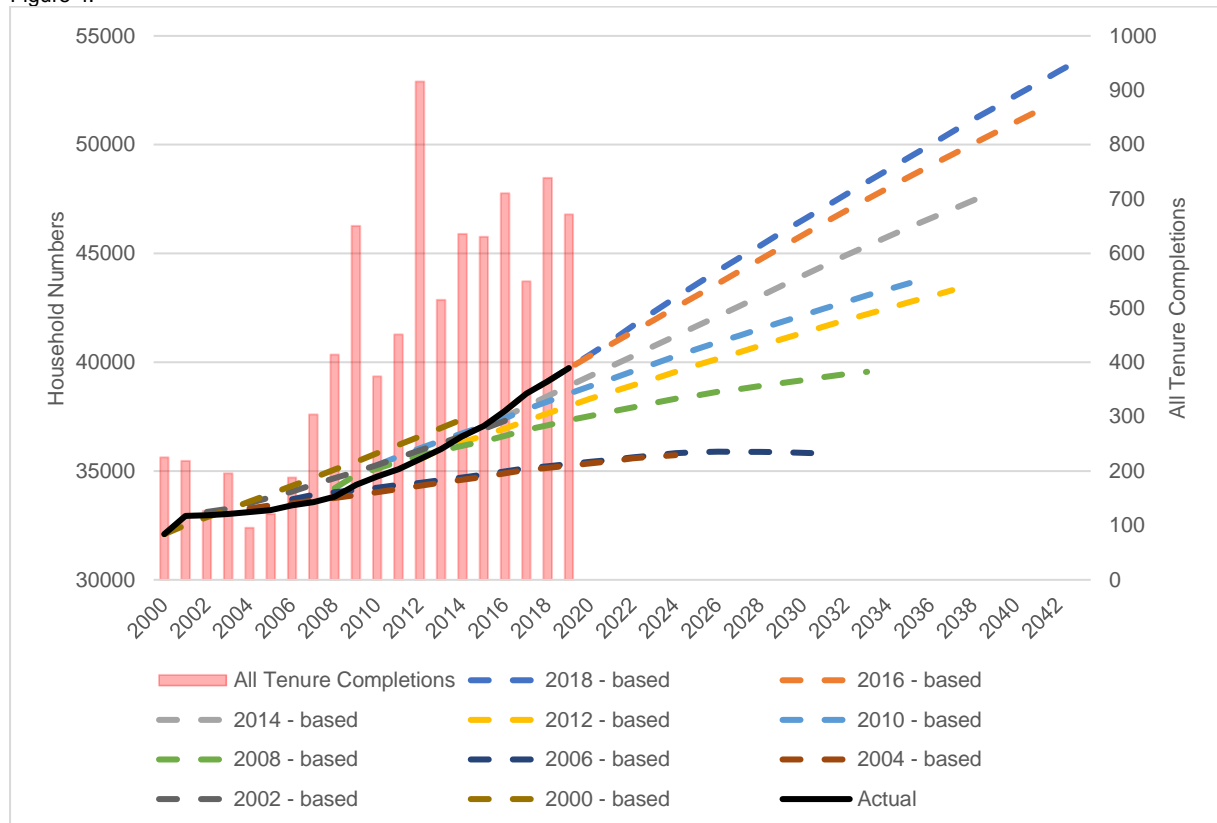
CONCLUSIONS

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
