



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:

1. HFS framework for locally adjusted estimates.
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
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 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 experts¹ and, with Scottish Government aspirations to increase housing delivery.

Figure 2:

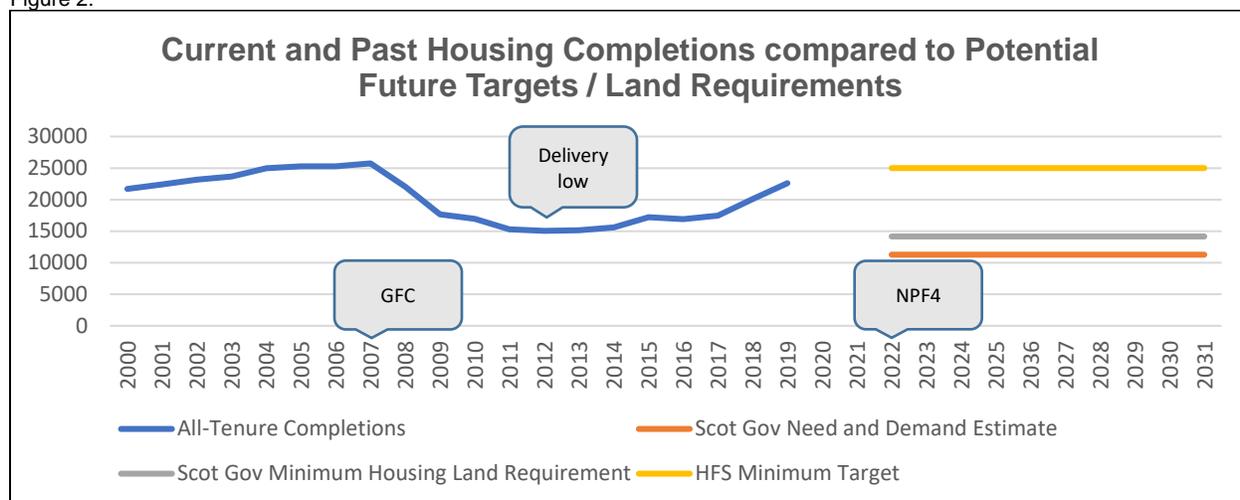


Figure 2 shows how we only require a 10.6% increase to reach this figure, and how regressive a downturn in ambition the Scottish Government’s initial figures represent by comparison.

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
S75 ^{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

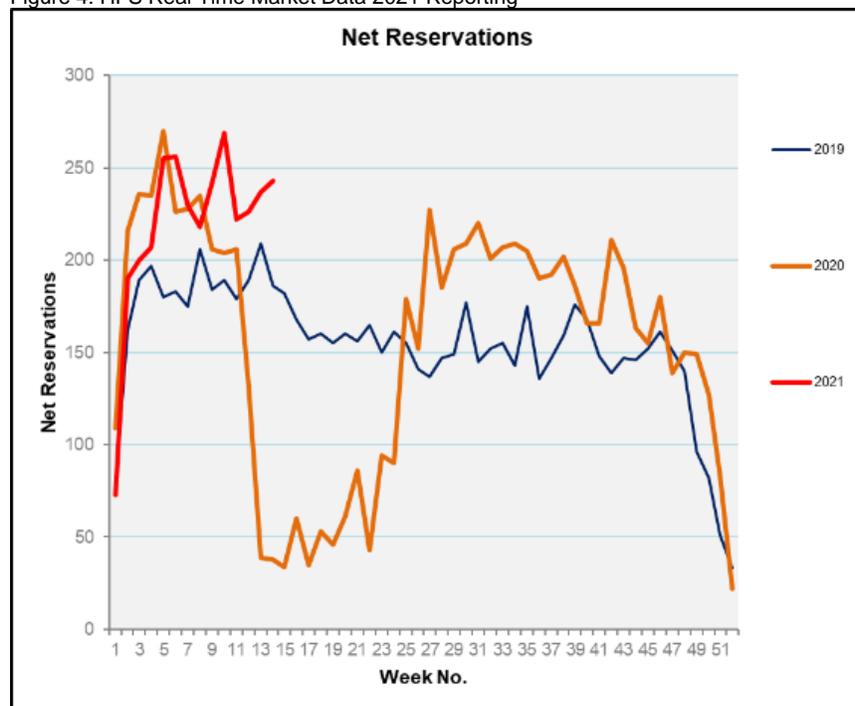
The Scottish Fiscal Commission^{xix} has reported on the higher level of residential LBTT transactions that took place in the second half of 2020-21, referring to Revenue Scotland data showing that, since June 2020, there has been a higher proportion of transactions in the top two bands of LBTT than 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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