



NATIONAL PLANNING FRAMEWORK 4 HOUSING LAND REQUIREMENTS

ABRIDGED VERSION OF APRIL 2021 BRIEFINGS

26 May 2021

CONTEXT

On 23 February, the Scottish Government [published](#) “initial default estimates” of housing need and demand in each local authority in Scotland, and corresponding housing land requirements (HLRs). It has asked local authorities to work with stakeholders to produce “locally adjusted estimates” by 4 June. The final minimum all-tenure HLRs will be included in National Planning Framework 4 (NPF4).

The “initial default estimates” HLRs for each local authority (to be delivered over a 10-year period from the adoption of NPF4 in 2022) add up to just **141,898**. Local Development Plans (LDPs) would collectively need to identify housing land with that capacity.

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

Whether looking at the annualised **14,189 HLR, or at the 11,275** homes a year it 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.

The Scottish Government has asked local authorities to engage with stakeholders to agree “locally adjusted estimates”. HFS has briefed local authorities on how they can use this opportunity to ensure recent achievements in increasing housing delivery are not lost. In reviewing the initial default estimates HFS has considered the following:

Figure 1: Overview of HFS Considerations



OVERCOMING DATA LIMITS: 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 outputs, to reflect limitations raised by HFS in response to the March 2020 Housing Technical Discussion Paper.

Figure 2: Limitations of HNDA Input Data

Component	Limitations	Potential Solution
Existing Need Count	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. <i>or</i> 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

Existing Need Count: The existing household need count included in the Scottish Government initial default estimates of need and demand only cover two very acute forms of need:

- Homeless households in temporary accommodation
- Overcrowded households that include at least 1 concealed family (excluding single people)

Figure 3: Existing Housing Need not included in default HNDA input data

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.

HFS had recommended that authorities use primary surveys of households in their area to gain a fuller understanding of existing need. They have not been actively encouraged or supported in this by the Scottish Government and many appear concerned the Scottish Government will reject any data not already recognised in the default settings of the HNDA. The current consultation exercise has not built in enough time or support for authorities to gather local data.

Newly forming households estimate: The newly forming households estimate is based on the 2018-based National Records of Scotland (NRS) household projections that were published in 2020. This 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.

NRS itself acknowledges the limitations of its projectionsⁱⁱ, 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 Bramleyⁱⁱⁱ 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.

There are three tiers to the NRS projections: high migration, principal projection and low migration. The Scottish Government has only modelled the principal projection and has not applied any policy thinking to whether the high migration option might be a better fit with wider government policy objectives or aspirations for the country. There is no recognition, for example, of A Scotland for The Future (the Scottish Government's new Demographic Strategy) which makes it clear that Scotland as whole needs inward-migration to boost the population, especially young people, and people of working-age.

To recognise and counteract the inherent weaknesses of the projection-reliant estimates, HFS has recommended that local authorities model the high migration scenario and consider whether that represents a better fit with local and national policy and recent development rates.

A preferable and fuller solution would be for the Scottish Government to proactively address the household projection limitations and change the HNDA toolkit to make sure those limitations do not continue to result in under-planning for new homes across Scotland.

COMPLETIONS LEVELS: evidence of what has happened on the ground

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.

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 has asked Local Authorities to consider the opportunity cost of supporting figures which suggest a contraction rather than an ongoing increase in all-tenure housing delivery.

POLICY DISCONNECTS

PLANNING REFORM OBJECTIVES

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 also been a constant aim.

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 (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.

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

It also creates significant complications for infrastructure planning and delivery, and creates uncertainty for communities, something which is contrary to the planning reform objectives. This is contrary to the Scottish Government's Infrastructure Investment Plan which commits to enhancing the "placed-based assessments of long-term housing need and demand across Scotland", concurring with a recommendation of the Infrastructure Commission for Scotland.

DEMOGRAPHIC CHALLENGES AND AMBITIONS

Scotland's first population strategy, A Scotland for the Future, 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. In Action 23 (of 36) the report commits to "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

It is simply not possible to reconcile the Scottish Government's initial default estimates for the NPF4 minimum HLRs, and the approach it is taking to setting them, with the Housing to 2040 target of delivering 100,000 affordable homes over the 10-year period to 2031/32.

The 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. The Scottish Government cannot expect so few market homes to be able to support 10,000 affordable homes.

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.

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 expensive². It is therefore likely that, without intervention, the number of affordable homes being delivered through the planning system could drop substantially under NPF4.

Therefore, moving from the 4,500 affordable completions of recent years to 10,000 a year is not a simple matter of “strengthening requirements for affordable housing provision in NPF4.” (a potential direction of travel mentioned in the NPF4 Position Statement).

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:^{iv}

Measure	Per Home ^v	Achieved in 2019 ^{vi} (22,596 homes built)	Uplift if 25,000 homes built	At risk if 11,125 homes built
Jobs ^{vii}	4	89,472	10,528	45,884
GVA ^{viii}	£ 205,000	£4.6 bn	£0.5 bn	£2.4 bn
Local Spend Year 1 ^{ix}	£ 5000	£111m	£13 m	£57 m
Council Tax ^x	£990	£22 m	£2.6 m	£11 m
S75 ^{xi}	£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.

² The Scottish Federation of Housing Associations (SHFA) has calculated 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.

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.

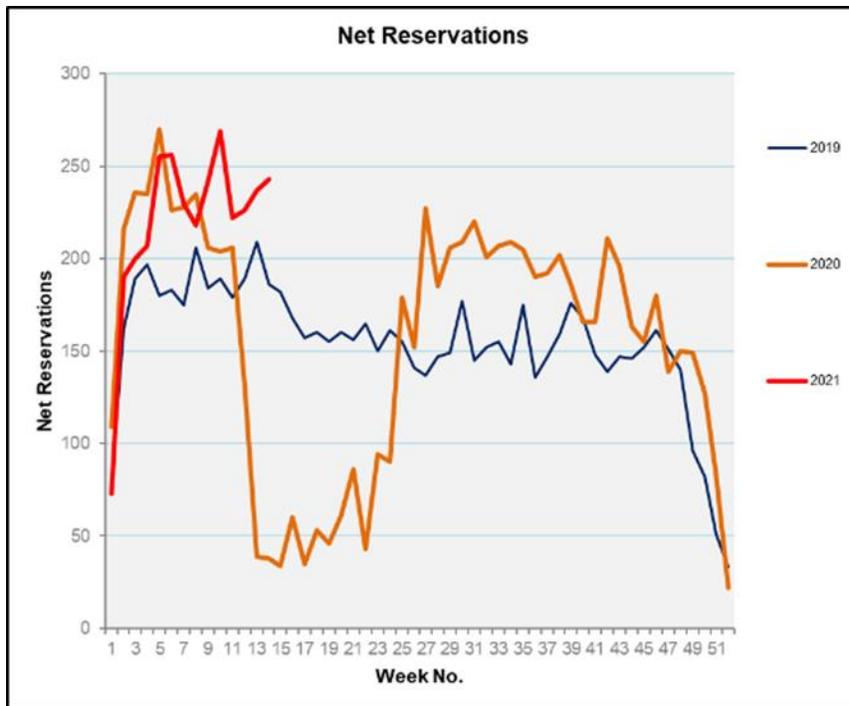
MARKET DEMAND EVIDENCE

The Scottish Fiscal Commission has reported on the higher level of residential Land and Buildings Transaction Tax (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.



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 this as a mitigation measure against the known risk of non-delivery of some sites, but it does not compensate for the wider issues that we have flagged in this paper.

References

- ⁱ Papers available on Transforming Planning website: see National Planning Framework – Resources - Planning
- ⁱⁱ 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](#).
- ⁱⁱⁱ Professor Glen Bramley, November 2018, Housing supply requirements across Great Britain: for low-income households and homeless people; Crisis and National Housing Federation
- ^{iv} 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.
- ^v 'Per Home' figures based on 15,563 homes built in 2015 and the benefits our research shows they generated.
- ^{vi} In 2019 Scotland built 22,596 homes of all tenures
- ^{vii} Each new home creates and supports 4.07 jobs. This has been rounded to 4 for these calculations.
- ^{viii} Each new home generates £205629 to GVA This has been rounded to £205,000 for these calculations.
- ^{ix} Occupants spend on average £5,000 more in the local economy in the year they buy a new home
- ^x Each new home contributes on average £990 a year in Council Tax
- ^{xi} Each new home generates on average £5378 in Section 75 Developer Contributions