

## **Perth and Kinross Council**

### **Housing Supply Targets 2022+**

**March 2023**

#### **1. Introduction**

- 1.1 This report sets out the Council's approach to setting Housing Supply Targets (HSTs) to be incorporated into the Local Housing Strategy (LHS) 2022 - 2027. The Housing Needs and Demand Assessment (HNDA) influences affordable housing policies for the Council to make decisions about future housing investment and plan for enough housing land in the right places to meet housing need. Outputs from the HNDA do not automatically become the HST. This needs to be considered along with a series of other broader factors.
- 1.2 The principal policy and guidance context for setting HSTs is provided by:
  - HNDA Managers Guide, (Section 13), Beyond the HNDA – Housing Supply Targets
  - Local Housing Strategy Guidance (2019)
- 1.3 Local Authority housing and planning departments work together to jointly agree the HST which in turn needs to be agreed by the Housing Market Partnership (HMP). Whilst the Local Housing Land Requirement (LHLR) for the LDP is set by the new National Planning Framework 4 (NPF4) in the form of a Minimum All-Tenure Housing Land Requirement (MATHLR), the HST in the LHS will help inform how this Council-wide MATHLR will be distributed across Perth & Kinross.
- 1.4 This paper was prepared in 2022 to inform the preparation of the draft LHS using the MATHLR contained in the draft NPF4. Since then, NPF4 has been adopted (in February 2023). The MATHLR for Perth & Kinross, however, has not changed and this paper therefore still forms a suitable basis for the finalised LHS.

#### **2. HNDA Results**

- 2.1 The HNDA Tool produces estimates on the number of additional homes required to meet need and demand. It is expected that there is a clear alignment between the HNDA and the HST. The HST will take the HNDA as its starting point but will consider policy and practical considerations to reach a view on the level of housing to be delivered over a defined period.
- 2.2 The HNDA Tool, developed by the Centre for Housing Market Analysis (CHMA) uses a range of economic and demographic assumptions about the likely future performance of the housing market. Evidence from the HNDA was used to analyse what has happened in relation to incomes, house prices and rental prices within Perth and Kinross to anticipate what may happen in the future and decide what scenarios to choose in the HNDA Tool.

- 2.3 Assumptions of house prices, and incomes as an indication of affordability is input to the HNDA Planning Tool, which sets the household projections by tenure.
- 2.4 Through discussion between Planning, Housing and Homes for Scotland it was agreed that the most realistic and preferred scenario for Perth and Kinross in preparing the HST is HNDA Scenario 3. This scenario assumes an element of additional growth over and above that in the high migration projection.

Table 1 – Housing Estimates Years 1 – 20

<b>Scenario 3 - Growth</b>	<b>2021-2025</b>	<b>2026-2030</b>	<b>2031-2035<sup>1</sup></b>	<b>2036-2040</b>
<b>Social Rent</b>	1881	393	256	107
<b>Below Market Rent</b>	639	489	309	133
<b>Private Rented</b>	1129	920	673	314
<b>Owner Occupation</b>	1,092	906	651	313
<b>Total - ALL</b>	<b>4,741</b>	<b>2,708</b>	<b>1,889</b>	<b>867</b>
<b>Total - Average per Annum</b>	<b>948</b>	<b>542</b>	<b>378</b>	<b>173</b>
<b>Cumulative</b>	<b>4,741</b>	<b>7,449</b>	<b>9,338</b>	<b>10,205</b>

- 2.5 As per the HNDA 2021 Key findings of additional new future housing units there are currently 1,328 households in existing housing need over the next 5 years.
- 2.6 Table 1 estimates that for first five-year period of the HNDA there will be a greater need for additional homes with 4,741 homes required (47% of Scenario 3 Projection) within Perth and Kinross with the remaining 5,464 additional homes (53%) required from Years 5 to 20.
- 2.7 Applying Scenario 3 on a revolving 5 Year basis will result in the following:
- Year 1 – 5 (4741 additional homes) equates to annual completions of approximately 948 as follows:
    - 40% of additional homes as social rent (1881) = 376 per year
    - 14% Below Market (MMR/LCHO) (639) = 128 per year
    - 24% Private Rent (1129) = 226 per year
    - 23% Owner Occupation (1092) = 218 per year
  - Year 5 – 10 (2708 additional homes) equates to annual completions of approximately 542 as follows:
    - 15% of additional homes as social rent (393) = 79 per year
    - 18% Below Market (MMR/LCHO) (489) = 98 per year
    - 34% Private Rent (920) = 184 per year
    - 33% Owner Occupation (906) = 181 per year

<sup>1 1</sup> The housing estimates in table 1 were taken from an earlier version of the HNDA and the figures for this 5-year period were thereafter revised slightly. This, however, has very little impact on the HSTs as they were subsequently calculated for the LHS and so the decision was taken not to amend these figures for the purposes of this background report.

- Year 10 – 15 (1889 additional homes) equates to annual completions of approximately 378 as follows:
  - 14% of additional homes as social rent (256) = 51 per year
  - 16% Below Market (MMR/LCHO) (309) = 62 per year
  - 36% Private Rent (673) = 135 per year
  - 34% Owner Occupation (651) = 130 per year
- Year 15 - 20 (867 additional homes) equates to annual completions of approximately 173 as follows:
  - 12% of additional homes as social rent (107) = 21 per year
  - 15% Below Market (MMR/LCHO) (133) = 27 per year
  - 36% Private Rent (314) = 63 per year
  - 36% Owner Occupation (313) = 63 per year

### **3. SETTING A HOUSING SUPPLY TARGET**

- 3.1 The HNDA Managers Guide and the LHS Guidance (2019) identify the following factors that may have an impact on the pace and scale of housing delivery has been looked at:
- economic factors which may impact on demand and supply in particular parts of the area
  - capacity within the construction sector
  - the potential inter-dependency between delivery of market and affordable housing at the local level
  - availability of resources
  - likely pace and scale of delivery based on completion rates
  - recent development levels
  - planned demolitions
  - planned new and replacement housing brought back into effective use.
- 3.2 The first stage of setting HSTs was a meeting between Housing, Planning and Homes for Scotland (HfS). This explored the above issues and the views of HfS are set out below.

### **ECONOMIC FACTORS**

- 3.3 The HNDA considered recent trends and factors that will impact on the future economy and housing market. Within the HNDA Tool factors such as income growth and distribution, house prices and affordability of different tenures have been taken into consideration as have the possible scenarios for these in future years.
- 3.4 The Group discussed the post pandemic trend of people moving out of cities and into more rural parts of the UK and felt that this could have an impact on demand through higher migration to the Perth and Kinross area, with a higher demand for

bigger and family homes.

*“People are not only considering lifestyle changes post pandemic but also affordability with there being less of a need to live close to work. So, a more rural life with the option of more affordable, larger family properties is a reality for many.”*

- 3.5 There was recognition that Perth and Kinross had opted for a growth factor that would make some allowance for this despite it being...

*“Still too early to evidence the Covid-19 impact.”*

- 3.6 The HNDA Scenario 3 recognises that although the economy is recovering it is still fragile and this is borne in mind when considering future house prices, rents, and incomes.

- 3.7 The Group were also mindful of the impacts on construction in terms of inflation, labour shortages and supply chain issues with materials. All these factors, in combination with increasing burdens from building regulations and standards, were having an impact on the cost of construction and pushing prices up.

*“The economics of construction as well as new requirements to meet regulations and standards could constrain supply at a time when there is more demand.”*

- 3.8 As these have already been taken into consideration, this should not have a negative or positive impact on demand and supply.

- 3.9 HfS advised that the time period Local Authorities have to plan is long and will go through a number of economic cycles. It is therefore important to reflect these potential changes in the allocation of the housing land supply. If the economy picks up, developers want to be able to meet demand.

### **Capacity within the Construction Sector**

- 3.10 As stated in the Perth and Kinross response to the draft NPF4 MATHLR, completions recorded through the annual housing land audit show that house building on all sites exceeded 900 new homes in the mid-1990s and again in 2003, 2004 and 2008.

- 3.11 The financial crisis in the late-2000s obviously impacted significantly on completions post 2008 reaching a low level of around 340 new homes in 2014 but total completions since then they have been rising steadily and had very nearly reached 900 new homes again in 2020.

- 3.12 Despite the restrictions of the Covid pandemic, which resulted in supply shortages in building materials as well as no site activity during periods of lockdown, the results from the 2021 Housing Land Audit Survey showed a healthy number of completions

for the 2020/21 period on sites of 5 homes or more with 607 new homes completed compared with 771 during 2019/20 and 657 during 2018/19. Whilst the figures recorded during the 2022 survey showed that completions had taken a dip to 490, the under-construction totals seen during the survey are similar to previous years (465 for 2022 and 434 for 2021), so the activity level remains constant and there are several large capacity sites either under construction or with full consent or a current planning application awaiting a decision.

- 3.13 Based on the house building activity seen during the 2022 survey, future completions are likely to increase in line with those programmed in the 2022 Housing Land Audit, at a rate of approximately 800 per year in the medium term.

### **Affordable Housing Completions**

- 3.14 Over the period of the previous Local Housing Strategy (2016–2021) the number of affordable homes completed has continued to increase and surpass the 150 Affordable Home Target as set out in the LHS. This is due to the successful partnership working arrangement between PKC and its RSL Partners.
- 3.15 In total (as seen in Table 2) the Local Housing Strategy reported that there were 1271 affordable home completions between April 2016 and 31 March 2022, averaging 212 annual affordable home completions.

Table 2: Affordable Housing Completions 01 April 2016 – 31 March 2022

<b>Financial Year</b>	<b>PKC</b>	<b>RSL Partners</b>	<b>Affordable Homes completed*</b>
2016/17	45	41	86
2017/18	66	168	234
2018/19	93	106	199
2019/20	69	251	320
2020/21	40	84	124
2021/22	179	129	308
<b>Total</b>	<b>492</b>	<b>779</b>	<b>1271</b>

\*When a home in a project has been certified as complete by the architect/supervising officer and approved by the local authority for occupation.

- 3.16 As the number of affordable homes delivered are continuing to increase the majority of affordable homes delivered through funding in partnership with the Scottish Governments Affordable Housing Supply Programme (AHSP) has enabled 1166 (92%) of the completions in the period to be of Social Rent tenure with 105 (8%) being through Intermediate Rent and Low-Cost Home Ownership options.

## **4. RESPONSE TO DRAFT NPF4**

- 4.1 The PKC area is well placed to generate additional growth and jobs. The Council's Corporate Plan 2022/23 – 2027-28 includes as a priority: developing a resilient,

stronger, and greener local economy. The PKC LDP2 also has a key objective to support local businesses to ensure economic growth in the region, and the Economic Wellbeing Plan 2020-2028 sets out a strategy and actions for economic recovery and sustainable growth.

- 4.2 45% of the total registered enterprises in 2020 were in Growth sectors – an overall increase of 12.5% over the period 2008-2020 with £1,147m of turnover and £511.3m Gross Added Value generated in 2018, an increase of 70% and 51% respectively over the period since 2008. The Tay Cities Deal (signed in December 2020) will also invest more than £150m over 15 years in Perth & Kinross with key projects bringing additional benefits. For example, the Cross Tay Link Road project will generate significant benefits up to 2035:

- 9,200 housing units
- 117.4 ha of employment land
- £966 million of private sector investment – £792 million in housing (82% of total) and £174 million in employment floorspace (18%)
- 5,359 net additional FTE jobs (per annum, once fully developed and occupied)
- 9,156 net additional person years of construction employment

- 4.3 These elements will contribute to at least a modest real growth scenario, possibly even strong growth, and a greater equality of income distribution with more people accessing job opportunities in sectors with higher paid jobs.

## **5. Summary of Housing Market Partnership and additional stakeholders' views**

- 5.1 From the feedback sessions during the preparation of the HNDA, there was unanimous agreement on the 8,500 Minimum All Tenure Housing Land requirement (MATHLR) in the then draft NPF 4. The following feedback was recorded from the sessions:

- The existing need figure provided by the Scottish Government in their initial default estimate MATHLR calculations is way below all partners assessment of backlog need
- The methodology to arrive at the revised existing need in the HNDA (and then to feed into the revised MATHLR calculation) is robust and more credible than the initial default estimate MATHLR Scottish Government figure given the data sources used including primary research
- The 2021-26 SHIP projects 1,270 affordable housing completions which is half the initial default estimate MATHLR but covers only five years
- Assuming 3% of the Scottish Government 100,000 affordable home target based on P&K share of national population, the target for P&K will be 2,763. This is already higher than the initial default estimate MATHLR and excludes private tenure development
- PKC's housing supply target is currently 900 per annum so much closer to the revised MATHLR being preferred
- The Tay Cities deal will see key projects bringing additional benefits such as employment and housing land to the P&K area, with 9,200 housing units projected to 2035

- While there was one view that the 30% allowance (which is the default flexibility allowance for rural areas as defined within MATHLR calculations) could be too generous as the estimates are refined and increased, the opposing views were this allowance is reasonable to reflect issues with site/legal constraints and 30% is not too far from what has been experienced locally. In addition, the P&K area has many small rural sites (10-15% of total), and these could merit a higher allowance than 30% so overall the 30% is reasonable
- PKC is supportive of growth and believes the revised MATHLR of 8,500 is achievable given current demand, reasonable population growth and historic completions.
- The 8,500 is deliverable based on PKC's ambitions for growth and the housing land audit from 2020
- The P&K area is a highly desirable area attracting inward migration from the rest of Scotland and the UK but also larger proportions from overseas than is experienced elsewhere in the country
- The higher estimate is in line with current deliverables so is favoured and achievable
- There has been a recent trend of households moving from cities to rural locations and the expectation is that the P&K areas will continue to be a draw given the desirability of the area and particularly following the Covid-19 pandemic where more households looking to commute less and locate to rural areas with the ability for more homeworking

***“The Perth and Kinross area is a highly desirable area to stay, attracting inward migration from Scotland, the UK and overseas. We expect the area to continue to be a draw and especially so post pandemic”***

- The Housing Market Area assessment of housing need will be a crucial next step to assessing the deliverability of the 8,500 MATHLR 10-year estimate. This will also be the time to assess any local restrictions that need to be overcome such as school placements, medical centre provision and infrastructure such as alternatives to gas supply. There was strong opinion that public services and infrastructure needs to be tailored to housing demand for the area as opposed to being used to restrict demand which in turn drives up house prices and impacts on affordability for local people.

***“We need to work out where people want to live and then ensure public services meet the demand rather than tailoring housing need to the restricted amenities which in turn pushes prices up and impacts on affordability”***

- Section 75 contributions will be a continuing assistance with the provision of the public services such as schools. However, the use of the Developer Contributions policy does not fully protect the Council or other infrastructure and service providers from costs of serving housing growth.
- There is some evidence that P&K could support a higher MATHLR figure still, given most recent completions, demand, desirability, growth projections and impact from the Tay Cities Deal. However, the point was stressed that this is a starting point and minimum for the LDP and there is a need for ongoing monitoring of the housing market and a suggestion for a mid-term review of the LDP to check progress and ongoing assessment of reasonableness

- In addition, while the Council is supportive of growth, they are also mindful of a sizeable voice against growth

***“The council is supportive of growth but are also mindful of the sizeable local voice against growth – so this needs careful balancing”***

- The HFS completions data from 2019 could merit a higher still MATHLR figure however the Council’s view on this is that they could not reconcile to the HfS figure and that the 2019 completions were a record high and unlikely to be sustainable over the 10/15 years. Using the average of the three most recent years completions, the total is circa 700 so the 8,500 provides a generosity allowance.

## **6. Potential inter-dependency between delivery of market and affordable housing at local level**

6.1 Perth and Kinross Council originally approved an affordable housing policy in 2005. The LDP and Supplementary Guidance adopted in 2019 represents the Council’s most up to date approach to the provision of affordable housing through the planning system and is an important material consideration in the determination of planning applications.

6.2 Affordable Housing Supplementary Guidance states:

*For housing developments of 5 or more units, the Council will require a diversity of house types and tenures in order to create integrated communities. In particular there will be a requirement across the Council area for new housing sites to provide 25% of the total number of units as affordable housing.*

6.3 The Council apply a sequential approach to the delivery of affordable housing

- On site provision
- Off-site provision
- Commuted sum payment

6.4 Developers are expected to work in partnership with the Council, National Housing Trust and/or Registered Social Landlords in the delivery of this policy. Provision through the policy as applied to recent and new sites, together with the on-going new build programmes of the Council and RSLs on smaller sites should make a significant contribution to improving access to affordable housing in the area.

## **7. Land Supply**

7.1 The new NPF4 expects Local Authorities, through their LDPs, to identify a Local Housing Land Requirement (LHLR) for the area they cover. The LDP delivery programme is expected to establish a deliverable housing land pipeline for the



LHLR to provide a transparent view of the phasing of housing allocations so that interventions to enable delivery can be planned.

- 7.2 This is a new approach compared with the previous requirement for a 5-year effective land supply. The 2022 Housing Land Audit estimates that the supply of land for housing in Perth and Kinross would enable 4,002 houses (all tenures) to be built over the first 5-year period. For the vast majority of this land supply, it is anticipated that 25% of this supply will be available for affordable housing through the implementation of our Affordable Housing Policy.
- 7.3 If development of all of this land were to be realised – there would be land to facilitate the development of 1,000 affordable houses over 5 years which equates to 200 affordable houses per year.
- 7.4 This indicates that there may be difficulty in securing sufficient land to meet the estimated need for the Scenario 3 projection (1881 Social rent and 639 Below Market over Years 1-5 year) averaging 504 Affordable Homes per year.

## 8. Available Resources

- 8.1 Available resources will have a significant impact on the delivery of social sector housing as it is based on the Resource Planning Assumptions (RPA) and Affordable Housing Supply Programmes. RPA for Affordable Housing Grant over the next 5-year period totals at £83.708m.

**Table 3 - Resource Planning Assumptions**

Financial Year	RPA estimate
2022/23	£16.634m
2023/24	£16.587m
2024/25	£16.645m
2025/26	£16.921m
2026/27	£16.921m
<b>Total</b>	<b>£83.708m</b>

- 8.2 The SHIP submitted to the Scottish Government in October 2021 included projects totalling over £88m. Table 4 below highlights the number of affordable homes expected to be delivered annually in the SHIP. This table includes buy backs as well as new build properties.

**Table 4: Affordable Housing Projects SHIP (submitted 2021)**

Financial Year	No of Units	Scottish Government Funding
2022/23	230	£18.657m
2023/24	343	£20.012m

2024/25	238	£19.997m
2025/26	385	£17.286m
2026/27	212	£12.150m
<b>TOTAL</b>	<b>1408</b>	<b>£88.102m</b>

**9. Likely pace and scale of delivery based on completion rates and recent development builds**

- 9.1 This factor is similar to “capacity within the construction sector” as they are largely about past and anticipated completion rates. These taken together may be influential in providing a view of likely future delivery at least in the short term.

**10 Planned Demolitions**

- 10.1 There are currently no plans by the Local Authority or any RSLs in the area to demolish any stock during the lifetime of this LHS.

**11. Planned new and replacement housing brought back into effective use buying back ex-local authority properties**

- 11.1 The Council has made a commitment over the next 5 years to buy back 30 ex-council properties per annum. So far in the last 5 years the Council has bought back 155 properties.
- 11.2 There is potential to continue over the next 5 years and beyond to continue with the 30 buy backs per year therefore estimating over a 20-year period 600 additional buybacks into existing stock through this scheme.
- 11.3 There are signs that the market is improving with more properties going to a closing date. If more properties move to a closing date it will be very difficult for the Council to compete as there are checks that need to be undertaken by the Council which means the process is lengthier which limits how quickly the Council can offer on a property.

**Bringing empty homes back into use**

- 11.4 The Empty Homes Plan, sets out clear objectives and an action plan to reduce the number of private sector empty homes, thus increasing the number of properties available and tackling the blight associated with these properties.
- 11.5 The project has been very successful in bringing empty properties back into use with 795 properties brought back over the period of the LHS 2016 - 2021.

Table 5 – Empty Homes

Financial Year	Empty Homes brought back into use
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2016/17	138
2017/18	146
2018/19	145
2019/20	139
2020/21	93
2021/22	134
<b>TOTAL</b>	<b>795</b>

- 11.6 The Empty Homes project is one example of how housing brought back into effective use increases the overall housing supply. It is anticipated that through an annual target, 675 homes could potentially be brought back into use through the lifetime of the LHS 2022 - 2027 at 135 per annum.

## **12. Infrastructure Constraints**

- 12.1 Infrastructure costs such as transport and education contributions can have an additional impact on housing development. The school estate has identified capacity issues within various areas of Perth and Kinross. We continue to work in conjunction with colleagues in Education to take this into account. Flooding is recognised as constraining some areas.

## **13. Proposed Housing Supply Target**

- 13.1 The Housing Need and Demand Assessment 2022 informs the Perth and Kinross LDP as well as the Local Housing Strategy. The HNDA projects housing need and demand for a period of 20 years (2022 - 2042).
- 13.2 In setting a housing supply target, local authorities must take account of economic and market factors. Influences and challenges include the build out rate of developers, previous levels of affordable housing delivery and the availability of resources.
- 13.3 Based on the assessment and the factors as mentioned in this report, the housing supply target for affordable housing for Perth and Kinross has been revised to incorporate the following:
- Affordable Housing (focused on a 20-year Affordable Housing Supply Target) will result in 210 Affordable Homes per year (an increase of 40% on the 2016 - 2021 LHS Target of 150 per annum).
    - 131 Social Rent properties per year
    - 79 Below Market (Intermediate Rent / Low-Cost Home Ownership Options)
  - This has been worked out by using the averages of the Y1-5, Y5-10, Y10-15, and Y15-20 as highlighted in Section 2.7. The averages of:

- Social Rent 524 over the 4 periods amount to 131 per year
- Below Market 315 over the 4 periods amount to 79 per year

## 14. CONCLUSION

- 14.1 As in the detail of this report, considering Scenario 3 projections, it is not achievable for Perth and Kinross Council or its RSL Partners to deliver on 377 Social Rent and 128 Below Market new build affordable housing per year within the first 5-year period. To reflect the availability of Scottish Government funding, and the land supply it is proposed to deliver the Affordable Housing Component over a 20-year period in line with the HNDA Scenario 3 projections. The Council recommend an ambitious 210 annual target (131 for Social Rent (62%) and 79 for Below Market (38%)).
- 14.2 Looking at the MATHLR 10-year estimate of 8500 homes would result (based on a 25% Affordable Housing Requirement) in 2125 homes over the 10 years, resulting in 213 Affordable Housing provision annually (which is in line with the proposed 210 projection as highlighted within Scenario 3).
- 14.3 PKC will continue to provide additional affordable housing in various ways to supplement the supply of housing with a view to meeting the identified need as far as possible. We will continue to explore other methods including Buybacks, bringing empty homes back into use, exploring funding models with developers around discounted sale, and initiatives with the Scottish Government such as the Rural Housing Fund to help address particular difficulties in developing affordable housing in rural areas.
- 14.4 The overall HST for Perth and Kinross Council over the 2022/23 – 2026/27 period should be set as highlighted in Table 6 Below:

Table 6: Housing Supply Targets Compared to HNDA Estimates

	<b>HNDA Estimated Housing required (per annum) over 20 Years</b>	<b>Targets to be adopted (Per annum)</b>
Social Rent – (this includes Council, RSL, Buy-backs, Conversions and Empty Homes)	131	131
Below Market (Intermediate Rent and Low-Cost Home Ownership – Shared Equity and Mid-Market Rent)	79	79
<b>Affordable Housing New Supply Per Year</b>	<b>210</b>	<b>210</b>

	<b>HNDA Estimate Years 1-5</b>	<b>Targets to be adopted (Per annum)</b>
Market (Owner Occupied)	1092	218
Private Rented Sector	1129	226
<b>Total Market Housing Supply Per Year</b>		<b>444</b>

14.5 The target of 210 Affordable homes per year and 444 Market homes per year (in total 654) are ambitious and challenging targets in the context of:

- recent completion rates
- balancing the new build programme with work required to bring social housing up to the standard required through Housing 2040, the draft Heat in Buildings Strategy, the draft New Build Heat Strategy, EESSH2 and PAS 2035
- construction capacity
- available resources

Despite the challenges above, this target represents a 40% increase on previous affordable housing targets as set out in the LHS 2016-2021 and meets the Council's key priorities in providing more homes, in the right place and at the right cost.