

East Lothian's Housing Supply Target

1. Purpose

LHS Guidance (2019) requires a summary on the level and type of housing to be delivered over the period of the LHS. Crucial to this is the setting of the Housing Supply Target. To inform the LHS, this paper sets out the background, process and justification for the Housing Supply Target. This HST will be used in subsequent Local Housing Strategies (LHS) and Local Development Plans (LDP).

The HST, however, cannot be calculated in isolation and must take account of the planning process, most notably the Housing Land Requirement (HLR) and the Minimum All Tenure Housing Land Requirement (MATHLR). The figure below represents the relationship between the key stages of the housing and planning framework. Setting out that the 'clear understanding of housing need and demand' expressed within the HNDA form the basis of the Housing Supply Target (expressed in the LHS and SHIP), which then drives the Housing Land Requirement, expressed in the Local Development Plan.



2. Definitions

For the purposes of this paper, the following definitions will be used:

Housing Supply Target - *The HST sets out a realistic amount and type of housing that will actually be delivered on the ground over the period of the plan(s). This can be higher or lower than the HNDA housing estimate. The HST should cover all tenures and set out the expected broad split between market and affordable housing. Factors such as housing policies, available finances and capacity of the construction sector are used to translate the HNDA estimates into the HST.*

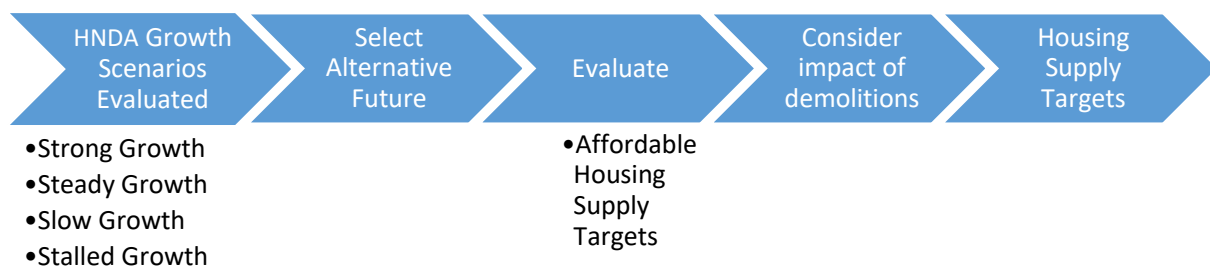
MATHLR – *There is a statutory requirement for the NPF to contain targets for the use of land in different areas of Scotland for housing. To meet this, the NPF includes a Minimum All-Tenure Housing Land Requirement (MATHLR) for each planning authority in Scotland. The MATHLR is the minimum amount of land, by reference to the number of housing units that is to be provided by each planning authority in Scotland for a 10 year period. The MATHLR is expected to be exceeded in the local development plans LHLR.*

Local Housing Land Requirement – *the amount of land required for housing, as identified by the local development plan. The Local Housing Land Requirement (LHLR) is expected to exceed the 10 year MATHLR set out in the National Planning Framework.*

3. Methodology

To calculate the HST, it is essential to take the HNDA as its starting point, while also taking account of policy and practical considerations to reach a view on the level of housing that can actually be delivered. In setting and agreeing the HST, full consideration must be given to factors which may have a material impact on the pace and scale of housing delivery.

The Housing Supply Target 2023-2028 will be based on the methodology agreed post HNDA2 by SESPlan, which was signed off as robust and credible by the Scottish Government. The methodology represents the most compatible process with the HST requirements set out in the HNDA Managers Guide and Local Housing Strategy Guidance. Figure x and the summary below sets out the methodology. It should be noted that Steps 2 and 3 are undertaken together. Neither the market nor affordable Housing Supply Target can be set independently of each other.



1. **Review HNDA Growth Scenario’s to inform Housing Supply Targets.** Review the economic and demographic assumptions behind HNDA3 scenarios, current economic trends and the any new available data.
2. **Set affordable Housing Supply Targets.** Affordable Housing Supply Targets will be set at a rate that is considered realistic and deliverable. Affordable housing delivery is strongly linked to the availability of funding, which comes from a range of sources. The HST will therefore be based on an analysis of available resources to deliver affordable housing. Planning and spatial strategies are also relevant.
3. **Consider Local Housing Land Requirements** – Market Housing Supply Targets are no longer a requirement of Local Development Plans. The National Planning Framework 4, introduced Local Housing Land Requirements which take the place of Market Housing Supply. The East Lothian LDP timeline does not align completely with that of the LHS, and the HLR will be decided later in 2023.
4. **Impact of Demolitions.** As the Housing Supply Targets are net figures, affordable Housing Supply Targets will be lowered by the respective level of planned demolitions.

4. Review Alternate Futures

4.1 HNDA3 Results

The third Housing Need and Demand Assessment (HNDA3) for the South East Scotland area achieved robust and credible status from the Scottish Government’s Centre for Housing Market Analysis (CHMA) on Thursday 28th July 2022. HNDA3 provides the evidence base for policy decisions in LHSs and land allocation decisions in LDPs for local authorities in South East Scotland (City of Edinburgh Council, East Lothian Council, Midlothian Council, West Lothian Council, Fife Council and Scottish Borders Council).

HNDA3 uses a similar methodology to the approach taken in HNDA2, which used the HNDA tool produced by the Scottish Government to model potential alternative futures for the SESPlan area, underpinned by scenarios/variables set out in the HNDA tool. Six alternative futures were modelled using 2020 mid-year household projections:

- Scenario 1. HNDA Tool Default
- Scenario 2. HNDA Tool Default with LA Existing Need
- Scenario 3. Strong Growth
- Scenario 4. Steady Growth
- Scenario 5. Slow Growth
- Scenario 6. Stalled Growth

All six scenarios are set out in Table 1.

	HNDA Default	Default with LA Existing Need	Strong Growth	Steady Growth	Slow Growth	Stalled Growth
Social rent	170	188	229	220	193	229
Below market	95	95	101	96	86	97
Private rent	55	55	21	11	36	3
Owner occupied	138	138	156	149	126	146
Total p.a.	457	475	506	476	440	475
Affordable p.a.	264	283	330	316	278	326
Market p.a.	193	193	176	160	162	149

Source: HNDA3, 2022

Of the scenarios presented, the Edinburgh City Region Deal (made up of executive directors from SESPlan area local authorities) selected Steady Growth as the most likely scenario. The HNDA3 figures set out in Table 2, show a need for 4,574 new additional units across the SES area per annum, with a split of 62% affordable and 38% market housing.

	2021 - 2025	2026 - 2030	2031 - 2035	2036 - 2040	20 Yr Total	20 Yr p.a.
Social rent	2,880	2,248	1,461	1,357	39,732	1,987
Below market	1,023	830	806	712	16,855	843
Private rent	746	436	326	209	8,586	429
Owner-occupied	1,500	1,245	1,302	1,215	26,308	1,315
Total p.a.	6,149	4,759	3,895	3,493	91,481	4,574
Affordable p.a.	3,903	3,078	2,266	2,069	56,587	2,829
Market p.a.	2,245	1,681	1,629	1,424	34,894	1,745

Source: HNDA3, 2022

Table 3 breaks down the overall requirement to local authority level. The table sets out that that 476 new additional units of housing per annum are needed in East Lothian over a 20-year period, 66% affordable housing and 34% market housing. This is only marginally different from HNDA2 which sets out an estimate requirement of 553 new units per annum of which 476 (67%) should be affordable and 160 (33%) market housing.

Table 3: SESPlan HNDA3 Estimates Steady Growth 20 Year per annum 2021-2040						
	City of Edinburgh	East Lothian	Fife (West & Central)	Midlothian	Scottish Borders	West Lothian
Social rent	1,106	220	142	287	36	203
Below market	436	96	55	135	16	107
Private rent	127	11	55	54	51	139
Owner occupied	544	149	120	206	51	263
Total p.a.	2,213	476	373	682	154	711
Affordable p.a.	1,542	316	197	422	52	310
Market p.a.	671	160	176	260	102	401

Source: HNDA3, 2022

5. Post HNDA3 Policy Themes

The following policy or legislative themes all influence housing supply within Scotland and should be taken into account when calculating a HST.

National Planning Framework 4

Perhaps the most important post HNDA3 policy document is the National Planning Framework 4 (NPF4), which was approved by the Scottish Parliament on 11th January 2023. NPF4 will become a part of the statutory development plan on 13th February 2023. On this date, the provisions of the Planning Act (Scotland) 2019 relating to the NPF will come into force. NPF4 brings in the MATHLR, and the concept of the Housing Land Requirement, as explained at the outset of this report.

NPF4 now allows local authorities to set affordable housing allocations higher than 25%, with 25% now being the minimum. To do this local authorities must set out locations or circumstances where a higher contribution is justified by evidence or need. Work to establish this within East Lothian will form the next stage of the LHS/LDP process after a HST is set.

Cost of Living (Tenant Protection) Act 2022

The Cost of Living (Tenant Protection) Act means that:

- If landlords choose to increase private rents they will be capped at 3%
- The safeguard for private landlords will be amended, allowing them to apply for increases of up to 6% to help cover certain increases in costs in defined and limited circumstances
- Enforcement for evictions will continue to be prevented for all tenants except for a number of specified circumstances
- Increased damages for unlawful evictions of up to 36 months' worth of rent will continue to be applicable
- The rent cap for student accommodation will be suspended, recognising its limited impact on annual rents set on the basis of an academic year.

The measures, if approved, will remain in place until September 30th, the Scottish Government has proposed extending Part One of the act for a final six month period until 31st March 2024.

The requirements will not be extended to social rented sector, after social landlords agreed to keep any rent increase for 2023-24 well below inflation.

Short Term Lets Regulation

The laws around short-term lets changed on 1st October 2022. New hosts are now required to apply for a short term lets licence before accepting bookings or receiving guests. Where a residential flatted property is being used as a short term let, the landlord must apply for planning permission for a change of use. At present ELC does not normally require a material change of use or planning permission for an entire property, but normally does for a residential flat to a short term let flat. NPF4 states that when considering this part 2 of Policy 20 (Tourism) states that:

‘Development proposals for the reuse of existing buildings for short term holiday letting will not be supported where the proposal will result in:

- 1. An unacceptable impact on local amenity or the character of a neighbourhood or area; or*
- 2. The loss of residential accommodation where such a loss is not outweighed by demonstrable local economic benefits’*

This does not just apply to all new short term lets, but landlords are now required to apply in retrospect. Further to the licensing laws, planning authorities can also implement Short Term Let Control Areas in order to manage high concentrations of short term lets.

In East Lothian a decision on whether control areas are required to be implemented will be taken in January 2024, once the information on the number of short term lets is gathered through the licencing process.

6. SES HNDA3 Identified Economic Issues

The impact of Brexit and Covid-19 has been significant on Scotland’s industry with a sharp decline in GDP, particularly in construction, accommodation and food services and arts, culture and recreation, with local impacts being dependent on the profile of industry in each area.

South East Scotland had been experiencing increasing levels of employment and reducing levels of economic inactivity and unemployment, with the City of Edinburgh being the focus for jobs in the region. Brexit and the Covid-19 lockdown resulted in an initial uptake of business support / furlough, which has since reduced and been replaced with increasing levels of unemployment, particularly in the City of Edinburgh and Fife. Young people have been particularly impacted by reducing employment levels and decreasing levels of economic activity.

Income growth in Scotland has been strong in the context of the UK. Regionally, the highest earnings have been in the City of Edinburgh and East Lothian. Wages have grown above inflation in the City of Edinburgh, Fife, Midlothian and West Lothian; while income growth is strongest in East Lothian and the Scottish Borders. Incomes have increased in the lowest five income deciles, while in the upper deciles it has reduced slightly. There is some evidence of the gap narrowing between upper and lower quartile incomes, but not to any significant extent. Four of six local authorities in South East Scotland have a gender pay gap beyond the average for Scotland.

Poverty levels in South East Scotland have increased, with greater prevalence in households with children, pensioners, larger families, single people, people with a disability, people unemployed and living in social rented housing. There has been little change in the geographical distribution of deprivation across South East Scotland with Fife, West Lothian and the City of Edinburgh having the highest proportions by area.

At the time of writing HNDA3 there was significant uncertainty around the future economy of South East Scotland, particularly the role of the City of Edinburgh in leading recovery within industry and employment across the region, providing a greater level of economic equality, whilst also delivering the transition required to address climate change.

7. Post HNDA3 Context

HNDA3 was researched and completed between 2020-2021, with final approval of robust and credible in 2022. As with many papers with a range of assumptions, it is based on the best available evidence at that time. At the time of writing, the majority of the current economic outlook was unknown – specifically the effects of covid, the exit from the European Union, the war in Ukraine and the cost of living crisis. However, it should be noted that the Steady Growth scenario was chosen as it allows the assumption that there would be peaks and troughs in the Scottish economic situation over the next 20 years. Therefore, the current economic challenges do not constitute a reason to deviate from this being the preferred HNDA scenario.

East Lothian Council is highly dependent on the delivery of market housing for the provision of affordable housing. Through section 75 agreements, East Lothian secures contributions from private developers.

7.1 Overall Scottish Economic Performance

The ONS released the official inflation data for December 2022 in January 2023 which showed that CPI inflation had fallen from 10.7% in November to 10.5% in December. The main items driving the fall in inflation being petrol and diesel prices, and the prices for clothing and footwear. Energy prices, however, continue to contribute to the very high inflation. Significant concern still exists for the economy, with EY predicting that 2023 will be the first calendar year of economic decline for the UK since 2009. Despite this, it is predicted that inflation will fall towards the end of 2023 to just under 4%.

7.2 Construction Sector Performance

The capacity of the construction sector to deliver new homes in East Lothian is an important factor in setting a realistic housing supply target for the next 5-20 years. Both Brexit and the Covid-19 pandemic have introduced labour shortages across the construction industry and beyond, with shortages of decorators, electricians and joiners as well as an ageing construction workforce. The absence of a co-ordinated construction training strategy, growing demand for fire safety and net zero technological advances coming at pace are all impacting the sector. Anecdotal evidence also suggests that construction companies are struggling to get workforces who can and are able to afford the increasing costs of travel to sites, particularly affecting sites in rural areas.

In addition to labour shortages, the construction sector also faces increasing costs and material shortages. Construction output price inflation for new public and private housing increased by 10.5% annually in September 2022. One of the main drivers of this being the prices of construction materials used in new build. While England and Wales has seen a knock on effect of large increases in insolvencies of construction companies (the highest in a decade), Scotland has recorded only 48 in Q3, which was in line with the 2016-2019 average.

7.3 Housing Supply

The Scottish Government's *Scottish Housing Market Review Quarter 4 2022*, states that after a sharp fall following the impact of Covid-19, private new build sales have returned to pre-pandemic levels, with the number of transactions over the one year period to August 2022 increasing by 2.0% relative to the one year period to August 2019.

7.4 House Prices

The Covid-19 pandemic instigated an elevated level of house price growth which has continued into Q3 2022 in Scotland. Although signs are that it might be slowing, with average Scottish house price increasing by an annual 8.8%, down from 11.7% in Q2 2022. The strongest annual price growth by property type in Q3 2022 was for detached properties, up by an annual 10.8%, whilst flats increased by the lowest amount, up by 6.2%.

Edinburgh, Lothian's and Borders	
Regional Residential Transactions	
Sales – Q3 2022	5,813
12 Month Change	-8%
Annual Change (rolling 4 quarters)	-13.2%
Regional House Prices	
Average Price – q3 2022	296K
12 month change	8.4%
Annual Change (rolling 4 quarters)	6.6%
Source: RoS	

7.5 Private Rented Sector Changes

Like house prices, rent levels in the private rented sector also increased in November 2022, rising by an annual 4.4%. The Cost of Living (Tenant Protection) Act will prevent private landlords increasing rent above 3%. Although the exact mechanisms to police this are still to be set out by the Scottish Government.

7.6 Lending

Lending to both first time buyers and home movers fell in Q3 2022, with new mortgage advances to first-time buyers decreasing by an annual 15.9% whilst for home movers they decreased by 8.1%. The Bank of England has increased the Base Rate nine times since December 2021, taking the rate to 3.5%. This is estimated to increase the monthly payment by around £300 on an average new variable rate mortgage and by £170 on an average outstanding variable rate mortgage in Scotland.

8. Affordable Housing Supply Targets

8.1 Completion Rates and Capacity in the Construction Sector

Table 4 sets out the number of affordable units delivered per annum between 2018/19 and 2022/23. Including new supply via OMA, an average of 193 new affordable housing units were supplied per annum, above the HST of 189 set out in previous LHS. Completion rates were supported by record Scottish Government subsidy between 2020/21 and 2022/23, where ELC were able to draw down additional sums as opportunities arose.

Table 4: SHIP 2018/19- 2022/23 Delivered					
	Social Rent	MMR	LCHO	OMA	Total
2018/19	88	49	0	-	137
2019/20	101	135	22	21	279
2020/21	116	27	1	13	157
2021/22	94	10	0	28	132
2022/23	191	50	0	20	261
Total	590	271	23	82	966

8.2 Availability of Resources

The current economic climate is causing challenges to the delivery of affordable housing programmes across Scotland, with increasing costs and contractors experiencing difficulties with supply and labour shortages. Reduction in rent yield and increasing interest rates will very much impact on the financial capacity of the Council and Housing Association partners to continue to deliver ambitious programmes. The following risks to the local housing market were highlighted as high in the SHIP 2023/24-2027/28:

- Delivery of units, especially through AHSP, dependent on prevailing market conditions and decisions of private developers and lenders in terms of their investment appetite.
- Potential negative impact of Scottish Government’s Cost of Living (Tenant Protection) Bill, reducing private sector investment in new affordable housing.
- Economic impacts of potential UK Government / HM Treasury and Bank of England policy changes.
- Scottish Government plans to revise benchmarking, but not increase subsidy levels.
- The Affordable Housing Supply Programme has experienced a 4.6% cut.

Council Housing Rent Levels

Since the submission of the 2023/24 SHIP, East Lothian Council has consulted with tenants on proposed increase of rents (0%, 3% or 5%) for 2023/24. Over the last two years the Council implemented a rent freeze in recognition of the financial challenges being faced by tenants as a result of Covid-19. The impact of these rent freezes as well as the aforementioned increasing costs and interest rates, will directly affect the Council’s ability to ensure affordability while maintaining wider capital investment. The results of the consultation at the time of writing (3rd February 2023) are not yet known, and a report is to be drafted for Council for late February 2023 where the decision will be made on rent levels for 2023/24. The potential impacts of a 0-3% increase in rents for 2023/24 would result in reducing service levels significantly, as well as a considerable reduction in the council’s modernisation and new build program.

Affordable Housing Finance

To support strategic planning, the Scottish Government have provided our Resource Planning Assumption (RPA) for the period between 2021/22 to 2025/26. A resource planning assumption of £58m has been allocated for East Lothian, as shown in Table 8. However, we do not have any resource planning assumptions beyond 2025/26, so we have therefore used similar allocations for the next 5 years to help with our planning assumptions.

2023/24	2024/25	2025/26	2026/27	2027/28
£11.733m	£11.774m	£11.969m	Unknown	Unknown

Housing Supply Target

The SHIP 2023/24-2027/28 projects 1,471 completions. However, this would require £73.529m of Scottish Government subsidy, leaving a gap of around £15m. This could be gained either from drawing down extra subsidy, where Scottish Government are able to provide this, or exploring alternative models of housing delivery which do not rely on government subsidy.

Given the increasing pressures for affordable housing in East Lothian, a Housing Supply Target based on 294 units per annum, while ambitious, is necessary to ensure ELC continue to deliver much needed levels of affordable housing.

The 294 units of affordable housing per annum over the lifetime of the LHS will be delivered through a mix of social housing delivered by East Lothian Council and its Housing Association partners, Mid-Market Rent and where viable other low cost alternatives.

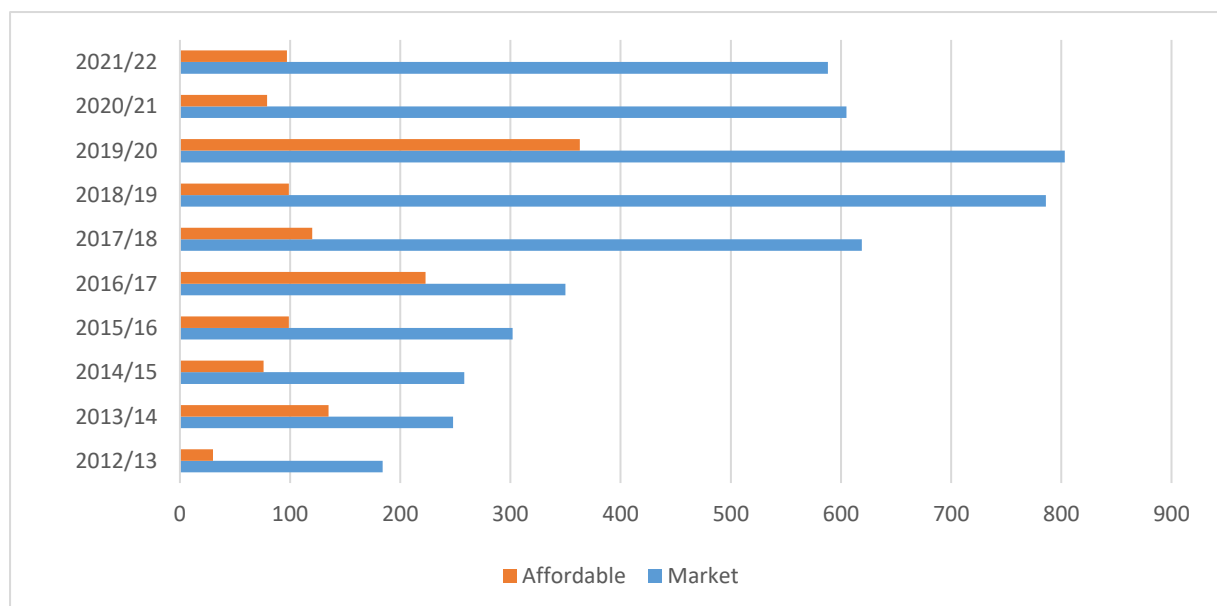
9. Market Housing

9.1 Market Housing Completions

The Scottish Government set out a Final MATHLR of 6,500 for East Lothian. This the minimum amount of units to be delivered. Through the HST, LHS and ultimately, LDP process, the final Housing Land Requirement figure will be set. The expectation is that this will be higher than the MATHLR.

The figure below is an extract taken from the Housing Land Audit (HLA), which shows site completions for both market and affordable housing from 2012 to 2022. It should be noted that the HLA monitors completions annually from 1st April to 31st March. Analysis of the figures shows that over the 10-year period market housing has provided 4,091 completions across East Lothian, an average of 409 units per annum.

Figure 1: Market and Affordable Housing Completions, East Lothian 2012/13-2021/22



Source: East Lothian Housing Land Audit
 *2021/22 are draft figures

9.2 Capacity of the Construction Sector

The capacity of the construction sector to deliver homes across East Lothian has remained steady throughout 2022. House builders have indicated that there remains some difficulty with the availability and rising cost of certain materials, which has resulted in the programming of sites being extended over a longer period than initially forecast. The more significant issue at present is the ongoing house buying market uncertainty, which will no doubt further affect the programming of sites.

9.3 Development Opportunities, Capacity, Constraints and Resources to Deliver Plan

The Council is required to identify a housing land requirement in the Evidence Report and identify whether there is a shortfall in housing supply. There is sufficient housing already identified through LDP1 to meet the MATHLR. The Requirement must be deliverable and with an annual average of around 800 houses a year already predicted to be built it must be set at a level that the industry is capable of delivering over the next 10 years.

Table 6 highlights the predicted delivery of housing over the next 10 year period of the LDP. The predicted delivery shown in Table 6 is for 7,375 units of housing over a period of 10 years. Setting the HST at 294 per annum or 1,470 over the 5 year course of the LHS, this would equate to 25.7% of the predicted delivery of 5,708, highlighted in yellow below.

Table 6: Predicted delivery of housing over the next 10 year period of the LDP										
	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
Predicted Delivery	1386	1173	956	723	841	629	564	407	391	305
Ave Annual land capacity (22/32)	834	834	834	834	834	834	834	834	834	834
NPF4 Min (MATHLR)	650	650	650	650	650	650	650	650	650	640

10. Demolitions

Housing Supply Targets are net figures, not gross. They are annual or period totals of the number of additional homes that are to be added to the existing supply. If they are planned or expected housing demolitions, then the number of homes demolished are subtracted from the number of new homes added to the supply to calculate the net additional completions. For example, a housing proposal which demolishes 10 homes and then rebuilds 10 homes would contribute a net zero to the Housing Supply Target.

NPF4 and, as with the previous HST methodology, allows for market and affordable Housing Supply Targets to be lowered by the levels of planned demolitions or by historic trends in demolitions.

East Lothian Council has considered planned demolitions and historic demolition trends, and has concluded that there are no planned demolitions over the course of the coming 5 years which will impact on the HST.

11. Conclusions

While setting the Housing Supply Target at 294 is an ambitious proposal, the demand for affordable housing in East Lothian is increasing, and with mounting national economic pressure, this demand is expected to grow. There is no doubt that the 294 units are dependent on the construction and private housing market continuing to develop in East Lothian, as well as consistent Scottish Government subsidy.

The HST of 294 units is representative of 25% of the current predicted delivery set out in the LDP, and is 20 units per annum lower than the HNSA3 estimated need.

The next steps in the strategic housing and planning process will be to set out a Housing Land Requirement for East Lothian. This will directly inform the Housing Supply Target for market completions. Within this process will be the ability to set higher percentages for affordable housing specific to the area it's being developed in. This may aid our ability to meet the HST by bringing on additional sites where we can evidence a growing need for affordable housing.