**Inverclyde Council**

This paper sets out the rationale behind the Inverclyde’s Housing Supply Targets for the duration of 2023-33 to support the development of the Local Housing Strategy and Local Development Plan

**Housing Supply Targets Paper 2023-2033**

**Contents**

[Background 2](#_Toc137714781)

[What are housing supply targets? 2](#_Toc137714782)

[Methodology 2](#_Toc137714783)

[HNDA 3](#_Toc137714784)

[MATHLR 3](#_Toc137714785)

[Policy aspirations for population and housing growth 4](#_Toc137714786)

[Practical Considerations 5](#_Toc137714787)

[Setting the baseline 5](#_Toc137714788)

[Economic issues that affect supply and demand 6](#_Toc137714789)

[Capacity of construction sector 7](#_Toc137714790)

[Interdependency between delivery of market and affordable housing 8](#_Toc137714791)

[Availability of resources 9](#_Toc137714792)

[Likely pace and scale of delivery based on completion rates 9](#_Toc137714793)

[Recent Development Levels 10](#_Toc137714794)

[Planned replacement housing or housing being brought back into effective use 10](#_Toc137714795)

[Planned demolitions 10](#_Toc137714796)

[Inverclyde’s Housing Supply Target 10](#_Toc137714797)

[Conclusion 11](#_Toc137714798)

# Background

Developing housing supply targets (HST) form a key component of the housing planning process for Local Authorities in meeting statutory requirements to produce Local Development Plans and Local Housing Strategies. As such, for Inverclyde Council and partners a key part of developing the Inverclyde Local Housing Strategy (LHS) 2023-28 is to produce a new set of housing supply targets across all tenures. The following paper sets out the rationale for setting Inverclyde’s housing supply targets which are presented within the LHS.

# What are housing supply targets?

Housing supply targets are a crucial part of the planning process. They should be distinguished from Housing Need and Demand Assessments (HNDA) which forms a robust and credible evidence base for housing planning. An HNDA is based on projections that factor in local housing market dynamics, demographic, and socio-economic factors over a given time duration and calculates what demands such trends place on the housing system for this period. HNDAs deal with what housing targets should look like when *all things are held equal* without policy interventions (policy off). Housing Supply Targets, on the other hand are projections of what demands will be placed on the housing system for this period when *policy factors are given due consideration*. However, to ensure that such figures reflect a target that is deliverable requires considering these policy ambitions in tandem with practical considerations that could impinge on the delivery of such targets.

**Figure 1: The elements that make up Housing Supply Targets**

# Methodology

The methodology for developing HSTs is set out in the HNDA Managers Guide (Scottish Government 2020). The Mangers Guide states that developing HSTs begins with the HNDA as baseline ‘policy free’ estimates which are then impact tested in relation to practical and policy factors.

Policy aspirations may converge or diverge with what the HNDA sets out. As is discussed below, for Inverclyde the key divergence stems from the policy ambition for population growth versus the Glasgow and Clyde Valley Housing Need and Demand Assessment (HNDA3) setting out housing need based on projections of a declining population. The divergence means that HSTs need to take account of practical factors that include:

* economic factors which impact on demand and supply,
* capacity within the construction sector,
* inter-dependency between delivery of market and affordable housing,
* availability of resources,
* likely pace and scale of delivery based on completion rates,
* recent development levels,
* planned demolitions,
* planned replacement housing or housing being brought back into effective use.

# HNDA

As part of the Glasgow City Region Housing Market Partnership, Inverclyde Council have recently completed a Housing Need & Demand Assessment (HNDA3) which provides a statistical estimate of how much additional housing units, by tenure and type, will be required to meet all future housing need and demand in the area. The housing estimates produced by HNDA3 provide the starting point for setting the HST within the LHS.

The HST sets out the estimated level of additional housing that can be delivered on the ground and informs the definition of the Housing Land Requirement within the Local Development Plan (LDP).

Table 1: HNDA 3 projections for Inverclyde, Glasgow City Region Housing Market Partnership.

|  |  |
| --- | --- |
| Principle Scenario Projection | New Households |
| Owner Occupation | 0 |
| Private Rent | 0 |
| Below Market Rent | 0 |
| Social Rent | 180 |
| Total  | 180 |

# MATHLR

As part of the new national planning agenda (NPF4), Glasgow City Region partners set a ‘minimum all tenure housing land requirement’ (MATHLR) in June 2021, following Scottish Government consultation on the spatial strategy for NPFF4. The Scottish Government’s baseline for MATHLR was based on HNDA methodology; Glasgow City Region partners also included into MATHLR consideration:

* housing system evidence including emerging HNDA housing estimates
* historic housing completions
* housing delivery targets aligned to Strategic Housing Investment Plans
* local strategic drivers for housing delivery, including the delivery of the Glasgow City Region Deal and local economic development strategies.

MATLHR targets set a minimum threshold for housing land allocations within the next Inverclyde Local Development Plan.

The proposed Minimum All Tenure Housing Land Requirement set for Inverclyde for the next 10 years is 1,500 units.

It should be noted that whilst MATHLR gives an indication of how much land capacity there should be allocated for housing units within development plans, this does not mean that MATHLR targets indicate a minimum baseline of how many housing units should be built over this ten-year period. It is therefore within the bounds of possibility that when factoring in HNDA, policy aspirations and practical considerations that final HSTs can end up below MATHLR figures set as well as above them.

# Policy aspirations for population and housing growth

Although HNDA assessments are based on projections that indicate the continuance of a trend of overall population decline and an aging population, Inverclyde Council and partners in Inverclyde Alliance recognise that a declining and aging population will have implications in terms of the scale and nature of the future workforce and local demand for public and other services[[1]](#footnote-1).

As such, Inverclyde’s Local Outcome Improvement Plan has identified addressing population decline as their Priority 1:

*“Inverclyde’s population will be stable and sustainable appropriate balance of socio - economic groups that is conducive to local economic prosperity and longer-term population growth[[2]](#footnote-2)”.*

Towards achieving this Outcome, Inverclyde Alliance commissioned a Re-Population Strategy and Action Plan which seeks to “halt and reverse the de-population of Inverclyde by 2025 through improving the employment, housing and infrastructure offer”[[3]](#footnote-3). Regarding the housing component of this strategy, it outlines an aim to grow the housing market wherein “the evidence shows that while Inverclyde has successfully developed parts of its housing offer it has not produced an appropriate range and mix of private housing required to maximise its attractiveness to everyone. Inverclyde needs more private houses”[[4]](#footnote-4). There is a focus on attracting and retaining young people and families to live in Inverclyde which may be achievable through increasing “the level of private house building in spatial priority areas in Inverclyde”.

The LHS and LDPs, with their scope for setting the strategic agenda to enable housing mixes across tenure, have their part to play. LHS 2023-2028 analyses challenges in Inverclyde’s housing system noting areas where housing as presently constituted requires improvement to meet demographic challenges, quality standards, decarbonisation imperatives. Thereafter the LHS sets broad outcomes, action plans and delivery groups to meet such challenges. Regarding how the LHS agenda will support repopulation objectives it does this through marking a transition from a social rented housing supply agenda to a regeneration one supportive of interventions that supports a wider range of tenures. In that regard the SHIP with its focus on affordable homes can also assist the development of tenures and market segments via its ability through innovative tenure balances such as Mid-Market Rent and New Supplied Shared Equity. These delivery models offer housing options for those not accounted for in social rented allocations policies but also provide indications to private developers that there is market potential for additional private housing supply, catering to a wider range of socio-economic groups.

The HST clearly needs to take cognisance of these aspirations and set targets that go beyond HNDA3 particularly given that this assessment does not recommend any tenures beyond a small number of social rented ones (18 per annum).

Aspirations for building Inverclyde’s housing supply, suited for population renewal can be realised through projects and programmes brought together in an action plan which is to be given adequate detail to obtain funding support[[5]](#footnote-5). At present the projects that may be mobilised to achieve repopulation outcomes include:

* Greenock Central regeneration,
* Clune Park regeneration.

Additionally, there are Priority Places set out in the LDP for development that may include housing mixes that could positively influence repopulation objectives.

* The Harbours, Greenock,
* James Watt/Garvel Island, Greenock,
* Former Inverkip power station,
* Peat Road/Hole Farm, Greenock,
* Spango Valley, Greenock,
* Drumfrochar Road, Greenock,
* Port Glasgow Eastern Gateway,
* Port Glasgow Industrial Estate.

These priority places are reflected in the LHS 2023-28; furthermore, the LHS includes within its action plan means of exploring new regeneration possibilities that may be inclusive of yet-to-be-determined sites.

# Practical Considerations

Now that we have considered the HNDA, the MATHLR, and our policy focus that relates to growing our housing supply to meet repopulation objectives, we need to consider the practical opportunities and challenges that may bear upon the delivery of these objectives.

The first step is to set the baseline before moving onto the tests. The tests themselves will be evaluated as whether they should be factored as a plus, minus, or no change, over our baseline. Once these tests have been applied to the baseline, the housing supply target for the next decade shall be set.

## Setting the baseline

The HST for Inverclyde set for the duration of the previous LHS (2017-22) was for 1300 over five years; or 260 per annum. Analysis of housing completions for this period showed that housing delivery has not kept abreast of Housing Supply Targets. On average, 148 housing completions have been delivered against an annual target of 260 units.

However, whilst this divergence is explicable through the impacts of exogenous political and economic events, such as Brexit, the Covid-19 pandemic and the Cost-of-Living Crisis; the numbers completed have informed the generation of MATHLR. In contrast to the average annual completions of 148, the MATHLR stands at 150 per annum for the decade, a total number of 1500.

Since previous completions are almost the same as the MATHLR; but are nevertheless below the MATHLR by a factor of 2 housing units per annum; and, since this section is calculating a *baseline,* the number established should be below the MATHLR. At the same time however, as completions far exceed what is established in HNDA2 and what are set as projections in the current HNDA3, they should exceed the levels set within the current HNDA3.

Therefore, based on the closeness of MATHLR to the level of completions, and in relation to the much-diminished HNDA3, a fair judgment for the baseline would be to deduct 25% off the MATHLR to calculate the baseline. **The baseline set here is therefore 1125 over the same ten-year period as the MATHLR; or 112.5 units per year.**

## Economic issues that affect supply and demand

Throughout the duration of the last LHS (2017-2022) there have been a number of shocks to the economy, including Brexit, Covid-19 pandemic, and the inflation beset ‘Cost-of-Living-Crisis’ brought on through the war in Ukraine and wider supply shocks across the global economy.

In forecasting the economic climate at the UK national level into 2024, KPMG report that despite the likelihood of a recession, growth is likely to remain weak to 2024. There are structural issues in the economy including skills shortages, slowing workforce participation, and population ageing which will continue to bear down on the economy.

In terms of how these structural issues affect the conditions that impact the potential for house building programmes in Inverclyde, the Royal Institute of Chartered Surveyors (RICS) and the Chartered Institute of Building (CIOB) have noted general supply issues in the construction industry including increased cost of building materials and labour supply issues. The Chartered Institute of Personnel Development (CIPD) have presented a paper to the Scottish Government on labour shortages including those in construction. In that paper they note recent CIPD survey data, where just over a third (37%) of all construction companies with vacancies said they were experiencing recruitment difficulties. Clearly then the prospects for extensive housing growth warranting large housing supply targets are limited by these supply issues.

On the demand side, UK housing market demand has fallen significantly since interest rates began to rise in late 2022. This has mainly affected first-time buyers who are facing higher borrowing costs and economic uncertainty. Annual house price growth also slowed down from 7.6% in November 2020 to 4.5% in December 2022. Experts predict that the housing market will cool further in 2023 as the United Kingdom enters a recession and interest rates reach a peak of about 4.75%. In summary, the economic prospects at the macro-level that affects supply and demand in relation to housing supply targets are bleak.

Nevertheless, Inverclyde Council and partners have just brought in an extensive regeneration and economic regeneration strategy designed to boost skill levels and reduce worklessness; to accelerate the regeneration of strategic employment sites and town centres; to progress the renewal and economic regeneration of the most disadvantaged areas of Inverclyde; to increase Inverclyde’s capacity to accommodate jobs particularly in the private sector; and to grow and diversity the business base. It is anticipated that these measures should temper the broader macro issues affecting supply and demand.

**Because both the macro-issues and Inverclyde’s regeneration interventions – in a sense -cancel each other out, the HST as far as this test goes will not be raised, nor lowered from the baseline.**

## Capacity of construction sector

Inverclyde is one of the 8 constituent local authorities in the Glasgow City Region. As the largest city region in Scotland and a significant driver of the Scottish economy, any capacity issues in the construction sector, including in relation to materials and labour, are not likely to impact on long term delivery or on regional and local ambitions.

The case was made in Inverclyde’s submission for MATHLR that completions evidence of on average of 148 units per annum which (included 78 social rented units and 70 private sector units) showed that there is construction capacity for significantly more than 250 houses over 10 years. This is particularly true for the social rented tenure where development capacity has recently increased given the More Homes Scotland funding commitments.

The present SHIP outlines a total of 592 units to be potentially developed between 23/24-27/28 which is 118 units per annum. Moreover, as the table below shows for completions statistics, despite significant slowdowns during 2020, completions have shown significant growth wherein 2022 represents the largest number of completions in the past decade. This suggests that despite the issues affecting supply and demand discussed in the previous section that construction capacity can more than meet the baseline set here of 112 per annum and our MATHLR of 150 units per year.

Table 2 Completion statistics 2013-22 (Source: Inverclyde Housing Land Audit)

|  |  |
| --- | --- |
| AUDIT YEAR | COMPLETIONS |
| 2022 | 481 |
| 2021 | 259 |
| 2020 | 76 |
| 2019 | 66 |
| 2018 | 121 |
| 2017 | 123 |
| 2016 | 341 |
| 2015 | 112 |
| 2014 | 197 |
| 2013 | 197 |

This shows that capacity in the construction sector can justify an increase of our housing supply target above the baseline. Since the baseline was based on 25% from the MATHLR and given that completions and SHIP programmes indicate capacity above the MATHLR **the HST at this stage will now be +25% over the MATHLR at 1875 units over 10 years or 187 per annum.**

## Interdependency between delivery of market and affordable housing

Levels of interdependency between market and affordable housing has historically been low, and it is anticipated that this will remain the case for the duration of these housing supply targets also.

At present there is a low level of funding added to the Affordable Housing Fund (AHF), the use of which is limited to supporting the delivery of affordable housing, in recent years via commuted sums. The amount of these sums and the stage by which they will be paid are agreed and provided within Section 75 agreements. However, this method of delivery via commuted sums from developers is our least preferred option; on and off-site development of affordable housing in partnership with Registered Social Landlords is much preferred. Currently the AHF amounts to £220 000 which was credited in the duration of the previous LHS 2017-22 as commuted sums from the development at Eldon Street, Greenock and for 2 Auchneagh Road, Greenock of £40,000. At present the AHF is to be utilised to support the acquisition programme which means that this does not contribute to additional new housing supply.

For the duration of the LHS currently in production there is a Section 75 agreement for the Quarry Drive development, a contribution set at 19 units on the site to be delivered in partnership with Link Housing Association.

The funding for affordable housing in the SHIP is thus mainly formed through Scottish Government Affordable Housing Supply Programme funding and from contributions from the RSLs.

However, due to Policy 18 in the proposed LDP stating a requirement for 25% of houses on greenfield housing sites in the Inverclyde villages to be for affordable housing; and also, as Inverclyde Council will be seeking several larger scale developments that will involve private sector housing, this situation may change in the future.

Nevertheless, **because of the current basic lack of interdependency between delivery of market and affordable housing, the HST at this stage of process shall not be adjusted.**

## Availability of resources

Availability of land resources has been established in our Local Development Plan 2021. The spatial strategy sets out a housing land requirement between 2012-2029 which covers capacity for 5070 units (1730 affordable; 3340 private). Although this covers a period which precedes this housing supply target paper and finishes prior to the scope of this paper, it notes that reviews will be taken on a five yearly basis.

For the purposes of this paper, it is sufficient to note the annual housing land requirement set out in the LDP of 298 units per annum (102 affordable; 196 private).

The annual housing land requirement correlates with what is programmed into the SHIP which programmes 118 affordable housing units between 2023/24-2027/28, which shows that funding is available to fulfil the affordable quotient of land supply.

For understanding resources to be inputted by the private sector; this is somewhat more indeterminate. LHS consultation suggested that Inverclyde is a place of low interest given high development costs (due to topography and contamination) and low house price values. Consultation with developers during the development of the Eastern Gateway development strategy also provided input on barriers to development warranting intervention. Perceived barriers included negative perceptions from developers regarding stigma attached to place and issues with topography, land values and ground conditions. To mitigate such challenges discussions are taking place between the Council and developers regarding supporting land parcelling of smaller sites together to support economies of scale and to make the land offer more friendly.

In summation, although the land requirement is sufficient to meet our strategic priorities of repopulation, and although our SHIP shows the affordable quotient is met, the private sector side of the equation is more indeterminate. It is accordingly the judgement here that there should be **no addition or subtraction from the HSTs as established in previous tests.**

## Likely pace and scale of delivery based on completion rates

As shown by table 2 of completion, the pace and scale of delivery rates since the onset of Covid-19 and the subsequent recovery has been varied. To give a more stable indicator of what the pace and scale of delivery on completion rates would look like requires factoring in a longer period, i.e., the entire decade represented in the completion rates. The average rate herein is 197.3 per annum. This accords well with the HST that has been generated in the tests so far at 187.5 per annum. Accordingly, **no adjustment shall be made to the HST in this test.**

## Recent Development Levels

In terms of recent development levels, the variations between 2019-2022 can be attributable to Covid-19 slowing down completion rates; the higher figures of 2021-22 including completion of projects. Averaging these figures from 2019-2022 gives us an annual completion rate of 220.5 units. This is significantly higher than the figure over the past decade (187.5) per annum; but not enough time has passed to make any inferences regarding new trends of higher completion rates. As well as requiring more time to get a sense of trends, more analysis would need to be made regarding the drivers of these rates. Furthermore, as discussed in the above section on supply and demand issues, suggests housing market conditions that may be taking a dip. Therefore, the judgement to be made on this test is that **no adjustment shall be made to the HST.**

## Planned replacement housing or housing being brought back into effective use

Empty homes service is dealing with a current stock profile of 582 long term empty housing units. In the duration of the previous LHS this figure has been reduced from 649 – a decrease of 10.5 per cent. The average rate of homes being brought into use per annum then is around 11. Whilst the reduction of empty homes is an important strategic priority the number of units involved, and the rate of turnover **does not warrant adding to the housing supply target**.

In addition, there is the Clune park regeneration where there is a masterplan to be developed. The numbers are still to be determined but discussions suggest that the number of units to be developed will be up to 120 units depending on what house types are decided are the optimal mix. Because these are accounted for in the SHIP there should be **no addition to the housing supply target** as these are already accounted for.

## Planned demolitions

The current planned demolitions are all related to the restructuring of our current social rented stock profile. Because of this the planned demolitions closely follow the patterns established in the SHIP and reflect the already present housing need in Inverclyde. As such, **they do not warrant adding to the housing supply target as already established in this document.**

# Inverclyde’s Housing Supply Target

Having now discussed both the policy focus of repopulation, setting the baseline based on HNDA, MATHLR, and completions (set at 25% below MATHLR), and then applying the practical tests (including what is programmed into the SHIP) to our baseline, we have arrived at a housing supply target that sits 25% above the MATHLR, at **1875 units over 10 years or 187.5 per annum.**

In terms of how the housing supply target will support policy aspirations, throughout this document it has been noted that for the social rented sector there is a shift to a regeneration agenda rather than the previous absolute supply growth agenda. This shift to regeneration is reflected in the LHS and will do so for future SHIPs within the LHS time horizon (2023-2028). Moreover, as set by the Inverclyde Alliance there is a general shift for housing policy to support a repopulation agenda that requires the expansion of private sector tenures. The growth of private sector stock can also be supported through the innovative use of AHSP funding for tenures suited for young people such as Mid-Market Rent and New Supplied Shared Equity. This is because such tenures bear a closer relation to market allocations than social rented allocations and can therefore send market signals to private developers for regenerated areas in a way that social rented tenure developments cannot.

Because of such considerations then, the housing supply targets should note the pivot towards private sector housing over the next decade. Towards that end this paper proposes that **the 1875 units over the decade should be split of a ratio of 60% private sector units to 40% affordable housing units** where ‘affordable housing’ refers to social rented units and other tenures delivered through the AHSP. Beyond setting these broad targets this paper will not provide an annual basis for how these targets should be met as this would be too restrictive; rather the HSTs as set out here are to support innovative regeneration strategies, not stifle them.

Table 3 Housing Supply Targets and Tenure Breakdown

|  |  |
| --- | --- |
| **Housing Supply Targets 2023-2033** | **Tenure Breakdown** |
| 1875 units | 60% Private Sector; 40% Affordable |

# Conclusion

Having considered Inverclyde’s policy aspirations for housing supply growth along with practical considerations that affect delivery of housing supply, the housing supply targets for the next decade has been set at 1875 units or 187.5 units per annum. These are to be delivered in a ratio of 60% private sector housing along with 40% affordable housing tenures which is inclusive of social rented, mid-market rent, and new supplied shared equity models.

1. Ekos (2019), Inverclyde Alliance Repopulation Strategy [↑](#footnote-ref-1)
2. Inverclyde Alliance, Inverclyde Outcomes Improvement Plan 2017/22 [↑](#footnote-ref-2)
3. Ekos (2019), Inverclyde Alliance Repopulation Strategy [↑](#footnote-ref-3)
4. Ekos (2019), Inverclyde Alliance Repopulation Strategy [↑](#footnote-ref-4)
5. Ekos (2019), Inverclyde Alliance Repopulation Strategy [↑](#footnote-ref-5)