

STIMULATING HOUSING DEVELOPMENT IN THE HIGHLANDS AND ISLANDS

Executive Summary
September 2017





STUDY OBJECTIVES AND APPROACH

Highlands and Islands Enterprise commissioned Ipsos MORI, working in partnership with Anna Evans and Mandy Littlewood, to undertake research into the main features of the housing system in the Highlands and Islands.

The specific objectives of the study were to:

1. Assess the current housing policy landscape in Scotland, identifying policies to support housing development in the Highlands and Islands;
2. Provide an overview of the current housing stock, housing market and demographic trends;
3. Explore the barriers and challenges to housing development, highlighting differences across the Highlands and Islands;
4. Investigate mechanisms to encourage and increase housing development across the Highlands and Islands, in remote and rural communities, highlighting areas with the greatest potential;
5. Provide a range of case studies of different approaches to housing development in remote or rural areas that have been significant for community sustainability.

These objectives have been addressed through desk research reviewing policy aimed at supporting housing supply and the broader planning and regulatory policy.

A review drawing together local housing need and demand assessments and other strategic documents provides an overview of housing demand, underlying housing market and economic trends and supply-side responses. This was supplemented by wide-ranging consultation with stakeholders representing local authorities, other social housing providers, funders, private developers and land-owners, community representatives, utilities and services providers, organisations supporting rural development, other public agencies across national and local government and academic experts.

These discussions were followed up by more detailed discussion with numerous partners involved in individual projects, selected to illustrate the key themes emerging from the stakeholder consultations.

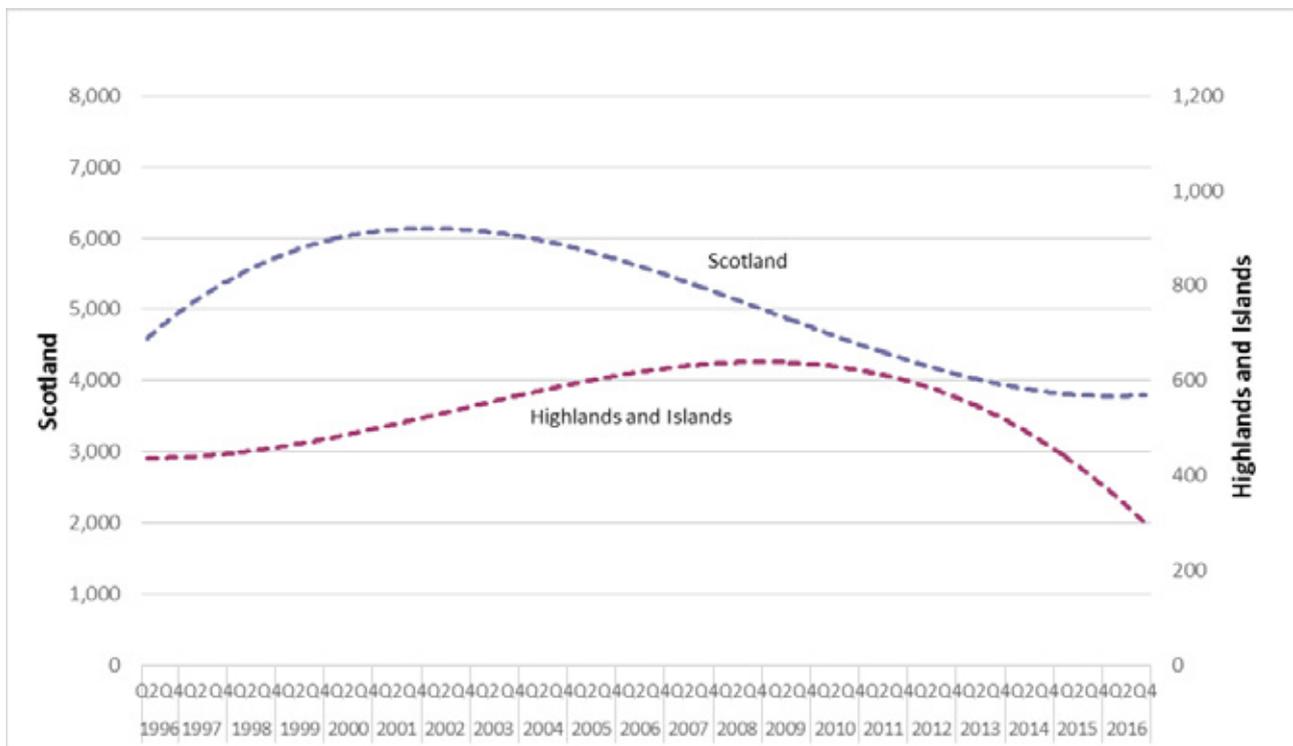
HOUSING NEED, DEMAND AND SUPPLY

Public housing policy is focused on increasing affordable housing supply. The Scottish Government's current Planning Review identifies many of the constraints to housing development, and has proposed a range of approaches to facilitate increased supply, including more proactive regional partnership working, allocation of more development-ready sites, and taking an 'infrastructure first' approach.

The effectiveness of these measures will rely on leadership and resources from local authorities, coordination with its public and private partners at the regional level, and proactive use of existing and potential new powers to be brought forward through new legislation. This approach complements HIE's prioritisation of strengthening communities and fragile areas, its emphasis on partnership work, and a place-based approach.

There has been a long-term trend of declining housing completions in Scotland from a peak around 2002. In contrast, the number of new build completions in the Highlands and Islands has declined sharply since 2009, with a total of 1,627 completions across all sectors in 2016.

QUARTERLY TRENDS IN HOUSE COMPLETIONS SCOTLAND AND HIGHLANDS AND ISLANDS



Across the Highlands and Islands, there is a significant gap between housing need, demand and supply. It is estimated that just over **1,800 new properties are needed each year across all tenures made up of an estimated 1,071 affordable homes and 742 market properties**. An average of around **992 affordable properties a year are planned** across all the local authorities in the Highlands and Islands and this will deliver 79 fewer properties than needed each year.

The contribution of the **private sector has fallen from a high of 2,490 units in 2007 to 1,130 in 2016**, a reduction of 1,360 units per annum over the period. Compared with the level of market demand of 742 per annum identified, the current level of private sector provision is more than the requirement identified across the Housing Need and Demand Assessment (HNDA) estimates.

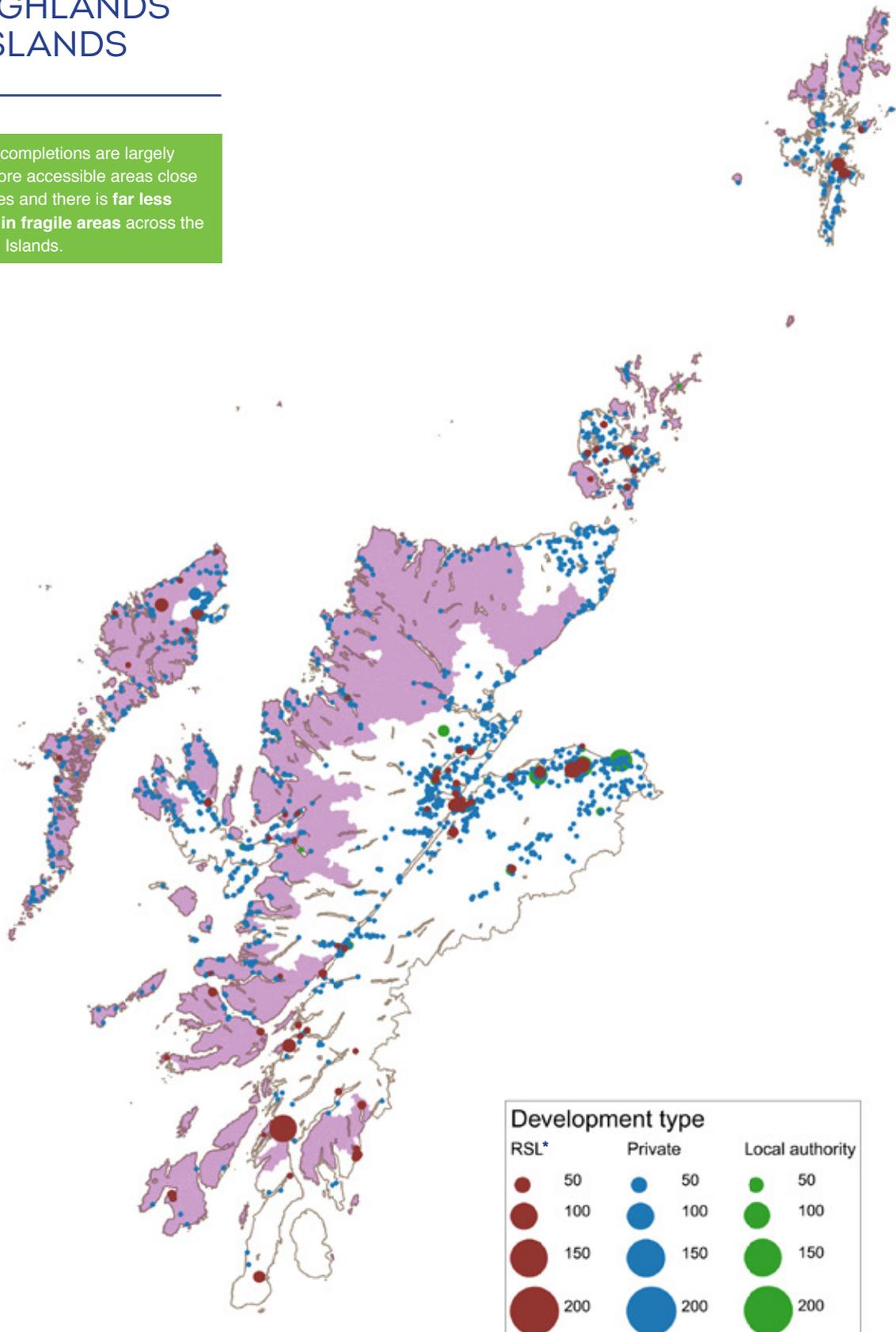
The 497 social sector completions in 2016 (though an increase on the 424 completed in 2015) are **still just 50% of the affordable housing target of around 990 properties a year** that social housing providers should be delivering and just 46% of the 1,071 affordable properties needed each year.

The affordability of private sector new-build is a concern, so that access to housing is confined to subsidised affordable housing (if it is available) for households with incomes below the median income in many areas.

Housing supply and its affordability has a critical influence on the ability of businesses to recruit and retain staff, with business expansion affected by these issues. This is particularly problematic in areas where tourism and second homes put pressure on accommodation, and other areas of seasonal or cyclical employment.

HOUSE COMPLETIONS IN THE HIGHLANDS AND ISLANDS

Private sector completions are largely clustered in more accessible areas close to urban centres and there is **far less development in fragile areas** across the Highlands and Islands.



*Registered Social Landlord

Source: Scottish Government Completions Data 2012-2016

Note: It has not been possible to map every completion due to insufficient information or incorrect information in the data.

HIE's designated fragile areas are shaded in pink.

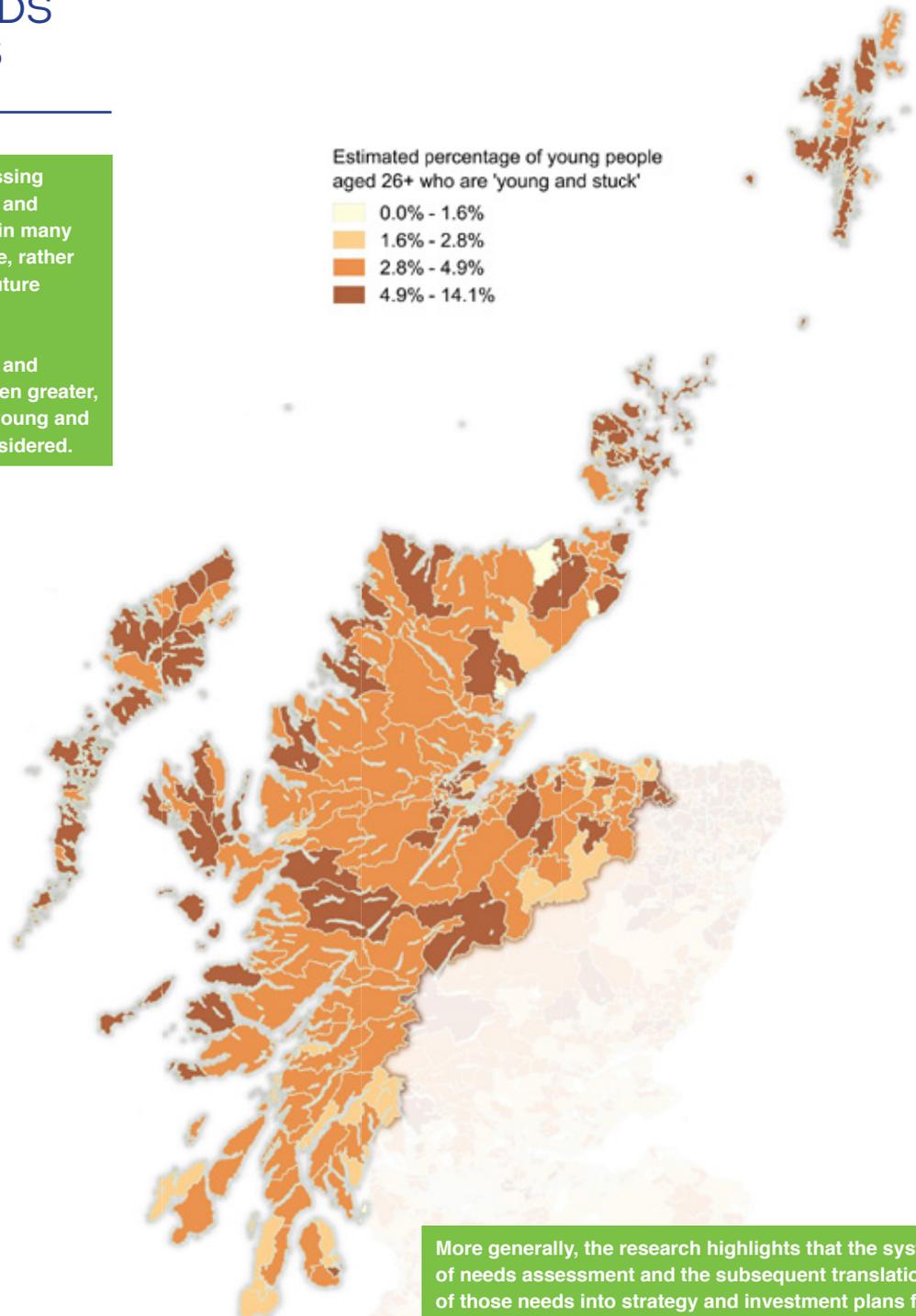
LOCATIONS OF CONCENTRATIONS OF 'YOUNG AND STUCK' PEOPLE IN THE HIGHLANDS AND ISLANDS

The current process of assessing need entrenches past trends and fails to reflect the aspiration in many communities to reverse these, rather than incorporate them into future plans.

This means the level of need and shortfall in supply may be even greater, if the needs of hidden, and 'young and stuck' households were considered.

Estimated percentage of young people aged 26+ who are 'young and stuck'

- 0.0% - 1.6%
- 1.6% - 2.8%
- 2.8% - 4.9%
- 4.9% - 14.1%



More generally, the research highlights that the system of needs assessment and the subsequent translation of those needs into strategy and investment plans fails as the additional housing need is whittled through supply target setting that incorporates (or accepts) all the constraints that make it impossible to meet the identified level of need.

'Young and Stuck households' those containing young people aged at least 26 years old who are neither the householder nor the spouse in the household in which they live, who are working full-time or are self-employed.

Source: Scottish Household Survey 2015

LAND, INFRASTRUCTURE AND REGULATORY CONSTRAINTS

LAND SUPPLY IS NOT GENERALLY PROBLEMATIC, BUT CREDIBLE, EFFECTIVE LAND IS IN SHORT AND DECREASING SUPPLY, WHERE THE RISKS AND COSTS TO ENABLE VIABLE DEVELOPMENT ARE OFTEN TOO GREAT WITHOUT INTERVENTION, ESPECIALLY IN MORE RURAL AND REMOTE ENVIRONMENTS.

There is considerable cost in opening up sites due to infrastructure requirements, and costs associated with planning, building and road construction regulatory burdens, some of which disadvantage the rural and remote context, particularly where there is rigid application of regulations with little flexibility for the individual context.

These constraints, exacerbated by lack of economies of scale means the risks are often too great for private developers to supply in rural and remote areas.

There are a number of key areas where changes to current policy and practice have the potential to minimise these risks, and incentivise development:

1. **Local Development Plans** to zone land that is development ready, and removing the upfront information requirements and costs associated with surveys and information required for planning applications which is a considerable factor influencing private and social sector development.
2. Extending support from the **Infrastructure Fund** to smaller sites in rural and remote communities. To date the infrastructure fund has been targeted for large strategic sites, and the use of the Scottish Futures Trust to kick start 'significant' sites appears also to be focused on larger long-term growth areas.
3. A fall in **self-build completions** in the Highlands and Islands has had a significant impact on new supply over the last decade. While the Self-Build Loan

Fund provides an alternative source of finance, uptake of the fund has been disappointing. Could the loan fund be extended to site acquisition? Could the public sector facilitate more serviced sites, with plot passports, that could be marketed to potential self-builders?

4. Increasing **supply for entry level, low cost private housing** has become more difficult with planning and building regulations, road construction and energy efficiency requirements (where there are limitations in rural areas), all combining to push up the cost of development, taking properties beyond the reach of first time buyers.

COMMUNITIES SUPPORT, RESOURCES AND FUNDING

IN MANY FRAGILE AREAS, COMMUNITY INITIATIVE AND LEADERSHIP IS THE CATALYST FOR NEW HOUSING SUPPLY.

Housing need in small fragile communities is identified through this bottom-up approach, rather than the systematic assessment of need. This has often been supported by enabling third sector organisations but the processes can be complex and time consuming, and applying to various fragmented funding streams can be tortuous.

While there are examples of success, the resources of communities and enabling organisations are often thinly spread, and further investment will be critical in encouraging community-led development in fragile areas.

The research raises the following questions and options:

1. How many **more fragile communities could be sustained and supported** if there was more support and resources for local communities, and systematic ways of establishing housing need in these communities?
While community leadership is often very powerful and effective, what about those fragile communities where there is need but no-one able or willing to take the lead?
How is that community's housing needs assessed and addressed?
What is the role for HIE to support local authorities in identifying need and supporting priority fragile communities, and/or are more resources required for the existing enabling third sector organisations?
2. How **can funding processes be simplified** while made flexible to meet the requirements of different rural and remote circumstances without sacrificing the policy objectives that stimulated the creation of the various funds?
3. What value can be achieved in **combining resources** to achieve different policy objectives in housing supply and economic development in fragile communities?



LEADERSHIP AND ENABLING ROLES

WHERE THE MARKET IS UNABLE TO RESPOND TO NEEDS AND DEMANDS, INTERVENTION NEEDS STRATEGIC OVERSIGHT OF HOUSING DEVELOPMENT.

Each of the local authorities has a statutory role as strategic housing authority, planning authority and responsibility for building control. The Scottish Government Planning Review encourages local authorities to take a leadership role in enabling development, and coordinating action with public and private partners.

The emphasis on regional working provides an opportunity to formulate what that partnership working may look like. The example of the Highland Housing Hub shows

what can be achieved with very intense collaborative working, and while this might be difficult to replicate across all geographies, other structures with similar aims and focus might also work.

The public sector finance context means there is currently little scope to allow 'speculation' in the public sector to drive private sector investment. The Scottish Housing Regulator focus on viability leads to risk-averse decision-making among the RSL sector, which stifles innovation. This means

'riskier' innovations may need additional resource or special policy provisions if the gap between housing demand, need and supply is to be met. It is here where the combined forces of the skills and resources in the public sector should support delivery.

Community-led development in the context of rural and remote communities is critical but can be very time-consuming and frustrating for the volunteers involved. More support is needed to help communities navigate the housing supply system.

SUMMARY OF RECOMMENDATIONS

STIMULATING HOUSING SUPPLY IN THE HIGHLANDS AND ISLANDS WILL BE ACHIEVED THROUGH WORKING IN PARTNERSHIP AROUND A PLACE-MAKING APPROACH, WITH SCOTTISH GOVERNMENT, EACH OF THE SEVEN LOCAL AUTHORITIES AND OTHER PRIVATE AND PUBLIC SECTOR PARTNERS USING THEIR RESPECTIVE POWERS AND RESPONSIBILITIES TO SUPPORT HOUSING SUPPLY PLANNING AND DELIVERY. THE PRIORITY AREAS FOR PARTNERSHIP WORKING ARE:

1. ASSESSING HOUSING NEED AND DEMAND

Changing to an assessment method which reflects the aspirations of communities for growth and development, rather than relying on projected figures. There also needs to be systematic methods to identify need well below housing market area level. This should not be left to motivated communities. There may be other communities who need their housing requirements assessed and addressed, but who may lack the resources to take the lead.

2. MATCHING HOUSING NEED AND DEMAND ASSESSMENT WITH INVESTMENT PLANNING

The current Housing Supply Target and Strategic Housing Investment Planning (SHIP) approach sets targets on what housing supply is achievable rather than required. This should be refocused to meet need and demand, rather than to reflect their constrained capacity to supply.

3. LOCAL DEVELOPMENT PLANS TO FACILITATE DEVELOPMENT-READY LAND

The Scottish Government planning review proposals are likely to encourage more development-ready land. Ideally, developer investment and risk would be minimised upfront (even if the costs are recovered later) to incentivise housing investment particularly where the risks are greater in more fragile areas.

4. INFRASTRUCTURE FUND

Public sector partners should explore the criteria of 'strategic sites' for infrastructure funding with Scottish Government, to ensure that they include smaller sites which contribute to sustaining fragile communities. The public sector partners could discuss with the Scottish Futures Trust its short-term role in enabling stalled sites, and whether any key rural/remote sites can be included in this intervention.

5. INFRASTRUCTURE LEVY

Scottish Government's plans for an infrastructure levy should cater for the needs of smaller sites in the rural and remote context. The final part of research on the levy is underway and public sector partners should explore and influence Government on the extent to which fragile community needs will be met through this approach.

6. SELF-BUILD

Despite the Self Build fund, self-build supply has struggled since 2008. There is potential for Local Development Plans, serviced sites for self-build and housing investment policy to encourage greater supply. Loans for site acquisition is one element that could be incorporated into self-build loans.

7. STIMULATION OF ENTRY LEVEL, LOW COST PRIVATE HOUSING

Public sector partners should discuss how Local Development Plans can encourage the supply of smaller properties, and encourage the Scottish Government to modify Building Regulations to relieve the constraints on the provision of low cost starter homes.

8. SUPPORTING COMMUNITIES AND ENABLERS

Community needs assessment and housing development requires more support and resource – supporting both communities directly and enablers such as Highland Small Communities Housing Trust (HSCHT) and Rural Housing Scotland.

9. **FUNDING** is complex, fragmented and most funds are centralised through the Scottish Government. The application of these funds should be simplified and applied more flexibly, based on the needs of local communities. There is scope for the public sector to combine financial and human resources to support housing and place-based economic and community development objectives in fragile priority areas.

10. LEADERSHIP AND ENABLING

HIE should support the seven local authorities in their lead role as regional enablers and regulators of housing development particularly as each of the local authorities develops its 'refreshed' role as the Planning Review proposals are implemented. This will reflect HIE's refocused partnership and place-making approach. All public sector agencies should ensure the regional leadership framework supports community-level leadership resources.