

## **1. LHS Development: Setting Housing Supply Targets**

Shetland Islands Council have recently completed a Housing Need & Demand Assessment (HNDA) which provides a statistical estimate of how much additional housing will be required to meet all future housing need and demand in the area. The housing estimates produced by the HNDA provide a starting point for setting a Housing Supply Target (HST) within the new Local Housing Strategy.

The Housing Supply Target (HST) sets out the estimated level of additional housing that can be delivered on the ground (as opposed to estimated housing need) and informs the definition of the Housing Land Requirement within the Local Development Plan (LDP). This short paper provides the background to the Shetland Islands Council HST for the period of the new Local Housing Strategy, 2022-2027. The HST should cover all housing tenures and set out the expected split between market and affordable housing.

### **1.1. Housing Supply Target Methodology**

The HST methodology was developed by members of the LHS Steering Group over the period March – April 2022. The development process comprised of:

- Completion of the Housing Needs and Demand Assessment (for assessment by Scottish Government) including the definition of housing estimates by tenure and sub-housing market area (March 2022)
- Review of HNDA guidance, agreement on the delivery considerations to be applied, the template approach to be adopted and housing market evidence to be used (March 2022)
- Review of submitted housing sites subject to consultation for the LDP Main Issues Report (April 2022)
- Review of the completed HST template and impact analysis on housing delivery (April 2022)
- Agreement of the draft HSTs as a basis for the Housing Land Requirement (April 2022).

The HST template was designed to support a simple assessment of the extent and nature of each factor on both affordable and market housing delivery, enabling the impact of each factor to be recorded. To measure the nature of the impact, a 've+' or a 've-' sign was recorded depending on whether each factor was considered to increase or decrease the baseline HNDA housing estimate (or left blank, where no net impact was envisaged). This assessment was informed by HNDA and LDP evidence to justify any adjustments to baseline housing estimates.

A set of eight factors, based on the HNDA Managers Guide (2020), were included in the HST template. These factors may have a material impact on the pace and scale of housing delivery in Shetland including:

- economic factors which may 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.

The completed HST template is attached in Appendix 1. This evidence was then used to consider the extent to which housing estimates should be adjusted at an overall Shetland level, and then by housing market sub-area and tenure.

Housing supply targets were then established in a 4 stage process as follows:

### Stage 1: Housing Estimates by Tenure

The net need for additional housing in Shetland (housing estimates) was generated by the 2022 HNDA. This shows the housing estimate broken down into market housing (owner occupied + private rented sector) and affordable housing (social rent + below market rent). Within the HNDA housing estimates have been further disaggregated into the six housing market sub-areas which comprise the Shetland housing market.

To test the reasonableness of Shetland housing estimates as a starting point for setting HSTs, HNDA outcomes were triangulated against evidence of historic housing delivery, current land capacity and previous planning assumptions using comparative 10-year benchmarks as follows:

Housing system evidence	10-year measure
2022 Shetland HNDA 10-year Housing Estimate (2021-2030)	929
1. Effective land supply (Housing Land Audit 2019)	1,030
2. Submitted sites: Years 1-10 (MIR Consultation 2022)	1,158
3. NPF4 Minimum All Tenure Housing Land Requirement (10 year equivalent)	850
4. Historic housing completions: 2011-2021	793
Aggregate 10-year Measure	957

Table 1.1: Validation of Housing Estimates as Starting Point for the HST

Table 1.1 shows that HNDA housing estimates (929) benchmark well to an aggregate measure of historic delivery rates, planning assumptions and current land capacity (957). Steering Group members was therefore satisfied that HNDA housing estimates were validated as a reasonable starting point for setting the HST.

HNDA evidence further disaggregates housing estimates by housing tenure on the following basis:

HNDA Housing Estimates	2021-2030	% Tenure Split
Affordable Housing	503	54%
Market Housing	426	46%

Table 1.2: Shetland Housing Estimates by Tenure

Confident that housing estimates provide a sounds starting point for the HST process, and informed by HNDA evidence, LHS Steering Group members agreed the following assumptions:

- HST 10-year starting point = 900 units
- Broad tenure delivery split: Affordable housing 60% / Market housing 40%

## **Stage 2: Adjusted Housing Estimates**

The HST template detailed in Appendix 1, was devised to enable evidence to be assembled and impact analysis completed of the practical and policy factors that may impact on the scale and pace of housing delivery across Shetland.

On balance, whilst Appendix 1 details largely positive delivery impacts (including economic and housing delivery context, available resources and development levels); this is balanced to some extent by acknowledged delivery barriers (including construction industry capacity and construction inflation). These delivery risks will require to be carefully managed to ensure the pace and scale of development is achieved.

Taking the evidence into account, Steering Group members were satisfied that the impact assessment in Appendix 1 offers no compelling evidence that the HST starting point should be reduced given the range of pipeline development opportunities, delivery resources and LHS actions to mitigate delivery risk. However, given the identified risks, LHS Steering Group members concluded that there is also no justification to increase the HST beyond 900 units over 10 years.

LHS Steering Group members were also satisfied that the impact analysis set out in Appendix 1 should not change the board tenure delivery split (affordable: 60% / market: 40%) given HNDA evidence of need for affordable housing across Shetland, as well as the LHS policy driver to deliver a more diverse range of housing options and tenures.

## **Stage 3: Housing Supply Targets by Tenure and Housing Market Sub-Area**

Further analysis was performed to test the delivery potential of housing estimates by housing market sub-area and tenure. Table 1.3 details the evidence considered including disaggregated housing estimates, emerging LDP site allocations and historic completions.

	Shetland	Central Mainland	Lerwick & Bressay	North Isles	North Mainland	South Mainland	West Mainland
Affordable Housing Estimates	506	63	303	41	43	42	13
Market Housing Estimates	423	66	134	43	58	86	37
Total Housing Estimates (2021-30)	929	129	438	84	101	128	49
LDP Allocations (MIR)	1158	233	624	3	4	277	17
Shortfall/surplus (Site allocations/HSTs)	229	104	186	-81	-97	149	-32
% Affordable Housing	54%	49%	69%	49%	43%	33%	26%
% Market Housing	46%	51%	31%	51%	57%	67%	74%
Housing Completions (2011-21)	793	215	247	58	110	118	45
% Completions on Windfall Sites	55%	67%	3%	63%	75%	75%	70%

**Table 1.3: Analysis of Housing Estimates by Housing Market Sub-area and Tenure**

Table 1.3 suggests that at a global level and in the housing market sub-areas with the greatest housing requirements (Central Mainland, Lerwick & Bressay and South Mainland), housing estimates are comfortably met by site allocations. Furthermore, given the surplus development capacity in these sub-areas, it was agreed by LHS Steering Group members that the broad tenure split (affordable: 60% / market: 40%) could be justified given the policy commitment to extending the range of affordable and intermediate housing tenures.

In the remaining sub-areas (North Isles, North Mainland and West Mainland), whilst it appears that there is a shortfall of allocated sites to support delivery of housing estimates via HSTs, Steering Group members noted that the LDP call for sites, requested landlords to submit applications for development sites of 3 units or more. This is likely in part to explain lower submission rates in more rural sub-areas where larger housing developments are less common and self-build single plots more common. This suggestion is borne out by analysis of self-build completions on windfall sites in these sub-areas which range from 63% - 75% of housing completions. Furthermore, when historic completion levels are benchmarked to housing estimates by sub-area, it justifies their selection as a starting point for setting disaggregated HSTs.

However, given the reliance on windfall housing development in these sub-areas, Steering Group members agreed that a broad tenure split of 40% affordable housing / 60% market housing was more likely to reflect the dynamics of housing delivery.

Informed by this analysis, Steering Group members concluded that Housing Supply Targets should be set by housing market sub-area using the following principles:

Shetland Housing Supply Targets 2021-30	900	HST rounded to nearest 10	% Affordable Housing	% Market Housing
Central Mainland (14%)	125	<b>130</b>	60%	40%
Lerwick & Bressay (47%)	424	<b>420</b>	60%	40%
North Isles (9%)	82	<b>80</b>	40%	60%
North Mainland (11%)	98	<b>100</b>	40%	60%
South Mainland (14%)	124	<b>120</b>	60%	40%
West Mainland (5%)	48	<b>50</b>	40%	60%
Shetland Total	900	<b>900</b>		

**Table 1.4: 10-year Housing Supply Targets by Housing Market Sub-area and Tenure**

#### Stage 4: Annual Housing Supply Targets

The principles for setting 10-year HSTs by sub-area and housing tenure were then adjusted to provide an annual Housing Supply Target:

Shetland Housing Supply Targets 2021-30	Annual HST = 90	% Affordable Housing	% Market Housing
Central Mainland (14%)	<b>13</b>	60%	40%
Lerwick & Bressay (47%)	<b>42</b>	60%	40%
North Isles (9%)	<b>8</b>	40%	60%
North Mainland (11%)	<b>10</b>	40%	60%
South Mainland (14%)	<b>12</b>	60%	40%
West Mainland (5%)	<b>5</b>	40%	60%
Shetland Total	<b>90</b>		






**Table 1.5: Annual Housing Supply Targets by Housing Market Sub-area and Tenure**







## 1.2. Housing Land Requirement arising from Housing Supply Targets




An annual Housing Supply Target for Shetland has been set at 90 units per annum with a 60% target for affordable housing (54 units) and 40% target for market housing (36 units).

The HST has been derived from HNDA housing estimates and takes into full consideration the full range of factors that may influence housing delivery on the ground including historic completions, available resources and policy considerations. The HST has been disaggregated by housing market sub-area, taking into account a range of practical considerations that will influence housing delivery on a spatial basis. The HST therefore provides a strong starting point for determining the Housing Land Requirement within the Shetland Local Development Plan.

### Appendix 1: Shetland Islands Housing Supply Target Evidence Template

HST Factors	Market Housing (+/-)	Evidence: Impact Analysis – Market Housing Delivery	Affordable Housing (+/-)	Evidence: Impact Analysis – Affordable Housing Delivery
10-year Housing Estimates (2021-2030)	426		503	
Economic factors		The Island Growth Deal announced by the UK and Scottish Governments in March 2021, creates an investment framework for growing and developing the Shetland economy. Key infrastructure projects focus on net zero energy, tourism, creative industries, food and drink and aqua culture. These major and economic development projects are likely to stimulate need and demand for housing, connecting homes and communities to new jobs.		The Island Growth Deal is also directly focused on housing-led growth. The Knab Redevelopment project aims to deliver a mixed-use site that embeds living and ageing well, wellbeing and a dynamic use of public space. The masterplan aims to develop a new, future looking community which links well with Lerwick town centre, new community facilities and up to 140 modern homes. The Knab project will be supported with investment of up to £9.1M from the Scottish Government.
		Amidst the economic impact of Brexit and Covid-19, the construction sector has experienced unprecedented materials shortage and supply chain stress, driving inflation in the tender costs of housing investment programmes in 2021. Whilst ongoing cost pressures are predicted to continue in 2022 aligned to energy price inflation, the long term impact of construction inflation on the pace and scale of housing delivery is difficult to predict.		
Capacity in the construction industry		LHS consultation evidence suggests that limited capacity in the local construction sector, exacerbated by a shortage of skilled labour across Shetland, is a major barrier to delivery of new housing and other construction /infrastructure projects.		Limited capacity in the local construction industry may result in price sensitive sectors (such as affordable housing) struggling to compete against market housing development opportunities and other construction projects.

		Acknowledging the delivery risks associated with limited capacity in the construction industry in Shetland, the Local Housing Strategy prioritises activity to develop a coherent, multi-agency workforce strategy for the construction sector in Shetland, ensuring that skills development supports capacity for investment in new and existing homes.		As well as targeted LHS activity to enhance construction industry capacity, Shetland Islands Council and Highlands & Islands Enterprise (HIE) are actively assessing scheduled and pipeline construction projects across Shetland to ease demand pressures and mitigate tender inflation.
Interdependency: delivery of market/affordable housing		Given the extent and nature of housing development activity in Shetland and the high proportion of housing completions focused on windfall sites and self-build development projects, an affordable housing policy or planning gain framework is not feasible. No impact on the setting of pace and scale of housing delivery in Shetland		
Availability of resources		The emerging housing spatial strategy framework for the new Local Development Plan (LDP) suggest that the global number of housing units which could be achieved in the next 10 years through allocated sites, is sufficient to deliver housing estimates for both affordable and market housing. Furthermore, community led housing solutions are being actively encouraged via the Rural & Islands Fund supported by the work of the Islands with Small Populations Group. This activity could further enhance opportunities to maximise development resources in remote and rural areas.		The approved Strategic Housing Investment Plan for Shetland is based on Resource Planning Assumptions of £19M (2021-26) to deliver 316 homes over 5 years (funding beyond the 5-year equivalent annual HST for affordable housing). Furthermore, the scale of housing masterplan sites such as Staneyhill and Knab, which seek to deliver a more diverse range of affordable housing tenures, will enhance the delivery of affordable homes beyond the core social housing programme.
Likely pace and scale of delivery based on completion rates		Analysis of historic housing completions confirms that the majority of new build units in Shetland are delivered on windfall sites through self-build single plots. From 2012-2017, 55% of planning applications focused		Aligned to Housing to 2040 new build targets, revised Affordable Housing Investment Programme grant rates offer up to £78k (3p equivalent) for RSL development, £71.5k for local authority development, with up to

		on the development of sites considered to be windfall (in Areas of Best Fit or Sites with Development Potential). These completions are often delivered by smaller building contractors which relieves pressure on larger construction firms.		£17.5k per unit available on additional quality improvement grants. Whilst these recent developments are very positive, the cost of building in Shetland is recognised to be significantly higher than the Scottish average (up to 45%). Despite revised subsidy rates for affordable housing, the economics of development in Shetland will continue to be challenging despite the availability of funding resources.
Recent development levels		Analysis of total market housing completions in Shetland over the past 5 years equals 261 units. A 10-year equivalent measure (522) compares well to market housing estimates (246).		Analysis of total social housing completions in Shetland over the past 5 years equals 129 units. A 10-year equivalent measure (258) falls short of affordable housing estimates (508).
				However, these statistics focus solely on the delivery of social housing. LHS Actions to diversify the range of housing options and tenures (including the delivery of intermediate housing delivery models on master-planning sites) are likely to boost delivery beyond historic levels
Planned demolitions		HNDA evidence confirms there are no scheduled housing demolitions over the next 10-years.		
Housing being brought back into effective use		Whilst the LHS Action plan is committed to investigating the potential for an empty homes/buildings strategy in Shetland, the economics of empty homes activity in Shetland has proven to raise value for money questions when benchmarked to new build housing activity (as a result of locational and housing condition issues). It is therefore unlikely that bringing housing back into effective use will have a material impact on the pace or scale of new build housing delivery across Shetland.		



Impact analysis: should estimates be adjusted?	5 x (+ve) impacts / 2 x (-ve) impacts	5 x (+ve) impacts / 3 x (-ve) impacts
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