Building post-pandemic prosperity

The economic and fiscal case for constructing 100,000 new council homes each year

October 2020

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A report for the Association of Retained Council Housing, Local Government Association and National Federation of ALMOs

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With research support from
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Disclaimer

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Please note numbers in tables may not add due to rounding.

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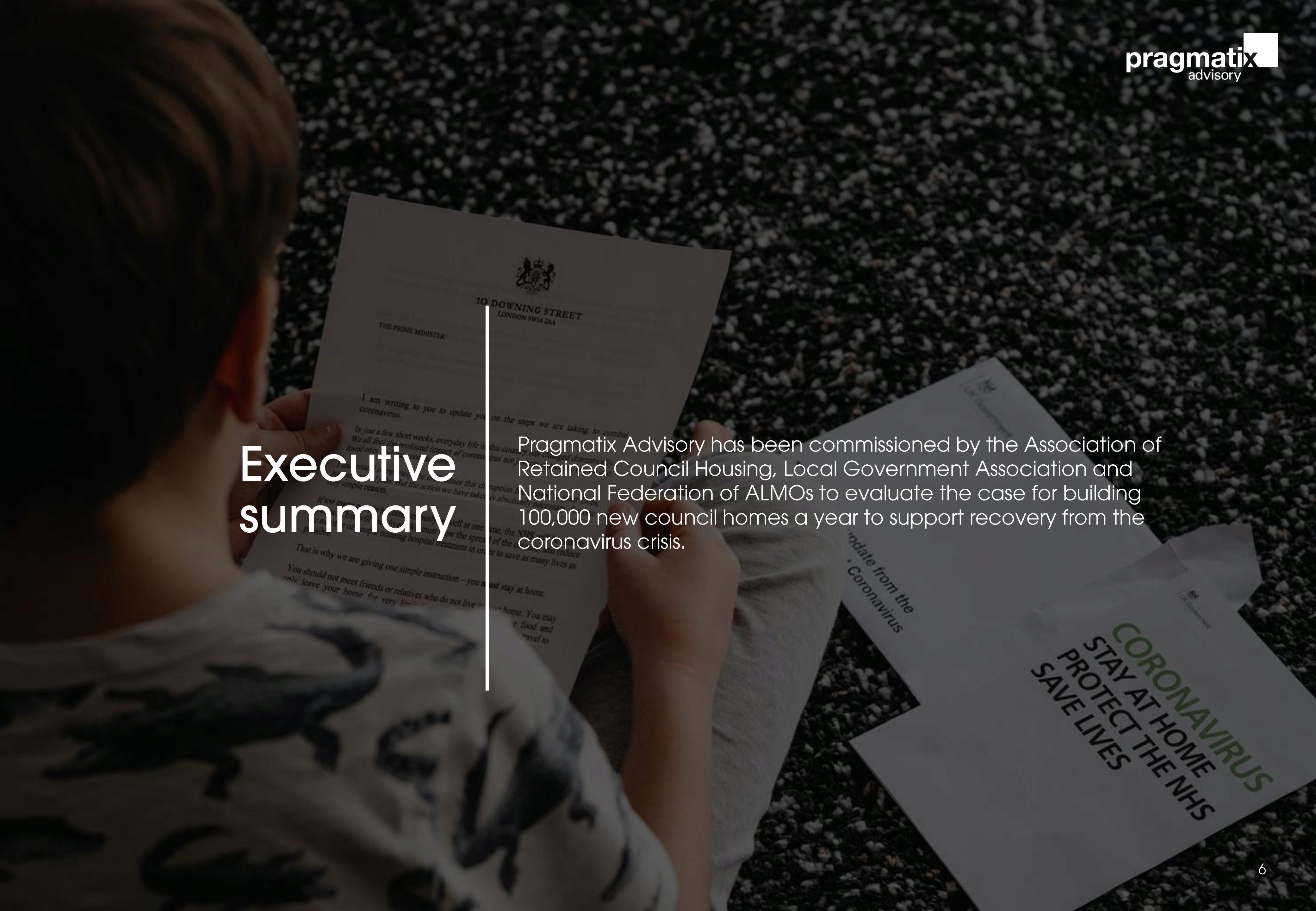

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Executive summary

Pragmatix Advisory has been commissioned by the Association of Retained Council Housing, Local Government Association and National Federation of ALMOs to evaluate the case for building 100,000 new council homes a year to support recovery from the coronavirus crisis.

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£14.5 billion economic boost from building 100,000 homes

2 million households on council waitlists in 2021

Jobless above 10% next year

Councils have an important role in rebuilding the national economy after the covid lockdown through building new homes for social rent. A programme of building 100,000 new homes for social rent each year will help the covid economic recovery and deliver long-term fiscal benefits.

During the lockdown, direct government spending was needed to keep businesses afloat and workers in employment. Similar direct intervention will be needed to establish and sustain the economic recovery. In this economic emergency, effective fiscal loosening requires emphasis on increased government expenditure rather than tax cuts. Building 100,000 new homes would result in a £14.5 billion boost to the economy.

Expenditure on new homes is a highly effective way to boost the domestic economy – with little money lost to importing foreign goods and services and benefiting a large number of small and micro businesses right across the country.

Covid amplifies the need and demand for homes by families unable reasonably to afford market rents or to buy. As covid-related income support schemes wind down, unemployment rises, and the government ban on evictions is lifted, more families will be forced to find cheaper accommodation.

Along with increased rough sleeping, homelessness and sofa surfing, the number of households on council waiting lists is expected to rise sharply. Both renters and homeowners will be at risk if they are no longer able to meet their housing costs.

Covid mortality rate double in most deprived areas

BAME households have seen incomes reduced furthest

Private housing output below 2019 level for at least 3 years

The pandemic has had a disproportionate health and financial impact on already disadvantaged groups.

The most deprived areas of England have double the mortality rate from covid than that of the least deprived, while ethnic minorities have seen their household incomes reduce by a larger percentage than those of white citizens. Lockdown has also seen an increase in demand for services to support domestic abuse victims, often including an urgent need for rehousing.

Covid has reinforced the patterns of local deprivation already evident in England. Social home building can provide the foundations for a meaningful and deliverable policy of 'levelling up' – with regions and communities of greatest need targeted effectively.

Without a publicly-financed substantial programme of home building, there is no practical chance of the government meeting its target of 300,000 new dwellings each year by 2025. Private housing output is not expected to return to the 2019 level of 145,000 new homes per year until 2023, and many in the industry believe that without further intervention and funding, the recovery of new public housing will take even longer. Current government policies such as 'Help to Buy' and the temporary reduction in Stamp Duty Land Tax are stimulating the 'resale market' for existing residential properties, but they are not meaningfully engendering confidence among developers in the market's medium and longer-term prospects. This not only risks the government's overall target for homebuilding but also exacerbates pre-existing shortages of homes at social and affordable rents.

1.3 million worker years of construction lost

SMEs hardest hit

47% cumulative drop in developer contributions

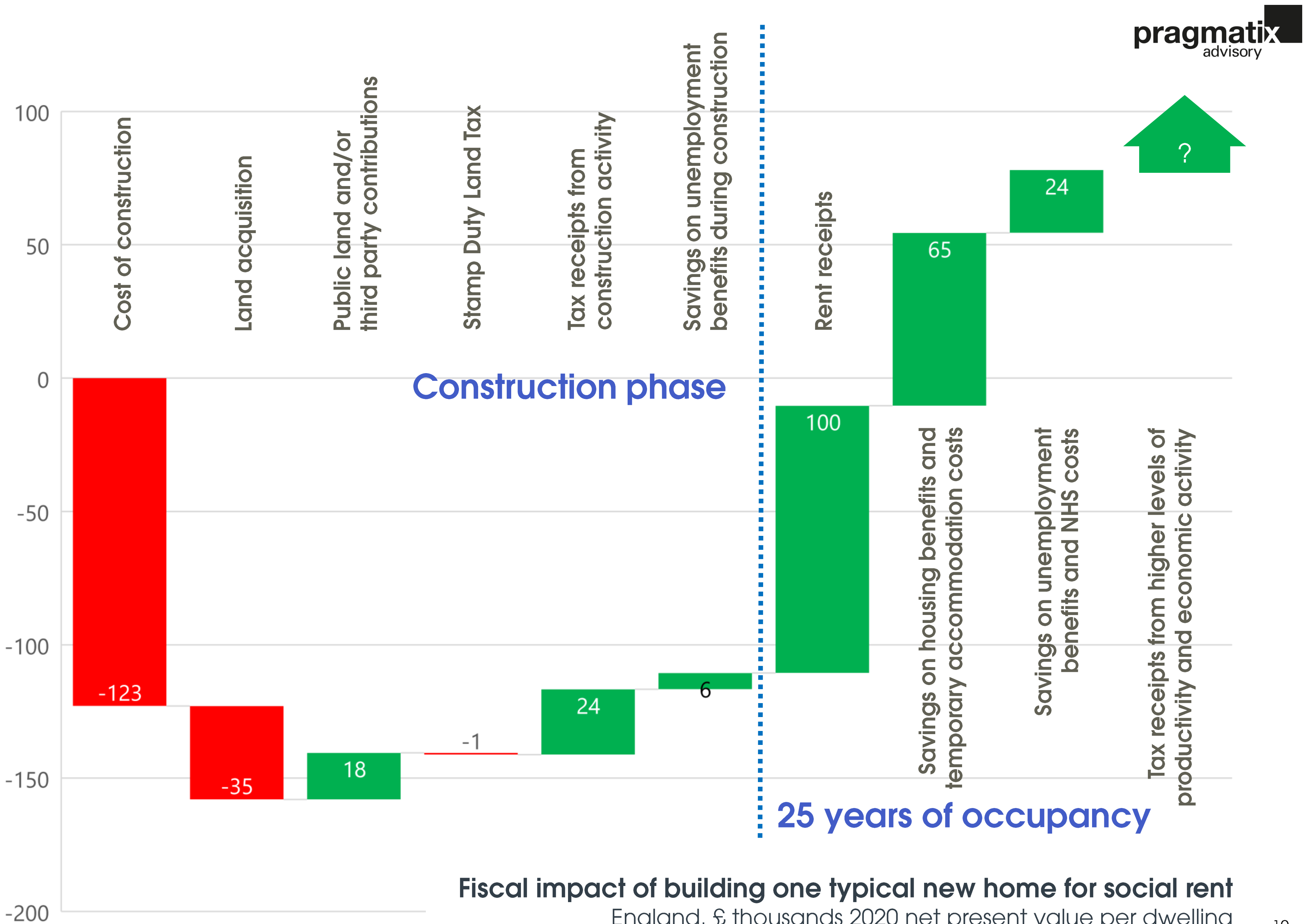
Building new homes for social rent will provide work for the construction sector, much of which will be under-utilised, idle or redundant because of covid.

The sector will have lost 1.3 million worker-years of construction by 2024. Lockdown closed many building sites, and now that they have reopened, social distancing rules make operations on site difficult and inefficient, especially when multiple trades are required for internal fit-out and tasks are more hands-on.

The outlook for builders is tougher than for those in many other industries. Property development is characterised by projects with long lead times, large risks and significant up-front financial outlays; in uncertain and volatile economic times, homebuilding schemes are more likely to be slowed, paused or axed than activity in other sectors.

The falls in construction activity will have a disproportionate impact on micro, small and medium sized enterprises, and on the self-employed – and will be felt across all regions and communities.

Covid makes it even tougher for councils to finance the construction of needed social rent homes. Private developer contributions through 'Section 106' agreements have accounted for 49 per cent of all new social and affordable rent homes in recent years. As commercial investors take a more cautious approach, their funding of public schemes can be expected to drop – by as much as 47 per cent cumulatively by 2024. Recently enacted and proposed changes to planning rules will further reduce the resources available to councils for homebuilding from this previously critical source.



Fiscal impact of building one typical new home for social rent

England. £ thousands 2020 net present value per dwelling

Source: Pragmatix Advisory

£3.9 billion employee spend

£5.7 billion supply chain GVA

£4.8 billion construction sector GVA

Building new homes for social rent is an effective and efficient way to deliver fiscal stimulus. Building 100,000 homes for social rent would boost the economy by £14.5 billion, supporting 89,000 jobs worth £3.9 billion and adding £4.8 billion in gross value added to the construction sector with a further £5.7 billion in the supply chain.

Covid has precipitated a sharp and unprecedented reversal in public sector finances. In the short term, a large deficit will be run to cover the direct costs of the pandemic and then to provide the expansionary fiscal boost required for economic recovery.

Once built, every new council home will save the government money. The housing benefit / universal credit bill will be reduced by taking the most vulnerable and in need families out of expensive private sector and temporary accommodation and into social rent housing. New council housing will improve the outlook for some of the most disadvantaged families by helping to increase their chances of finding and keeping employment. This will further reduce the burden on public finances – with lower numbers claiming unemployment benefit.

With fewer families in substandard or overcrowded housing, the reduction in associated health problems will drive a corresponding decrease in pressure on the health service.

£346 million a year rent revenue

Public sector surplus of £7.8 billion

3.8% real annual return to the Exchequer

Once additional impacts on the whole public sector's finances are taken into account, the construction of new homes for social rent makes sense fiscally as well as socially and economically.

Although councils could expect rental income of £346 million a year from 100,000 social rent homes, they cannot fund substantial homebuilding programmes from the rent receipts alone.

With the business and funding models of both housing associations and private developers substantially weakened in the covid era, councils will be central to the success of any stimulus package for local housebuilding. Local authorities no longer have the internal capacity to deliver the large council house building programmes of the 1970s and early 1980s. Nevertheless, they have shown how they can successfully work with private developers and housing associations to deliver affordable and social housing, delivering 17,620 new affordable and social homes in 2010-19, up from 2,050 in the previous decade.

Investment in 100,000 council homes would yield a net present value public sector surplus of £7.8 billion over 25 years and real annual return to government of 3.8 per cent each year.

Cooperation and partnership between councils, central government, housing associations, land owners/developers and the construction sector can ensure delivery of 100,000 new homes for social rent each year.

October 2020


Fast and deliverable impact
"Oven-ready" investment
Access to finance
Established process
Community support
100,000 new council homes each year
Boosting productivit
y and
sustainabilit
y
Maximise multiplier
Fiscal benefits
Target locations
Addressing the long-term challenges of the "new normal"
Levelling up and buying British

1. Economy

Councils have an important role in rebuilding the national economy after the covid lockdown through building new homes for social rent.

Nobody knows what the eventual impact of the coronavirus pandemic will be on the economy. There has been a sharp drop in output through lockdown; we wait to see what will happen to jobs once the government's furlough scheme unwinds. The speed, shape and robustness of any recovery remains unclear.

But we can make educated guesses – and we do know the likely nature and broad scale of the challenges we face.

The latest Office for Budget Responsibility 'central' case analysis says the government should plan on the basis of losing around £1 trillion of economic output by 2024-25 because of covid. The depth of this downturn is compounded by the ongoing risks and uncertainties around the public health emergency. Lockdown and social distancing physically suppresses demand; traditional fiscal and monetary loosening measures, such as tax and interest rate cuts, are blunted.

During the lockdown, direct government spending, such as on the furlough scheme, was needed to keep businesses afloat and workers in employment. Similar direct intervention will be needed to establish and sustain the economic recovery. In this economic emergency, effective fiscal loosening requires emphasis on increased government expenditure rather than tax cuts.

Expenditure on construction, especially new homes, is a highly effective way to boost the domestic economy – with little money lost to importing foreign goods and services, and benefiting a large number of small and micro businesses right across the country.

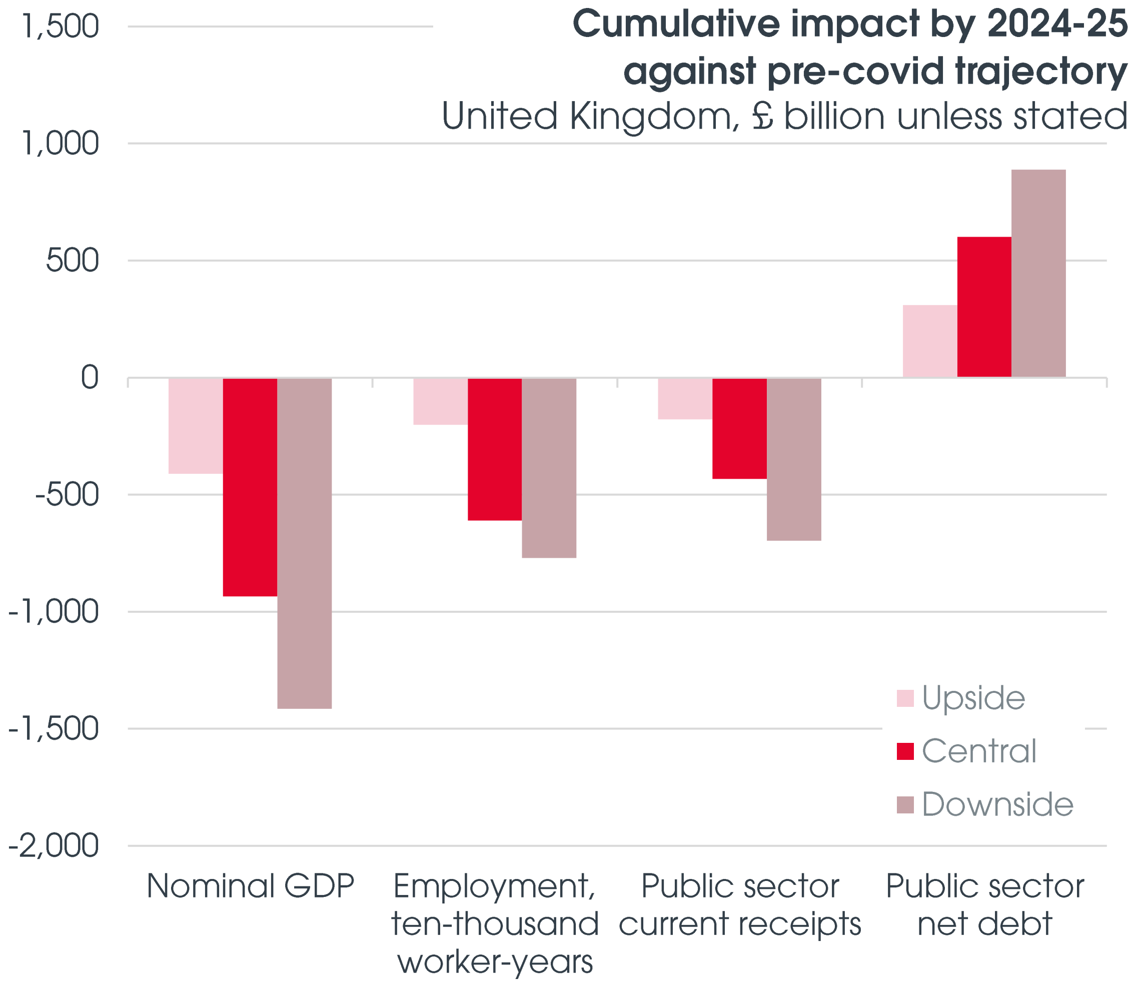
An economy that's lost almost half a year

Covid will set the economy back substantially – not only this year, but over the multiple years of recovery.

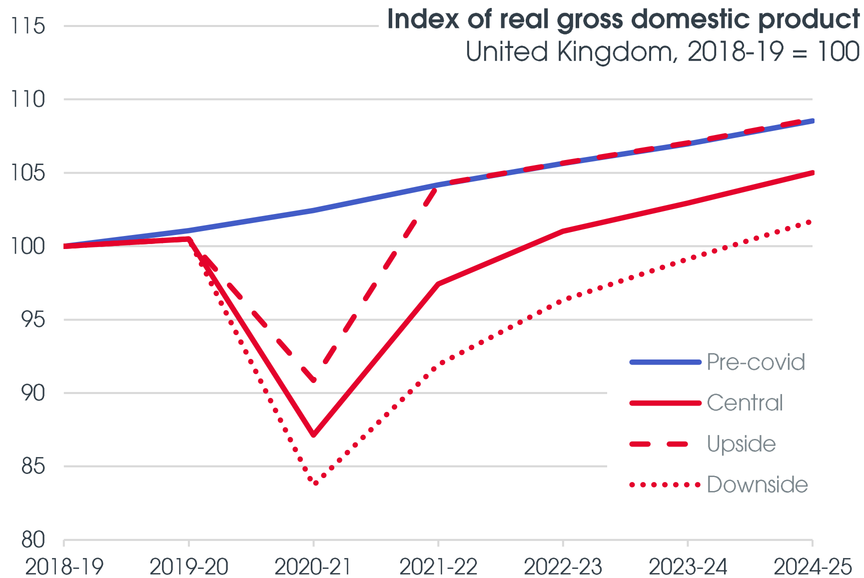
Compared with its pre-covid trajectory, by 2024-25, the pandemic will likely cause a cumulative loss to gross domestic product of almost £1 trillion, which is the equivalent of over five months of the national output.

Although a return to the pre-covid trajectory is likely to be a major milestone in the United Kingdom's covid recovery, an exclusive focus on economic growth ignores the severe impact to the economy that results from years spent below pre-covid forecast levels.

We expect to see a loss of over 1 million full-time equivalent jobs on average each year until 2024-25.



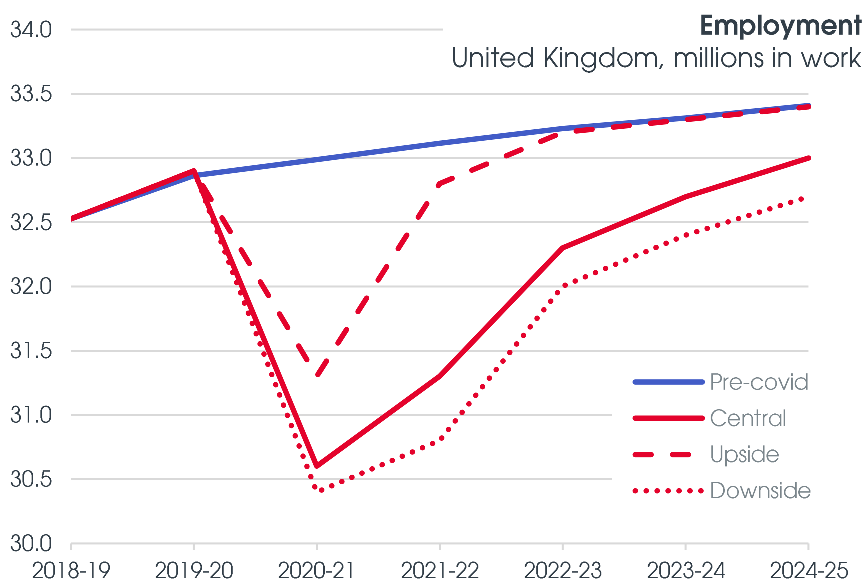
Source: Office for Budget Responsibility



Uncertainty remains regarding the economic impacts of covid

It remains unclear how the pandemic will play out from here and how that will translate into economic recovery.

We use the latest Office for Budget Responsibility forecast as the basis for our calculations. We have no reason to believe that the OBR numbers are any better or worse than any other forecaster, but they are the basis on which the government plans expenditure.



2.4 million fewer jobs because of covid

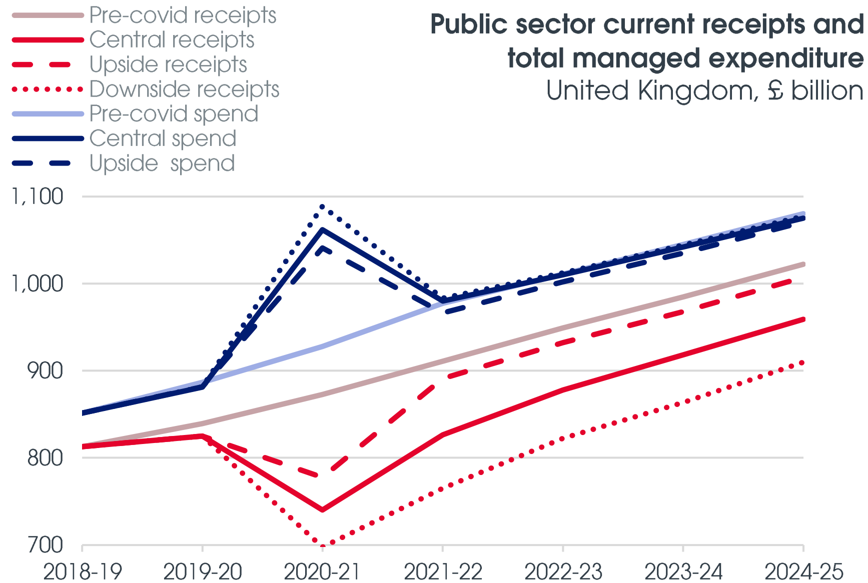
Covid will lead to the loss of millions of jobs in the coming year. At best, employment will draw close to its pre-covid trend in 2022-23. However, it is more likely that this will take well over half a decade to come to fruition.

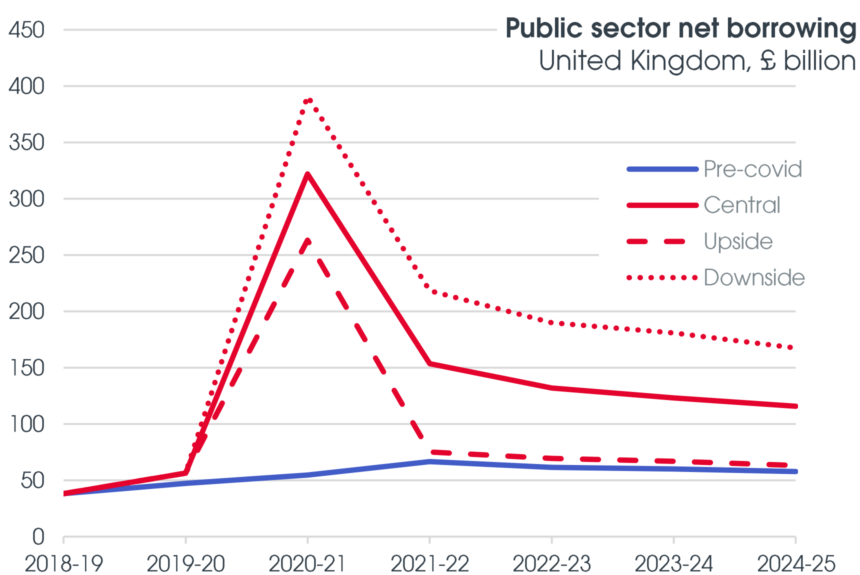
Real GDP is expected to reach a low of 15% below its pre-covid forecast level in 2020-21. Though it is set to rebound in the following years, it is likely to fall short of its pre-covid growth path.

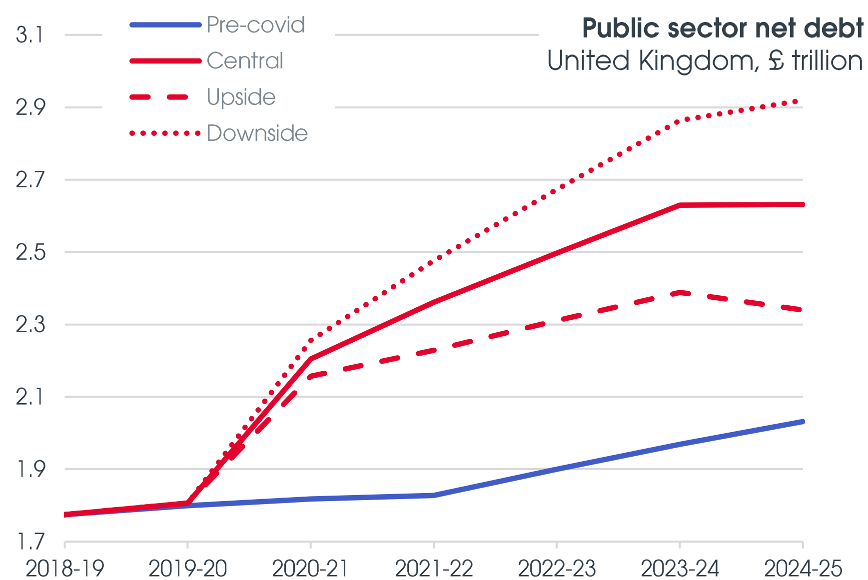
Source: Office for Budget Responsibility

Public debt set to be worse than after the global financial crisis

Covid has required government to massively increase public sector borrowing in order to prop up the economy during lockdown measures. Income support schemes and business grants were essential in order to prevent mass unemployment and business failures, but have left the country with high levels of public sector net debt and lower that expected public sector current receipts.







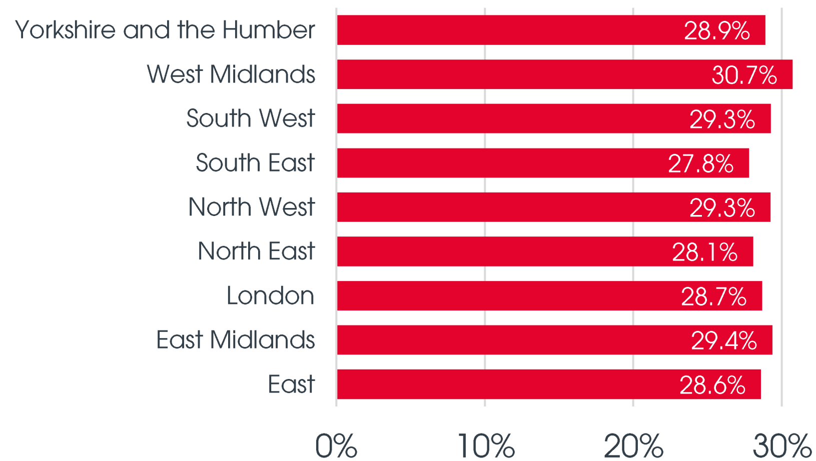
Source: Office for Budget Responsibility (all)

Covid impacted whole country, but some communities and regions hit harder

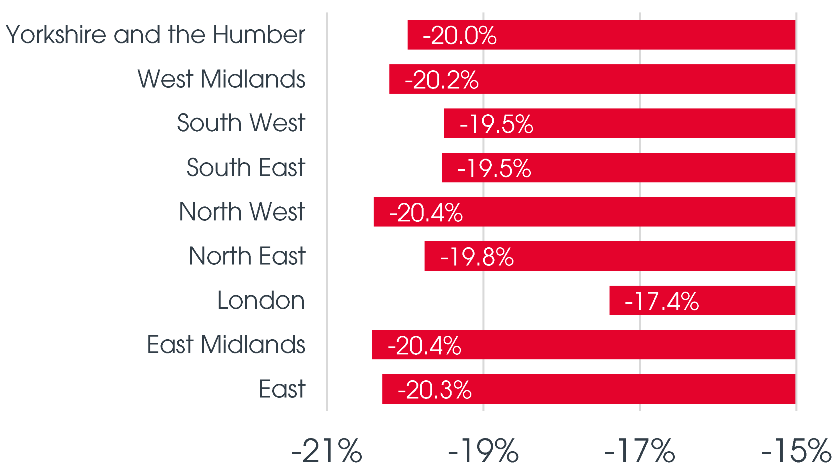
The North West and Midlands regions have been particularly affected, with the highest proportions of employees furloughed, over 20% drops in GVA from Q1 to Q2 2020, and large shares of employees working in high-risk industries.

By contrast, London has fared notably better in terms of quarter-to-quarter reduction in nominal GVA in the region. It also has the lowest share of employees in high-risk industries of any region.

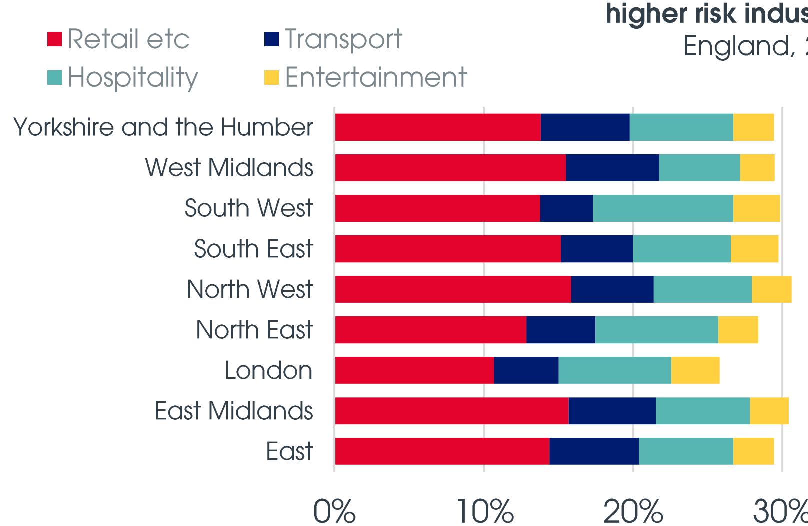
Percentage of employees furloughed
England, August 2020



Change in nominal gross value added
2020 Q1 – 2020 Q2



Percentage of employees in selected higher risk industries
England, 2020



Source: Office for National Statistics (top and bottom right). Pragmatix Advisory *Community Foresight Model* (bottom left)

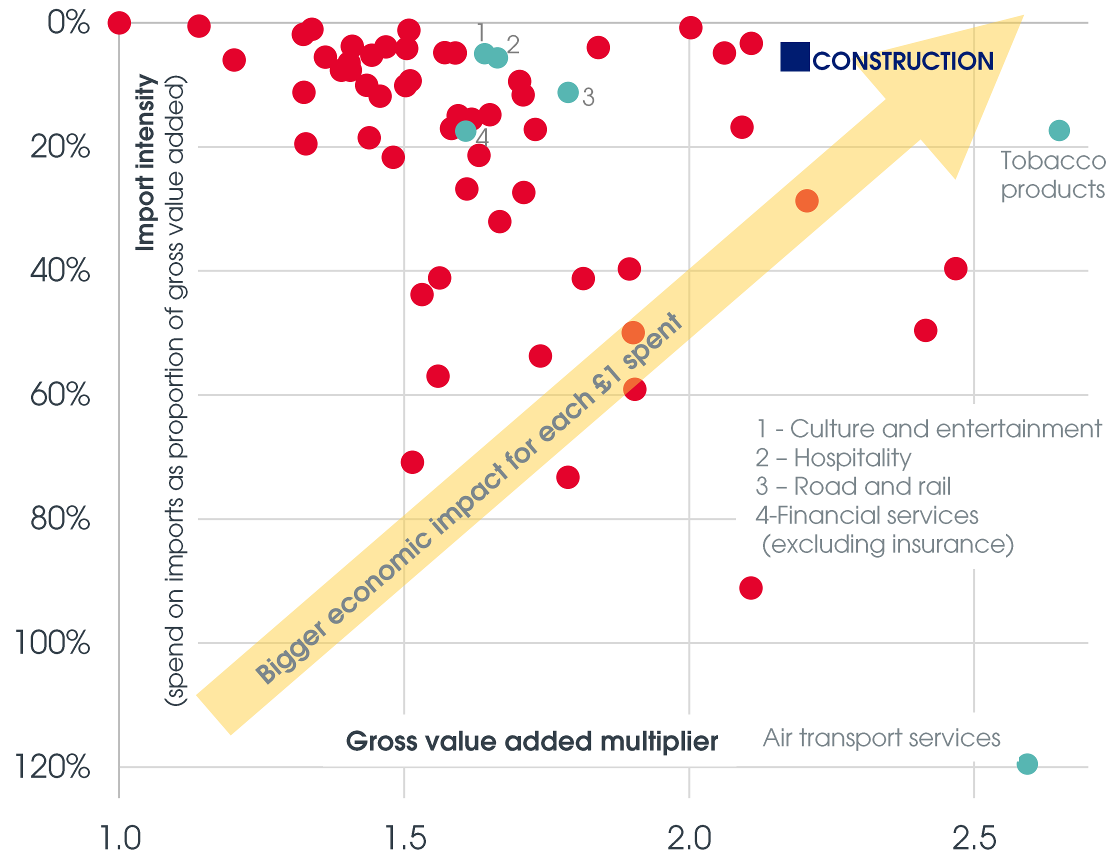
There's a big bang for every construction buck

Recovery requires government to shift policy from minimising the economic damage caused by lockdown to simulating economic growth as the country gets back to work in the 'new normal'.

An expansionary fiscal position will be needed, and is anticipated, for the coming few years.

Focus is needed on public expenditure that has the greatest chance of stimulating wider economic growth. Spend on areas with high rates of imports will needlessly leak British taxpayers' money to fund foreign growth. Certain sectors, like construction, have higher 'multiplier effects', reflecting how spend in that area compounds through the supply chain to support higher levels of domestic economic activity and jobs.

Sectors by import intensity and GVA multipliers
United Kingdom, 64 sectors, 2016



Source: Office for National Statistics. Note: three sectors not shown: two beyond 120 per cent import intensity and one over 3.0 multiplier

£14.5 billion boost from building 100,000 homes

Building 100,000 homes costs around £12.4 billion. This supports around 89,000 jobs and £4.8 billion of 'value added' in the construction sector.

The economic boost is also felt along the supply chain, and where those employed in the construction sector and its supply chain spend their incomes; 263,000 jobs are supported in this wider ecosystem, which generates £2.5 billion of new tax receipts.

The overall impact on gross value added, of £14.5 billion, is the equivalent to over half of the entire annual economic performance of the city of Birmingham.

Moreover, during recovery, building new homes could bring workers into employment who would otherwise be unemployed and receiving benefits – saving the government up to a further £1.2 billion.

	Construction sector	Supply chain	Employee spend	TOTAL
Output / Cost	£12.4 bn	£13.0 bn	£8.9 bn	£34.3 bn
Gross value added	£4.8 bn	£5.7 bn	£3.9 bn	£14.5 bn
Wages, salaries, etc.	£2.2 bn	£3.2 bn	£2.2 bn	£7.6 bn
Tax receipts	£0.8 bn	£1.0 bn	£0.7 bn	£2.5 bn
Unemployment benefits saved (max)	£0.4 bn	£0.5 bn	£0.3 bn	£1.2 bn
Jobs supported, full time equivalent	89,000	103,000	71,000	263,000

Economic and fiscal impact of building 100,000 new homes
United Kingdom

Source: Pragmatix Advisory calculations using Office for National Statistics data and Capital Economics estimates of 'induced effects'

2. Households, poverty and homelessness

Councils have been responding to poverty, homelessness, poor health and families in distress through the provision of decent housing for over a century. Covid amplifies the need and demand for homes by families unable reasonably to afford market rents.

As covid-related income support schemes wind down, unemployment rises and the government ban on evictions is lifted, more families will be forced to find cheaper accommodation. Along with increased rough sleeping, homelessness and sofa surfing, the number of households on council waiting lists is expected to rise sharply. Both renters and home owners will be at risk if they are no longer able to meet their housing costs.

The pandemic has had a disproportionate health and financial impact on already disadvantaged groups. The most deprived areas of England have double the mortality rate from covid than that of the least deprived, while ethnic minorities have seen their household incomes reduce by a larger percentage than those of white citizens. Lockdown has also seen an increase in demand for services to support domestic abuse victims, often including an urgent need for rehousing.

Covid has reinforced the patterns of local deprivation already evident in England. Social home building can provide the foundations for a meaningful and deliverable policy of 'levelling up' – with regions and communities of greatest need targeted effectively.

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Council waiting lists to exceed 2 million

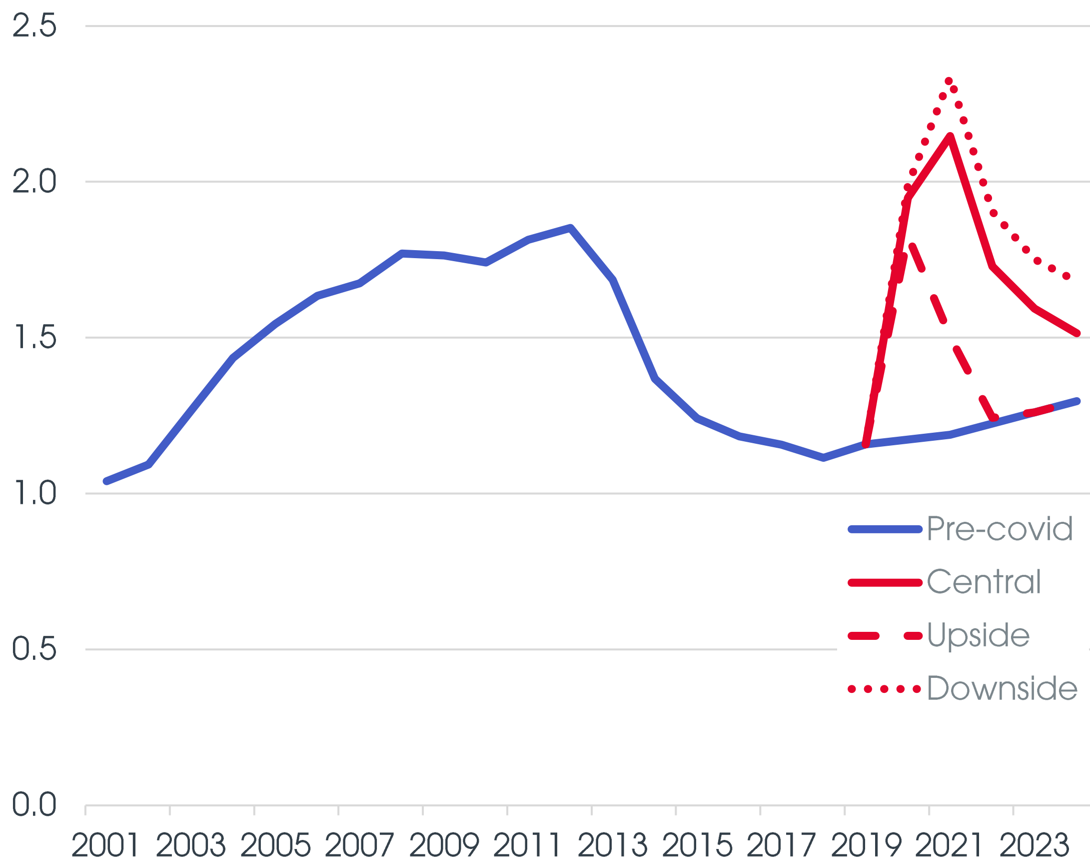
We are yet to see the full social and economic impact of the covid pandemic, or its implications for housing needs.

As covid-related income support schemes wind down, unemployment rises and the government ban on evictions is lifted, more families will be forced to find cheaper accommodation.

Along with increased rough sleeping, homelessness and sofa surfing, the number of households on council waiting lists is expected to rise sharply.

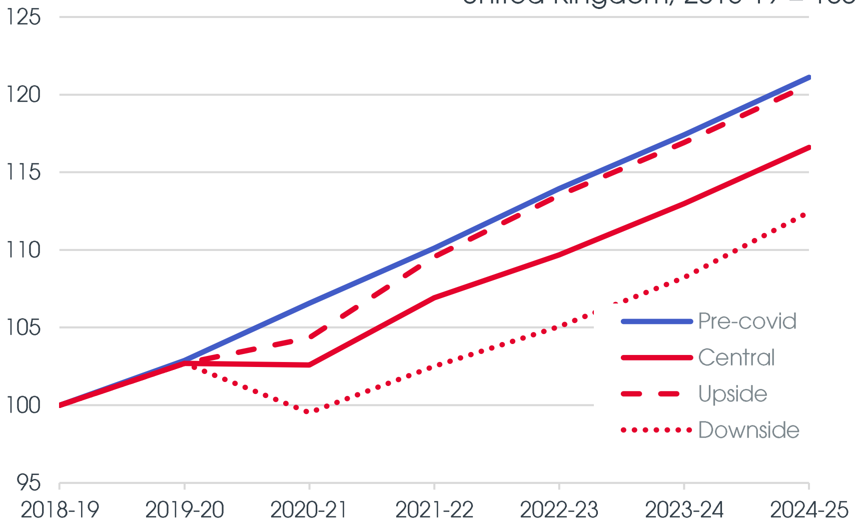
Waiting lists are likely to surpass the previous peak in the aftermath of the global financial crisis and are only an early warning sign of real levels of need and demand.

Length of local authorities' housing waiting lists
England, millions of households



Source: Ministry of Housing, Communities & Local Government. Pragmatix Advisory

Index of average earnings
United Kingdom, 2018-19 = 100



Covid is a substantial hit to average earnings

There is no hiding the scale of the impact that covid will have on households' finances and their financial security.

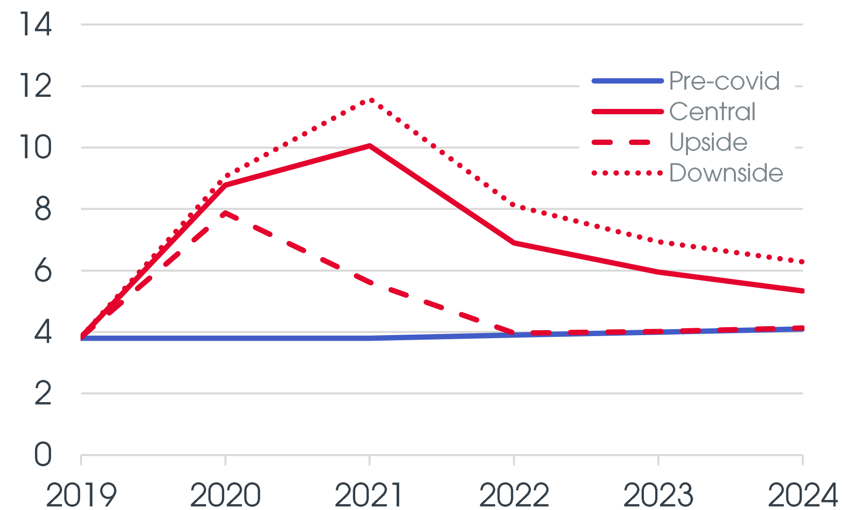
The OBR's central forecast is for earnings to flatline – but that average masks the wide range of consequences that the pandemic has and will have on families in different circumstances.

Broad expectation that unemployment will jump once furlough measures are unwound

Government income support schemes have allowed businesses to retain staff that may otherwise have become unemployed during the lockdown period. As the scheme comes to an end, job losses and redundancies will increase.

OBR's central forecast is that unemployment levels will peak at 10.1 per cent in 2021, with rates still above five per cent in 2024.

Unemployment rate forecasts
United Kingdom, per cent

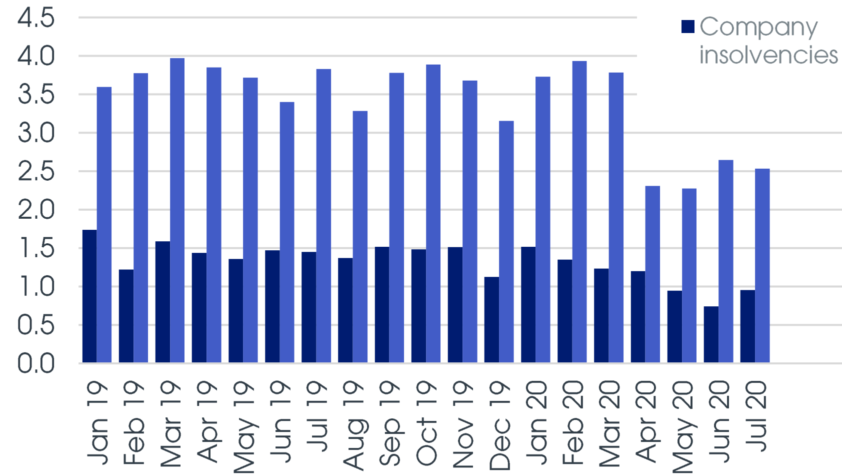


Source: Office for Budget Responsibility

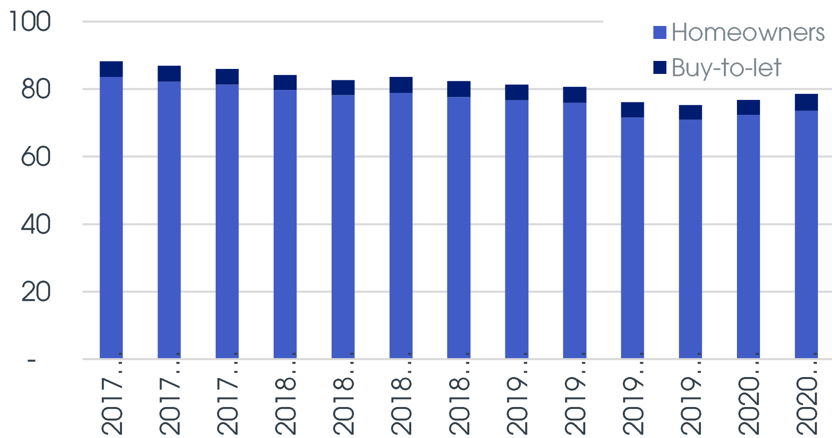
No increase in bankruptcies or insolvencies yet

As a result of temporary emergency measures, such as the furlough scheme, implemented in response to covid and the difficulty in conducting any business activity during lockdown, both company insolvencies and individual bankruptcies have decreased since March.

Company and individual insolvencies
England and Wales, thousands



Number of mortgages in arrears over 2.5% of balance
United Kingdom, thousands



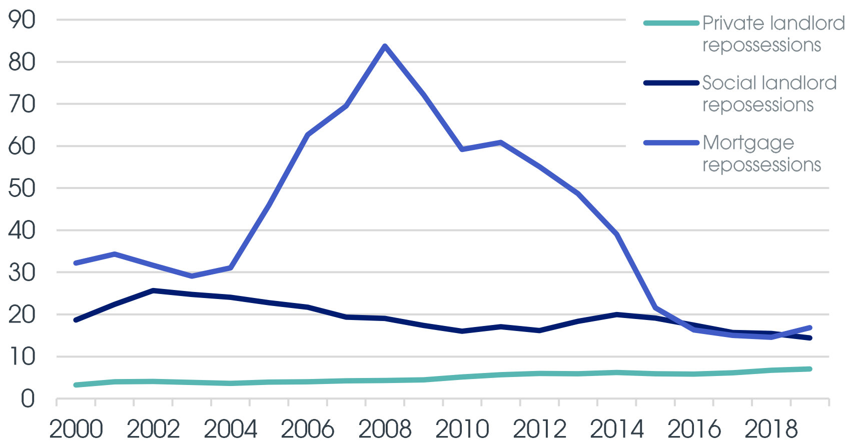
Mortgage arrears remain low, but are rising

Over two million homeowners and buy-to-let landlords have been offered mortgage payment deferrals where covid has impacted their ability to meet payments. Despite this, homeowner arrears increased in the first three months of 2020 and have remained at similar levels in the second quarter.

An industry moratorium on involuntary possessions reduced possession numbers in the second quarter 2020 to just twenty per cent of those twelve months earlier. As these temporary measures are repealed we expect to see a spike in bankruptcies, insolvencies and arrears.

Source: UK Finance (bottom left). The Insolvency Service (top right)

Mortgage and landlord repossession workload in county courts
England, thousands of cases



Unlikely to see repossessions at 2008 levels

Few families have forcibly lost their homes through repossession and eviction so far.

With historically low interest rates and mortgage lenders willing to show leniency, we do not expect to see the levels of foreclosures and repossessions reach the heights of previous recessions.

Although a government ban has prevented evictions by rental-home landlords during the lockdown period, these will increase when courts resume hearings.

Expect an avalanche of evictions due to rent arrears in 2021

With more households behind with their rents, hundreds of thousands of families are at risk of being forced from their homes through eviction next year.

Demand for social rent housing will be put under additional pressure by families vacating their homes through 'non-renewal' of tenancies and being squeezed out by rent increases. The levels of hidden homelessness, including those moving in with relations or sofa surfing with friends, will increase by much more than the eviction data suggests.

- Shelter estimates **230,000 renters at risk of eviction** when government ban lifts
- Number of **households behind on their rent** has **doubled** since start of lockdown, with 51 per cent of those in arrears in June previously being up to date in March
- Estimated **five per cent of private renters were in arrears** as of June compared with two per cent in September 2019

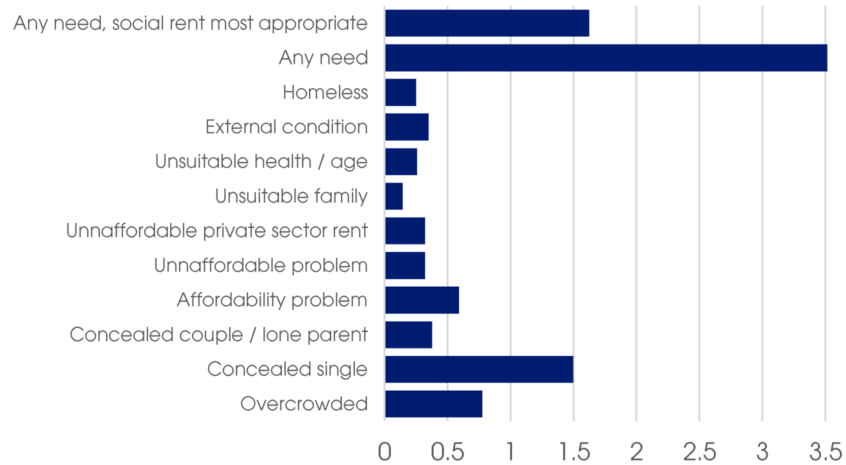
Source: Ministry of Housing, Communities and Local Government (top). Shelter (bottom)

Housing need exceeds council waitlists

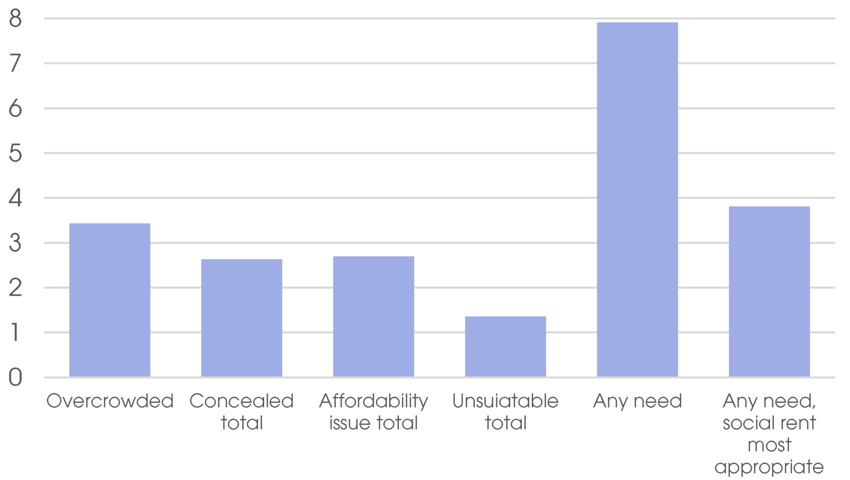
National Housing Federation report, *'People in housing need'*, quantifies the levels of housing need not fully evident by council house waitlist numbers.

The report calculates that almost eight million people in England have some form of housing need, and that for 1.6 million households, social rent homes would be the most appropriate solution to their housing problems. This represents half a million more households than are registered on council waitlists.

Households in housing need by category
England, 2017/18, millions



Individuals in housing need by category
England, 2017/18, millions



Important to recognise scale of hidden need

As with households unable to meet housing costs, the number of concealed households – where individuals or families are living within another household – are likely to rise due to the financial implications of covid. This will result in higher numbers of households falling into the hidden need categories, and not necessarily being picked up by council waitlist numbers.

Source: National Housing Federation

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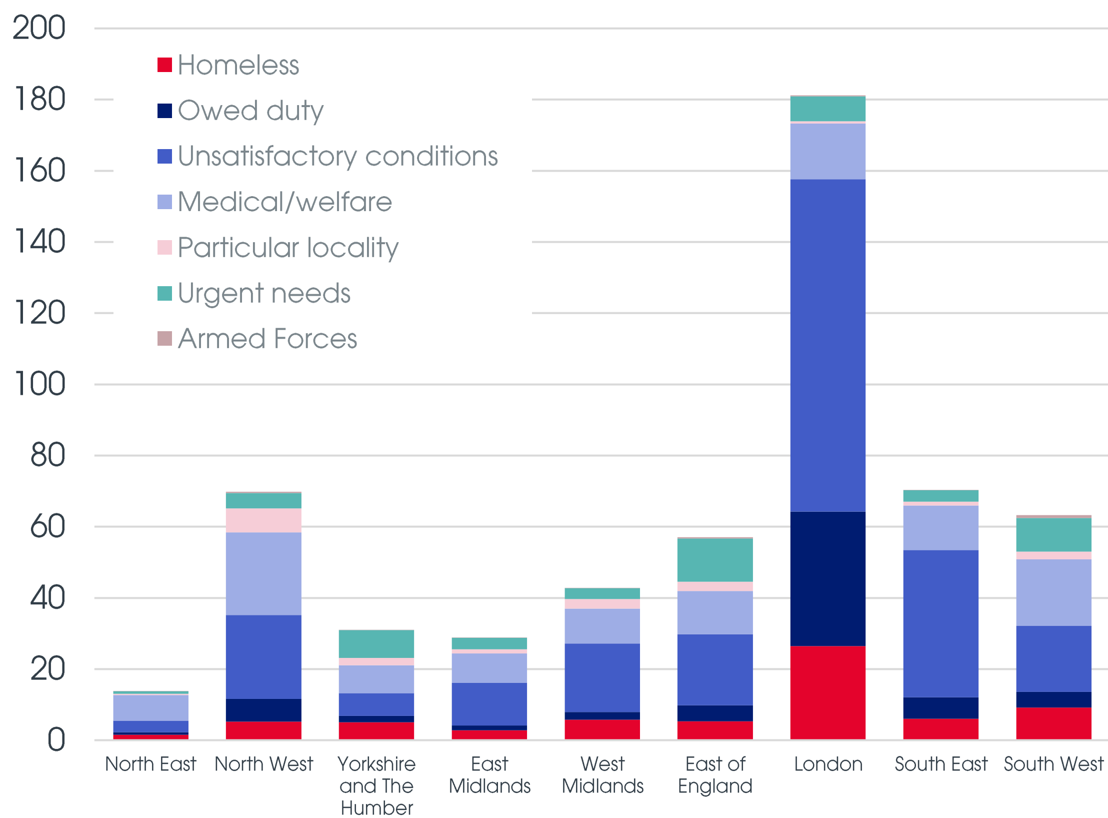
Covid compounds unmet needs of vulnerable

Covid-related domestic abuse and family breakdowns are adding to housing demand. Calls to the Refuge helpline were 80 per cent higher than usual in June, and the charity's website saw a 957 per cent increase in traffic over a two week period in May.

Multiple local authorities report a significant increase in housing need from domestic abuse victims, despite an overall fall in enquiries during first six weeks of lockdown.

The 'Everyone in' operation during early stages of the pandemic saw rough sleepers housed in temporary accommodation including hotels and hostels. This has added to the existing demand of those in 'reasonable and preference categories' on housing waitlists.

Households on the housing waiting list in reasonable and additional preference categories
England, 2018-19, thousands



Sources: Refuge, Ministry of Housing, Communities and Local Government

“People living in more deprived areas have experienced COVID-19 mortality rates more than double those living in less deprived areas. General mortality rates are normally higher in more deprived areas, but so far COVID-19 appears to be taking them higher still.”

Head of Health Analysis
Office for National Statistics

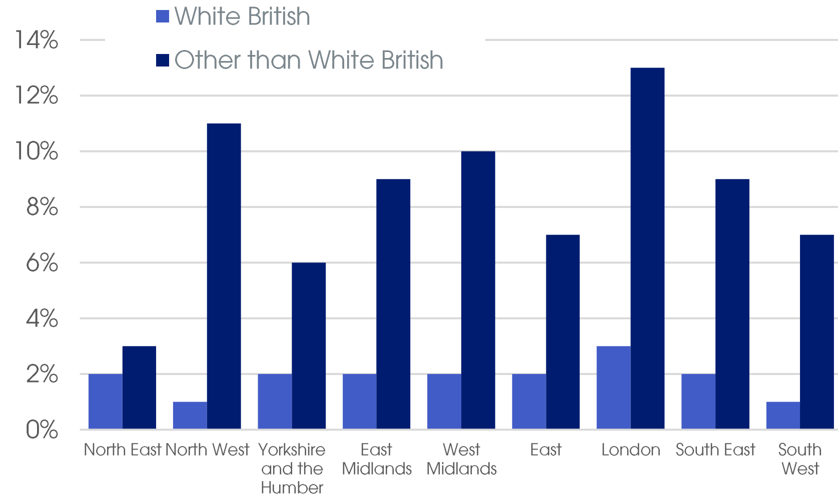
Covid has greater health and financial impacts on already disadvantaged groups

Behind the averages, there are real differences between the health and economic impacts of the pandemic on individual households – dependent on their specific circumstances and background.

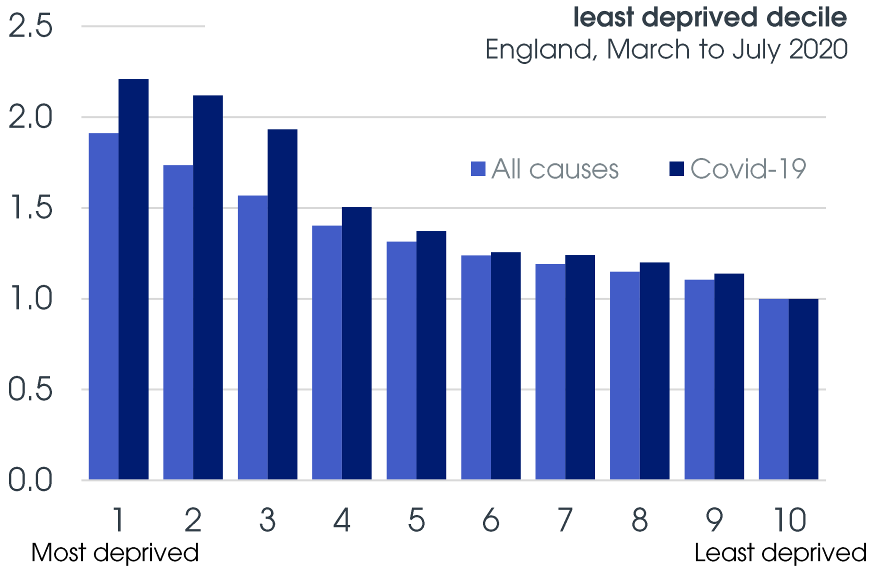
Ethnic minority households have seen their incomes fall further in comparison to those in white ethnic groups, while their risk of death from covid is greater.

Families from ethnic minority backgrounds are already more likely to be living overcrowded homes.

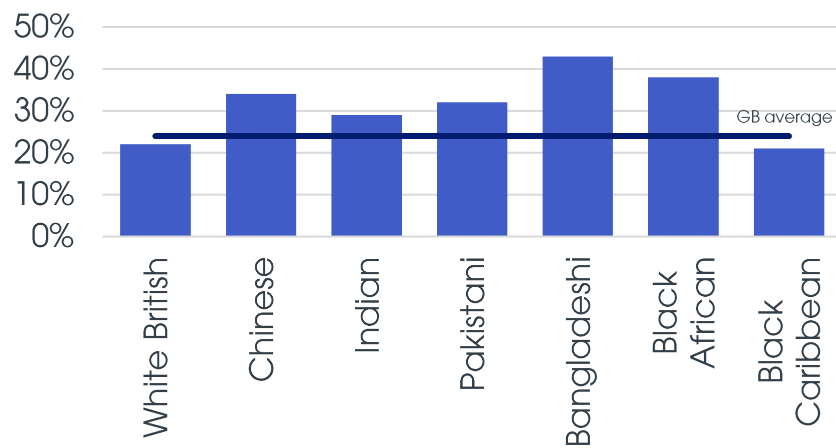
Overcrowded households by ethnicity and region
England, 2020



Age-standardised death rate as proportion of the least deprived decile
England, March to July 2020



Proportion of households experiencing reduction in household income post-covid, by ethnicity
Great Britain



Source: Ministry of Housing, Communities and Local Government (top). Office for National Statistics (left). Runnymede Trust (bottom right)

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Covid reinforces patterns of local deprivation

Covid's disproportionate current and future impact on deprived areas and regions

Local authorities with highest levels of deprivation mirror those that will be impacted most by rising unemployment.

Pre-covid levels of deprivation by local authority
England, 2019, darker are more deprived

Covid employment Impacts by local authority
England, darker suffer greater job losses

Source: Office for National Statistics (left). Pragmatix Advisory *Community Foresight Model* (right)

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Social home building can target local need

The pandemic reinforces the need for the levelling up of economic opportunities across the country.

Council home building can be targeted accurately to provide both the housing stock and economic boost where it's needed most.

An effective building programme will focus on areas with:

(i) unmet housing need;

(ii) susceptibility to covid's economic impacts; and

(iii) capacity in the construction sector.

	Extant need	Covid impact	Sector capacity
	Households on council waiting lists, 2019	Number furloughed plus unemployed claimant count	Construction sector jobs, December 2019
North East	55,143	350,700	76,000
North West	203,323	1,035,600	234,000
Yorks & Humber	148,076	749,700	163,000
East Midlands	75,143	696,700	152,000
West Midlands	101,665	866,400	199,000
East of England	107,449	879,600	256,000
London	243,551	1,385,500	305,000
South East	114,573	1,294,600	342,000
South West	108,362	808,900	224,000

Indicators of the scale of housing intervention needed

Source: Pragmatix Advisory; Office for National Statistics; Ministry of Housing, Communities and Local Government

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Potential to level up regions and communities

The implications of the pandemic, and the potential for a future 'new normal', mean that historical rates of building homes for social rent in different regions may not be adequate or effective.

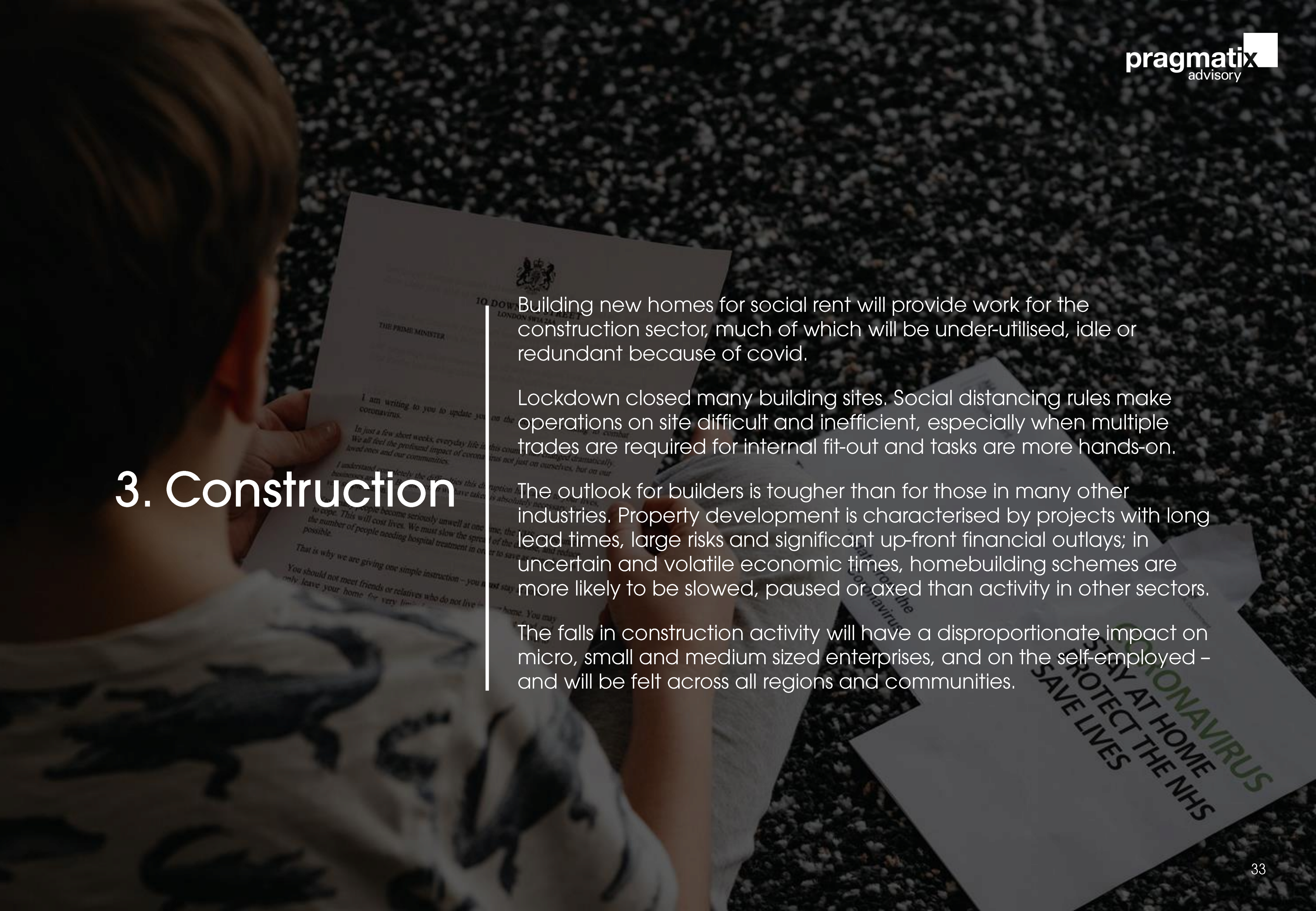
The 'Scaling up' housing allocation reflects how 100,000 new homes could be distributed across the English regions if based on the most recent years' build-rates for social and affordable housing.

We also set out an indicative potential allocation of new homes for social rent which is consistent with each region's needs, impact from covid and construction capacity. This 'Levelling up' allocation sees higher build-rates in many regions, especially those where covid has had a disproportionate economic impact.

New social rent homes per annum	Scaling up	Levelling up
North East	5,700	8,000
North West	11,200	14,000
Yorks & Humber	8,200	10,000
East Midlands	8,900	10,000
West Midlands	13,000	15,000
East of England	12,100	12,000
London	14,000	8,000
South East	15,800	8,000
South West	11,100	15,000

Possible initial covid-response home building options (indicative only)

Source: Pragmatix Advisory. Ministry of Housing, Communities and Local Government



3. Construction

Building new homes for social rent will provide work for the construction sector, much of which will be under-utilised, idle or redundant because of covid.

Lockdown closed many building sites. Social distancing rules make operations on site difficult and inefficient, especially when multiple trades are required for internal fit-out and tasks are more hands-on.

The outlook for builders is tougher than for those in many other industries. Property development is characterised by projects with long lead times, large risks and significant up-front financial outlays; in uncertain and volatile economic times, homebuilding schemes are more likely to be slowed, paused or axed than activity in other sectors.

The falls in construction activity will have a disproportionate impact on micro, small and medium sized enterprises, and on the self-employed – and will be felt across all regions and communities.

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1.3 million worker-years of building lost by 2024

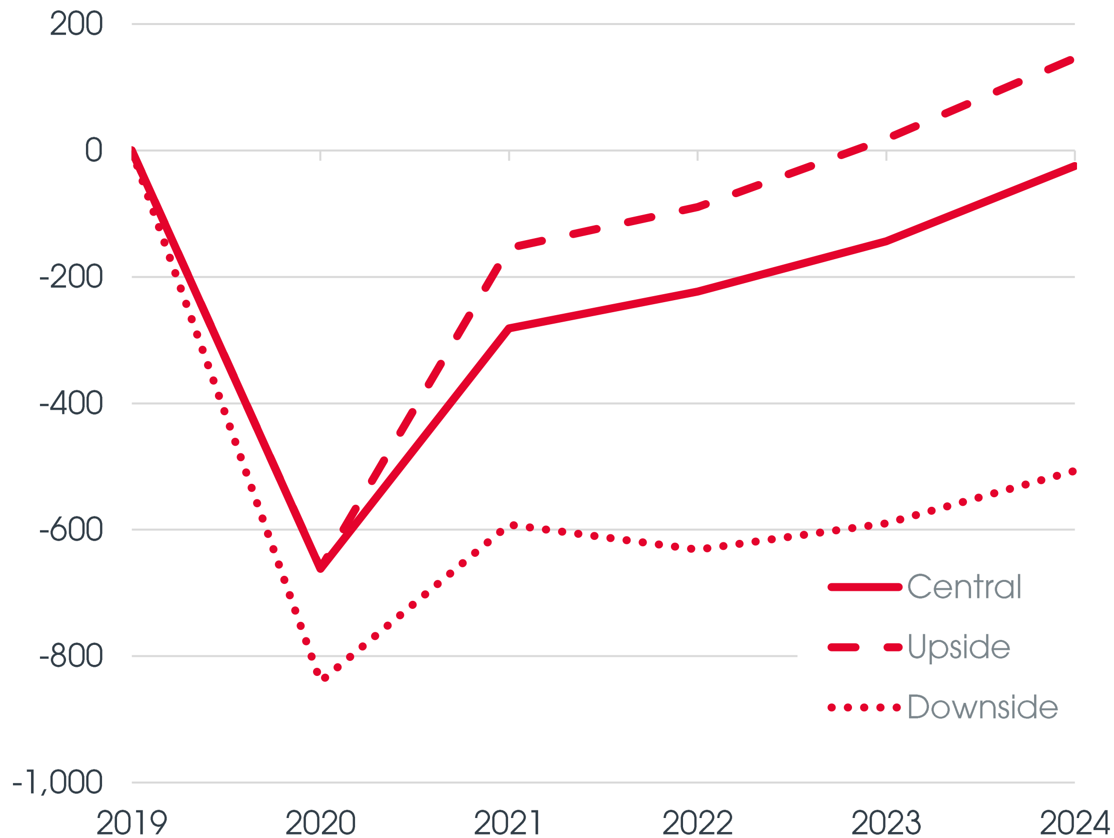
Construction has already been hit hard by the pandemic – and it will continue to suffer.

Building activity is strongly 'pro-cyclical' (albeit with a time lag); builders do disproportionately well during periods of high economic growth, but suffer more exaggerated downturns.

By 2024, on central forecast, 1,335,000 worker-years of construction output will have been lost to covid unless there is further government intervention.

On the downside scenario, this loss will be as much as 3,160,000 worker-years and still rising.

Forecast change in construction employment
United Kingdom, thousands of jobs, pre-covid forecast = 0

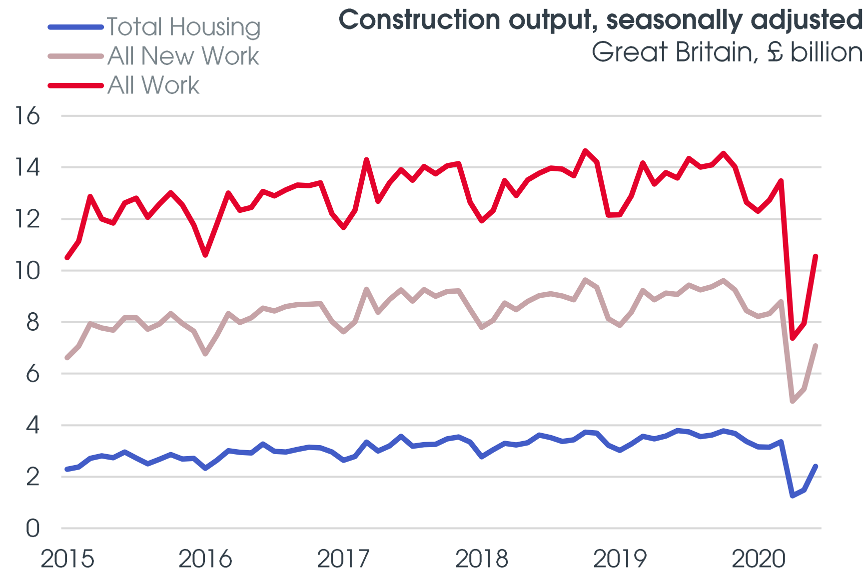


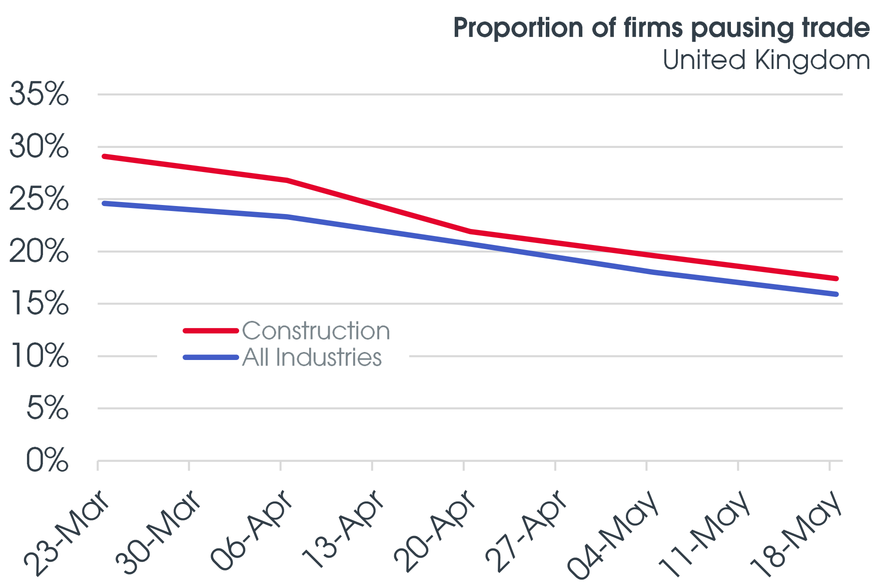
Source: Pragmatix Advisory calculations using Office for Budget Responsibility and industry forecasts

Construction of new homes dropped 60 per cent

Monthly construction output in Great Britain almost halved from March to April 2020. Although it has since begun to recover, output remains far below previous trend levels.

New housing construction remains particularly low. Total new housing output in the second quarter was 53.3 per cent lower than the same period last year.



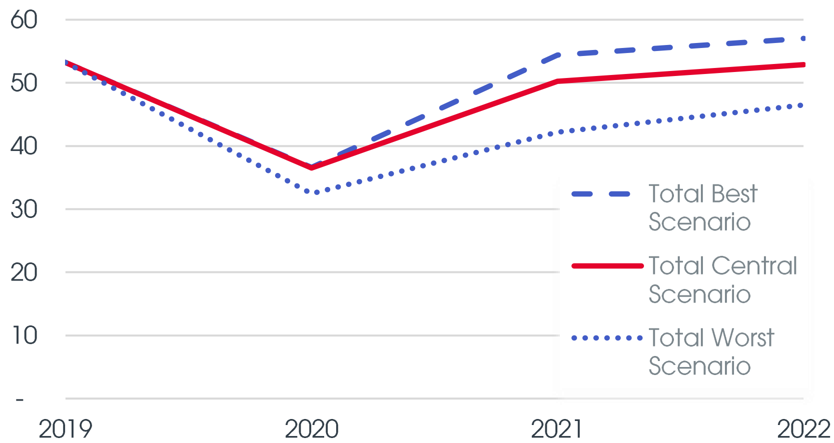


Third of construction firms paused trading at start of lockdown

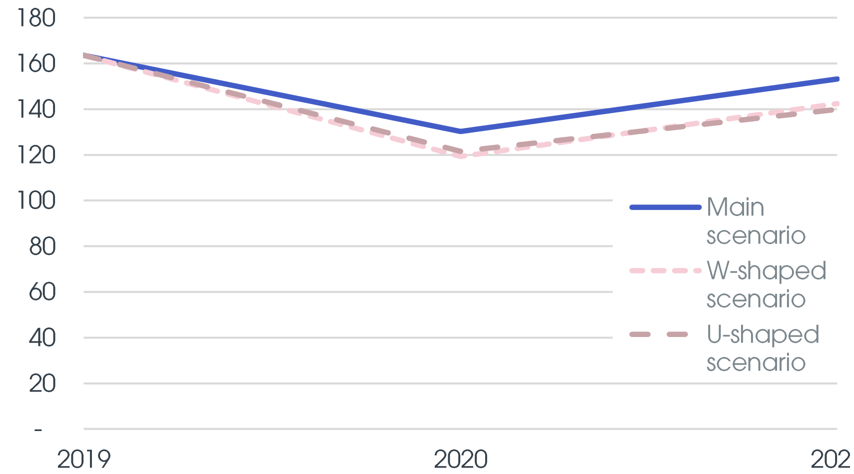
The proportion of firms reporting pausing trading has been consistently higher than that of other industries since March.

Source: Office for National Statistics

Glenigan forecast of the value of underlying project starts
United Kingdom, £ billion



Construction Products Association forecast of construction industry output, all work
United Kingdom, £ billion

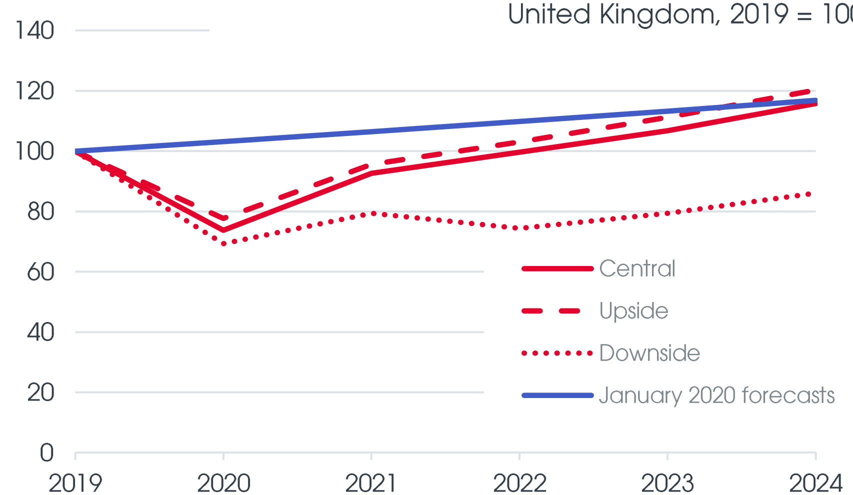


Construction output forecasts

Our estimates of future construction output and employment are within the range of forecasts published by respected sector specialists.

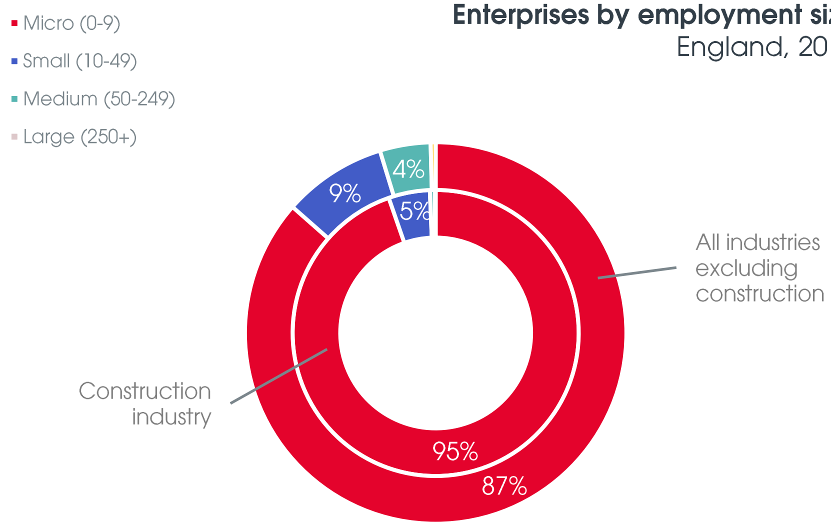
There are many different views on the prospects for the industry – but all show significant falls in output in 2020 and only relatively slow recovery.

Royal Institution of Chartered Surveyors forecast of new work construction output
United Kingdom, 2019 = 100

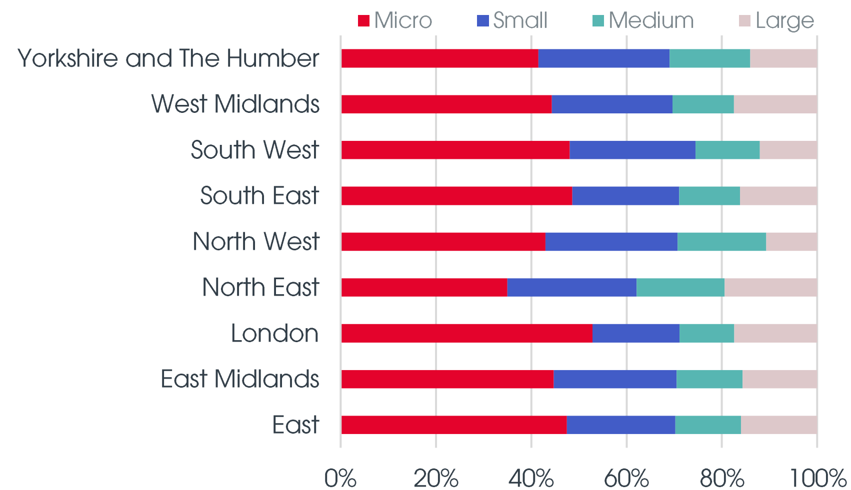


Source: Construction Products Association (top right). Glenigan (bottom left). Royal Institution of Chartered Surveyors (bottom right)

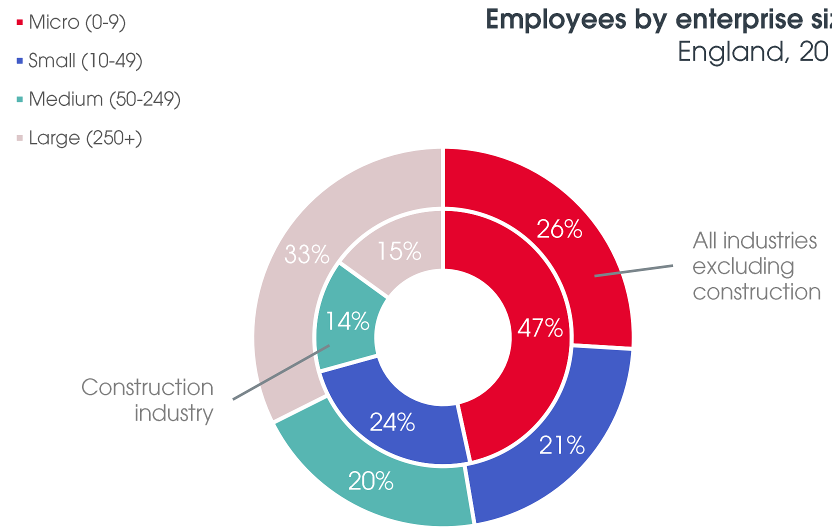
Enterprises by employment size
England, 2019



Construction industry employees by enterprise size
Regions of England, 2019



Employees by enterprise size
England, 2019



Covid hit on construction disproportionately impacts micro and small business

Across all regions of England, more than 80 per cent of construction industry employees work for micro, small and medium sized enterprises, with rates highest in the North West, South West and Yorkshire and the Humber.

Targeted council house building will allow small businesses to continue trading and retain employees.

Source: Office for National Statistics. Pragmatix Advisory

4. Home-building

Without a publicly-funded substantial programme of home building, which is at least part funded publicly, there is no practical chance of the government meeting its target of 300,000 new dwellings each year by 2025.

Private housing output is not expected to return to the 2019 level of 145,000 new homes per year until 2023 and many in the industry believe that, without further intervention and funding, the recovery of new public housing will take even longer.

Current government policies, such as 'Help to Buy' and the temporary reduction in Stamp Duty Land Tax, are stimulating the 'resale market' for existing residential properties, but they are not meaningfully engendering confidence among developers in the market's medium and longer term prospects. This not only risks the government's overall target for homebuilding but also exacerbates pre-existing shortages of homes at social and affordable rents.

Covid makes it even tougher for councils to finance the construction of needed social rent homes. Private developer contributions, through 'Section 106' agreements, have accounted for 49 per cent of all new social and affordable rent homes in recent years. As commercial investors take a more cautious approach, their funding of public schemes can be expected to drop – by as much as 47 per cent cumulatively by 2024. Recently enacted and proposed changes to planning rules will further reduce the resources available to councils for homebuilding from this previously critical source.

Equivalent of ½ million new homes lost by 2024

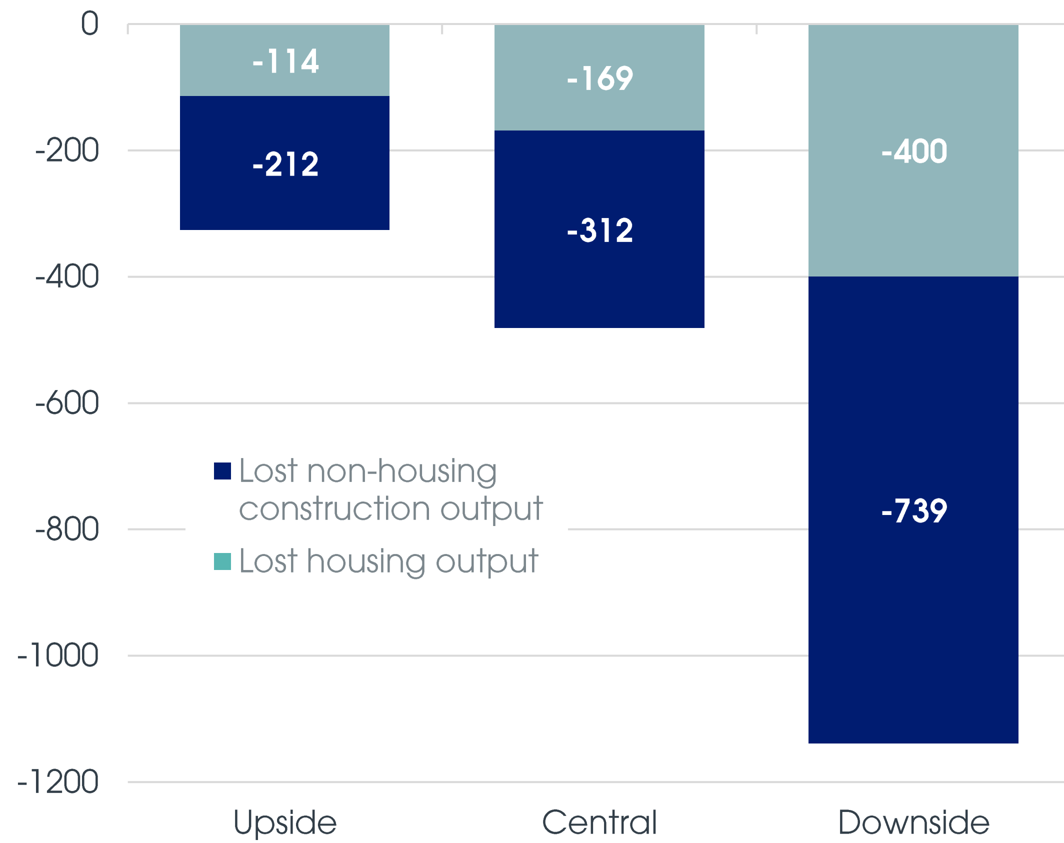
The loss of construction output will have a significant impact on the government's ability to hit the 300,000 homes a year target by 2025.

By 2024, the construction sector as whole will have lost the equivalent of around ½ million new homes in output. Industry experts expect the homebuilding sector, both private and public, to be hit harder by the pandemic than the wider industry.

By 2024, we estimate using the OBR's central scenario that the United Kingdom will have 169,000 fewer homes than would have been the case without covid.

The recent slew of housing policies in England will do little to tackle this shortfall. Policies are needed to stimulate development and construction, and not (just) the resale property market.

Cumulative loss of construction output by 2024
United Kingdom, thousands of new build homes (equivalents)



Source: Pragmatix Advisory calculations using Office for Budget Responsibility and industry forecasts

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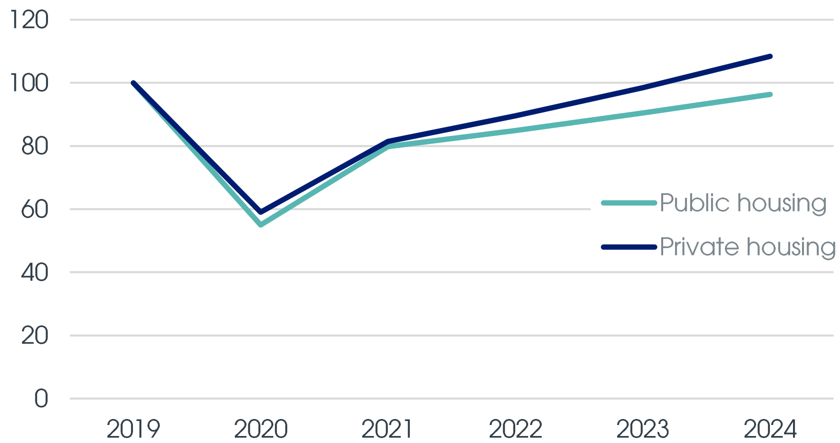
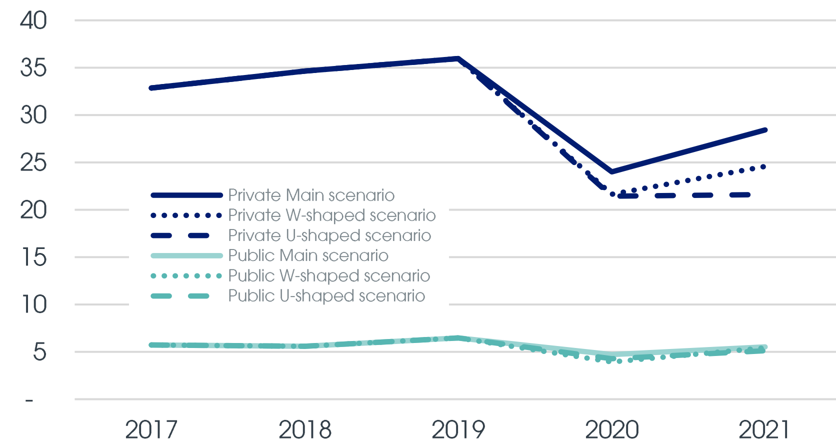
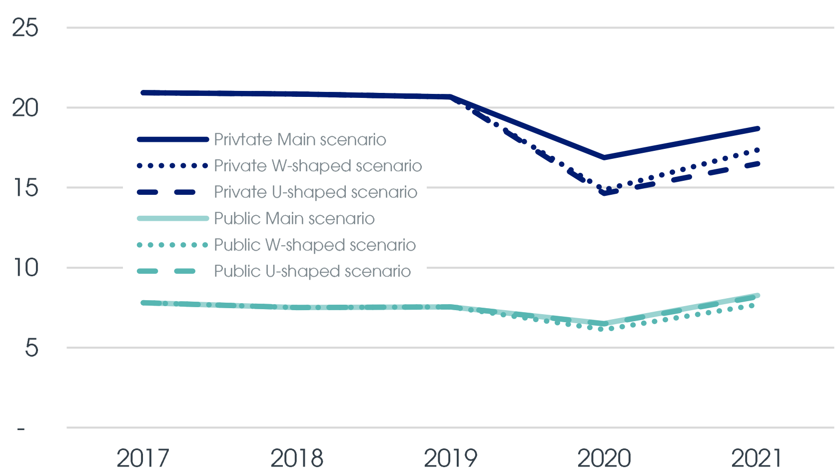
Glenigan forecast of index of new work housing output
United Kingdom, 2019 = 100



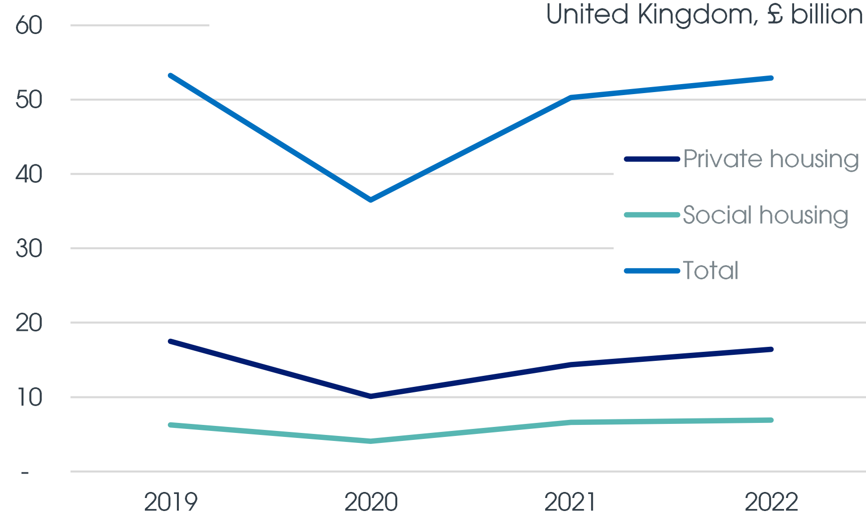
Construction Products Association forecast of private and public housing output
United Kingdom, £ billion



Construction Products Association forecast of housing repairs, maintenance and improvement
United Kingdom, £ billion



Royal Institution of Chartered Surveyors forecast of value of underlying housing project starts
United Kingdom, £ billion



Source: Glenigan (top left). Construction Products Association (bottom left and top right). Royal Institution of Chartered Surveyors (bottom right)

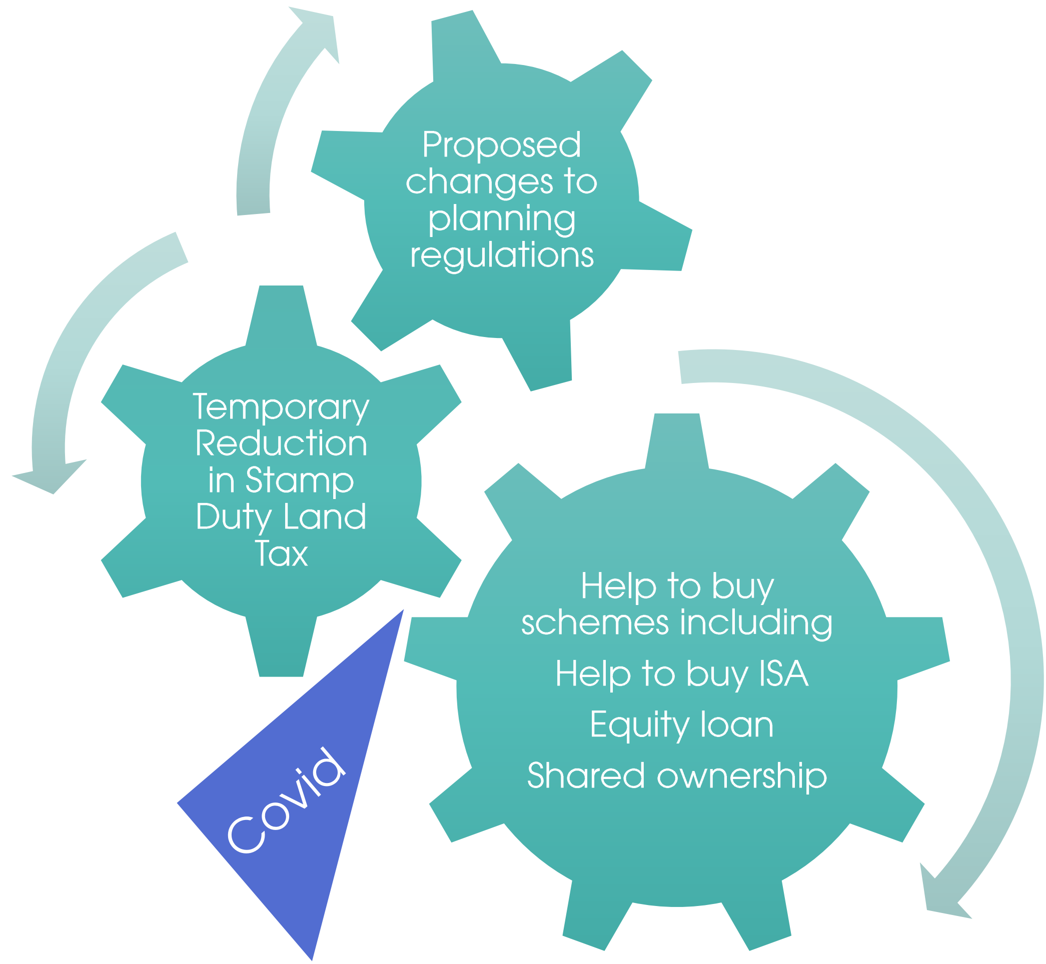
Current policies unlikely to jump-start building

The Westminster government has introduced a wide range of policies to support the residential property market through the covid period, and to support growth in home ownership prior to the coronavirus crisis.

We have evaluated the policies in the context of the current demands of the pandemic, and the need to boost construction output.

We have also examined the impact of these policies on job creation and retention.

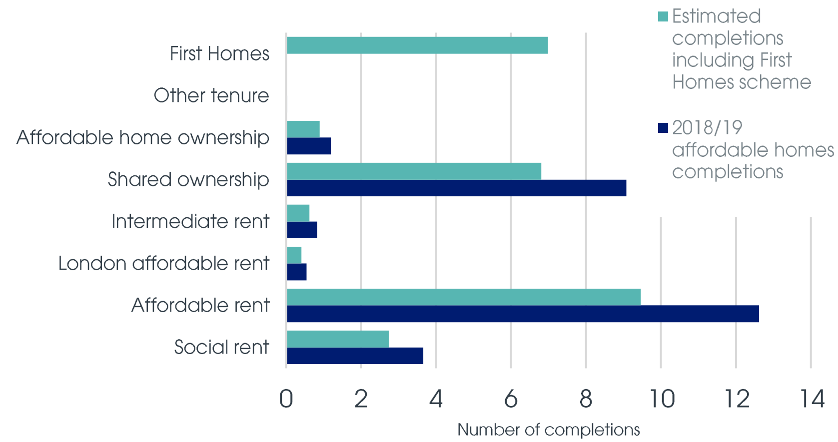
While the policies do go a way to supporting the resale market, they are unlikely to stimulate new build development, and in turn the jobs and output required for a significant fiscal boost.



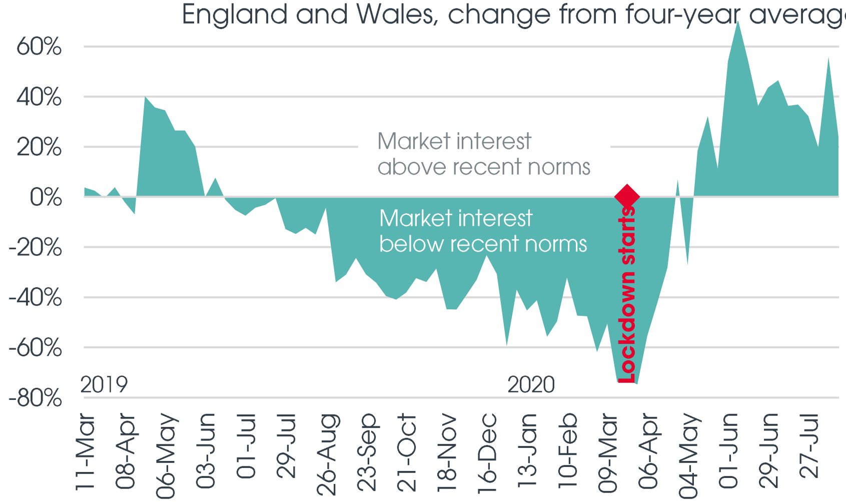
Private developers need confidence in sector before they will commit to building

Current policies are unable to give private developers confidence in the medium-term time horizon, which is the basis on which they make decisions about new developments. There is a disjoint between trends in resale property market and developer activity. Policies do not address the current need for social and affordable rental properties or expected increase in demand resulting from the economic and social impacts of covid.

Impact of 'First Homes' scheme on Section 106 contributions
England, 2019, thousands



Weekly online valuations by home movers using Property Price Advice website
England and Wales, change from four-year average

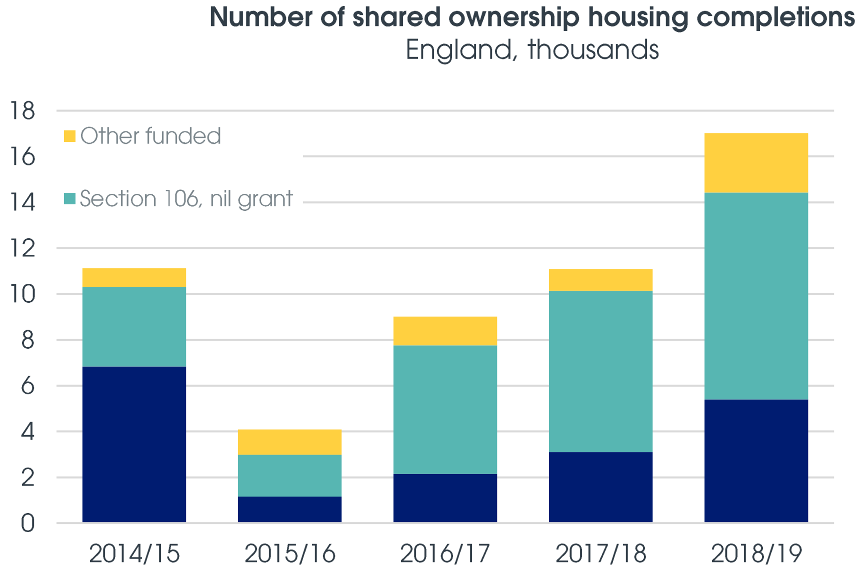


Current policies target stabilising the property resale market or widening access to homeownership

The temporary reduction in Stamp Duty Land Tax may be supporting a sharp recovery in the property market now, but this policy and others do little to stimulate real economic activity in the construction sector.

Source: Ministry of Housing, Communities & Local Government (top). Property Price Advice (bottom)

Job creation and retention is essential given unemployment forecasts



Job creation and retention is essential given unemployment forecasts

Many of the potential jobs created as a result of existing schemes rely on the private construction sector or resale market. Though buoyant at the moment, the resale market is likely to be impacted by rising unemployment, falling incomes and the increased requirements on first time buyer deposits.

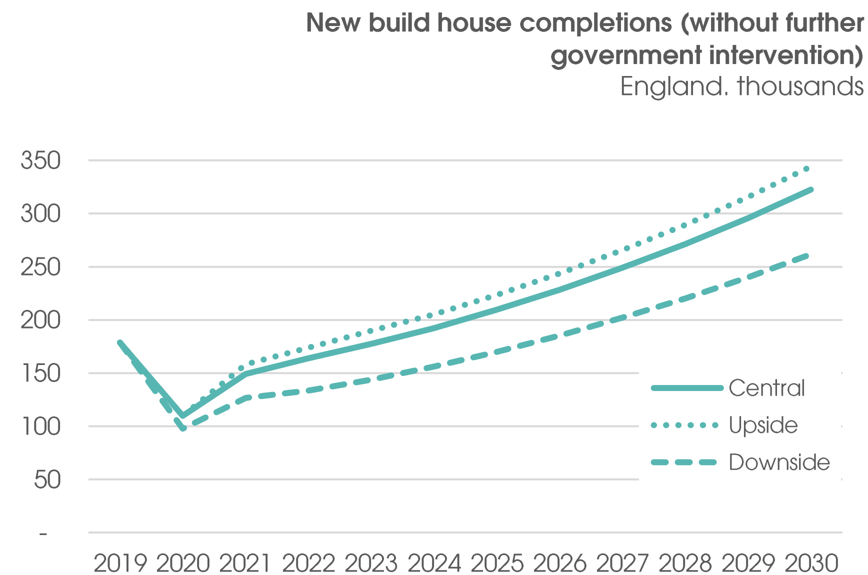
Uncertainty for developers and the reduction in construction output mean jobs are at risk in the private sector. A policy of significant council house building will guarantee work for construction firms.

Social house building will help government reach 300,000 homes a year target

At currently build levels and construction output, the UK government target to build 300,000 new homes a year by 2025 will not be met.

A commitment to build 100,000 new social rent homes per year would not only help the government reach its home building target, but provide a much needed boost to construction output and jobs within the sector.

It also allows government to target building in the areas where it will have the most impact.



Source: Ministry of Communities, Housing and Local Government (top); Pragmatix Advisory from RICS construction forecast (bottom)

Policy intervention	300,000 homes a year target	Address identified needs	Jobs / apprenticeships created
Help to Buy ISA	• Little to no impact, scheme closed to new applicants, average grant award per home not high enough to have impact on demand for new builds	• Helps first-time buyers already registered to scheme, but not others	• Limited potential to create new jobs
Equity Loan	• 51,357 completions in year to March 2020	• Enables lending for buyers, does not meet rental need	• Scheme already established
Shared Ownership	• 17,021homes in 2018-19	• Supports limited buyers, does not meet rental need	• Increasing build numbers would increase jobs
First Homes scheme	• Homes coming from existing Section 106 contributions – minimum 25 per cent of Section 106 contributions to be 'First Homes'	• Supports first time buyers, does not meet rental need, takes away from affordable housing provision	• New scheme, jobs will be created in administration of scheme, likely to be minimal
Temporary Stamp Duty Reduction	• Temporary measure, unlikely to increase demand for new builds longer term	• Supports purchasers, does not meet rental need	• Unlikely jobs directly created given limited time period of scheme
Proposed planning changes	• Enables faster and easier delivery for developers, but scale of new build dependent on private demand	• Government estimates loss of between 7% and 14% of section 106 affordable housing at threshold of 40 units, and loss of between 10% and 20% with threshold of 50 units	• New jobs will be created through management of planning changes and any increase construction

Summary of qualitative evaluation of current housing policy initiatives against covid-era priorities

Source: Pragmatix Advisory research and analysis

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Affordable homes contributions under pressure

The current funding model for building affordable and social homes will be threatened by a likely collapse in developer contributions.

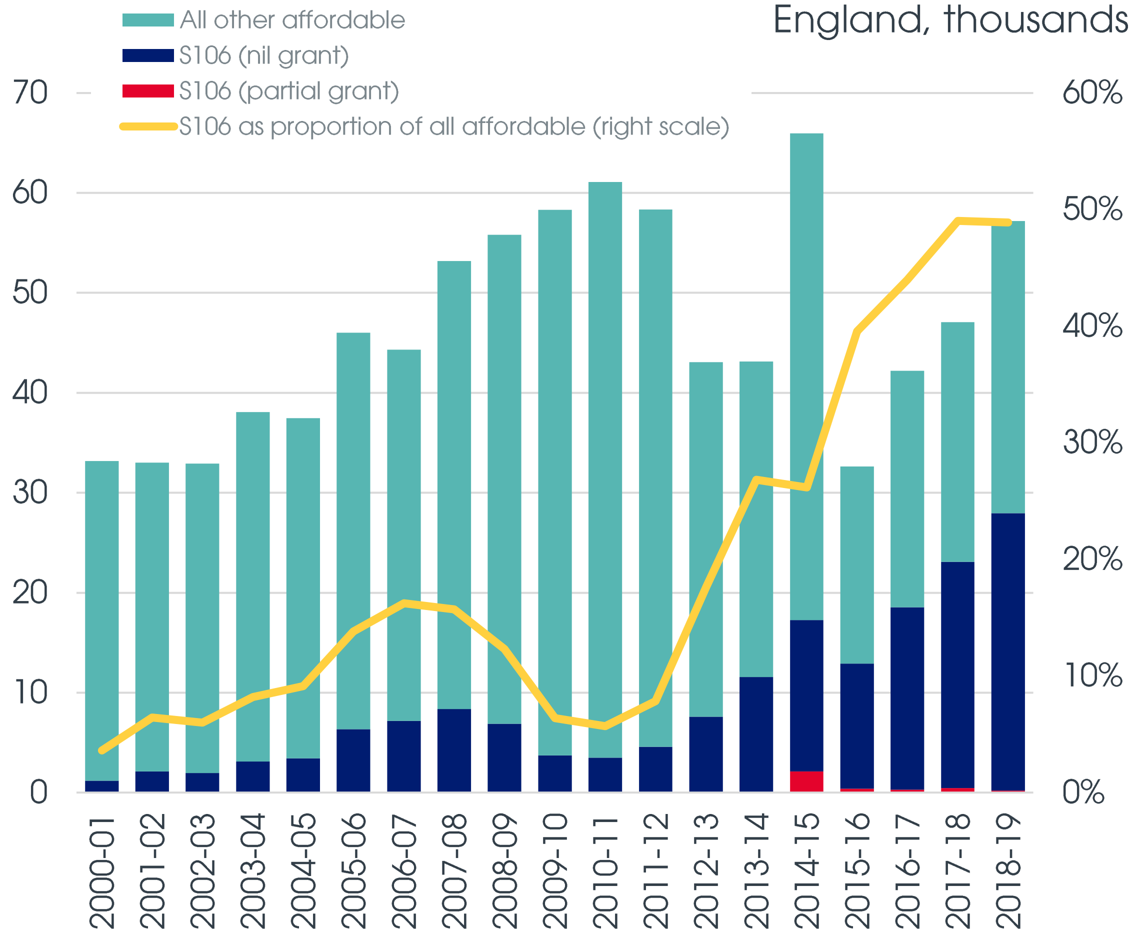
In 2018/19, half of new affordable homes were built through section 106 developer contributions. The construction sector down turn will have a direct impact on the number of affordable homes built.

Policy changes and the fall in construction output will reduce the number of new homes available through developer contributions in the coming years.

The 'First Homes' scheme will be allocated 25 per cent of section 106 dwellings, while long-term planning changes will also impact the number of new affordable rent homes as the level at which developer contributions are required is set to rise.

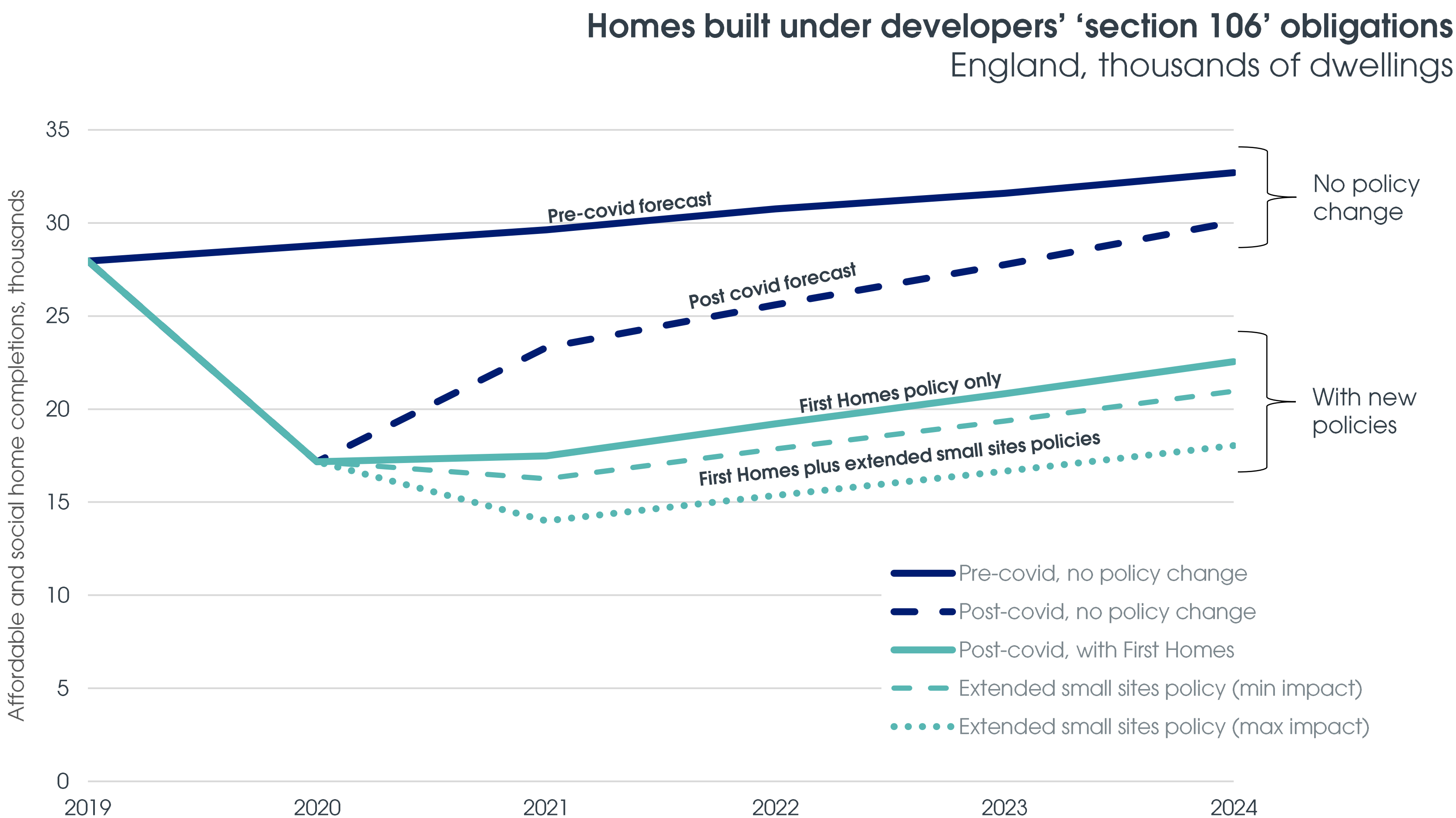
Homes for social rent completions

England, thousands



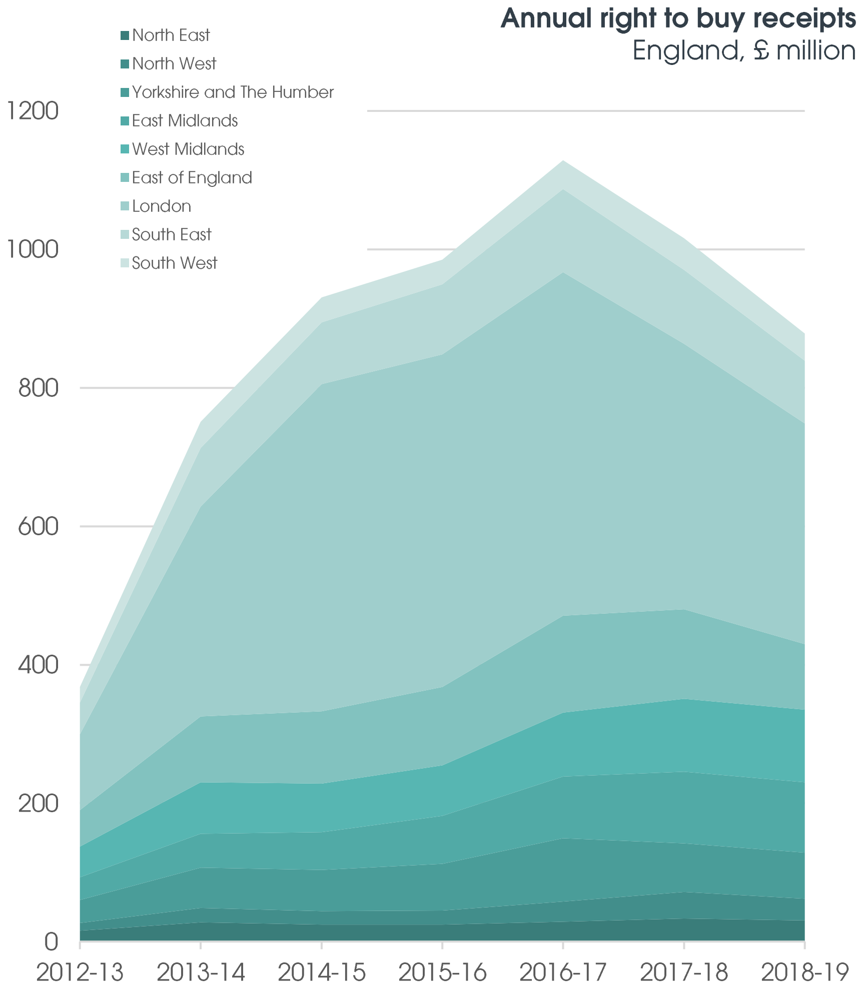
Source: Ministry of Housing, Communities & Local Government

Councils can't rely on developer contributions



Source: Pragmatix Advisory

Borrowing cap removed, but issues remain



With declining developer contributions, there is increased pressure of councils to fund homebuilding using their own resources and borrowing capacity.

The lifting of the Housing Revenue Account borrowing cap in 2018 allowed local authorities to borrow against expected rental income, but financing larger developments is still a challenge. Local authorities have sites that could be taken forward, but HRA is inadequate to fund on a larger scale.

More flexibility is needed for councils using right to buy receipts. They have been unable to replace homes on a one-for-one basis given they can only be used to fund 30 per cent of new build costs, and less that half of money from council house sales has been set aside for replacement housing. Local authorities voice further concerns about their inability cross subsidise using Affordable Homes grants alongside RTB receipts.

Given that local authorities are required to spend receipts within three years or hand money back to the Whitehall plus interest of four per cent above base rate, issues are likely to arise for building developments delayed by covid.

Source: Ministry of Housing, Communities & Local Government

Councils alone cannot fund building reboot

To better understand the potential benefits and costs of increased construction of new homes for social rent, Pragmatix Advisory has developed a bespoke regional evaluation model.

The model estimates the amount that could theoretically be borrowed today, by councils, against the future rental income they would receive from a new social rent home (if there were no other limits on borrowing). This is compared against estimates of the costs of construction, land acquisition and taxes.

In all regions, there are funding gaps; social rents alone cannot remunerate the construction of new homes.

(See appendix for further details of the model and assumptions.)

	Build costs	Land costs and tax	Value of future rents	Funding gap
North East	£113,000	£11,000	£106,000	**-£18,000**
North West	£117,000	£21,000	£92,000	**-£46,000**
Yorks & Humber	£112,000	£19,000	£90,000	**-£41,000**
East Midlands	£114,000	£18,000	£91,000	**-£41,000**
West Midlands	£110,000	£27,000	£95,000	**-£42,000**
East of England	£125,000	£54,000	£108,000	**-£71,000**
London	£181,000	£90,000	£126,000	**-£145,000**
South East	£150,000	£71,000	£113,000	**-£108,000**
South West	£117,000	£40,000	£97,000	**-£60,000**
England	**£123,000**	**£37,000**	**£100,000**	**-£60,000**

Typical funding deficit on building new homes for social rent (assuming no developer, public land or other contribution)
England, £ per dwelling

Source: Pragmatix Advisory calculations using Office for Budget Responsibility and industry forecasts

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But needs vary by location and home size

There are funding gaps for councils across the full range of dwelling sizes – although, in some regions for smaller properties, they are small.

In order for construction to proceed, sources of funding in addition to rental income are needed. These can include:

- 'section 106s' and other developer contributions, which are in decline
- central government grants, based on the wider socio-economic and fiscal benefits
- other local authority and wider public sector resources, including land holdings

The evaluation model has been developed to assess what levels of public sector contribution is warranted in the context of falling developer contributions.

	1 bed flat	2 bed flat	3 bed house	4 bed house
North East	-£4,000	-£8,000	-£33,000	-£40,000
North West	-£15,000	-£32,000	-£68,000	-£93,000
Yorks & Humber	-£15,000	-£31,000	-£66,000	-£94,000
East Midlands	-£16,000	-£32,000	-£67,000	-£94,000
West Midlands	-£16,000	-£34,000	-£74,000	-£104,000
East of England	-£37,000	-£57,000	-£121,000	-£167,000
London	-£84,000	-£131,000	-£238,000	-£321,000
South East	-£57,000	-£86,000	-£165,000	-£227,000
South West	-£25,000	-£45,000	-£92,000	-£129,000
England	**-£27,000**	**-£47,000**	**-£97,000**	**-£134,000**

Typical funding deficit on building new homes for social rent (assuming no developer, public land or other contribution)

England, £ per dwelling

Source: Pragmatix Advisory calculations using Office for Budget Responsibility and industry forecasts

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5. Government finances

New homes at social rent will reduce future welfare spending, ease the burden on the National Health Service and help alleviate some of the longer terms pressures on public finances created by covid.

Covid has precipitated a sharp and unprecedented reversal in public sector finances. In the short term, a large deficit will be run to cover the direct costs of the pandemic and then to provide the expansionary fiscal boost required for economic recovery. Building new homes for social rent is an effective and efficient way to deliver the stimulus.

Once built, every new council home will save the government money. The housing benefit / universal credit bill will be reduced by taking the most vulnerable and in need families out of expensive private sector and temporary accommodation and into social rent housing.

The provision of council housing will improve the outlook for some of the most disadvantaged families, by helping to increase their chances of finding and keeping employment. This will further reduce the burden on public finances – with lower numbers claiming unemployment benefit. With fewer families in substandard housing, the reduction in associated health problems will drive a corresponding decrease in pressure on the health service.

Although councils cannot fund substantial homebuilding programmes from the rent receipts alone, once these additional impacts on the whole public sector's finances are taken into account, the construction of new homes for social rent makes sense fiscally as well as socially and economically.

Strong fiscal case for investment in new homes

Building new homes for social rent will improve public sector finances.

The upfront costs to councils are partially mitigated by higher central government tax receipts from the construction sector as well as reduced unemployment and welfare spend on builders who might otherwise have been without work.

Once built, every new social home will save the government money – through a reduction in housing and unemployment benefits, spending on the health service, and costs of providing temporary accommodation. Each new home will reduce the annual deficit by £7,000.

A programme of building 100,000 new social rent homes will improve the public finances over 25 years by the equivalent of £7.8 billion in today's money.

Construction phase costs and exchequer savings	
Construction and land costs	£12.4 bn
Land costs	£1.7 bn
Tax receipts from construction phase	£2.4 bn
Unemployment benefits savings (covid period only)	£0.6 bn
Total net cost of construction	**£11.1 bn**
Annual net revenues and exchequer savings	
Rent revenue (less maintenance, etc.)	£346 m p.a.
Housing benefits and temporary accommodation savings	£277 m p.a.
Unemployment benefit savings	£47 m p.a.
NHS and other savings	£33 m p.a.
Total annual benefit	**£0.7 bn p.a.**
Net present value of public sector surplus (25 years)	**+£7.8 bn**

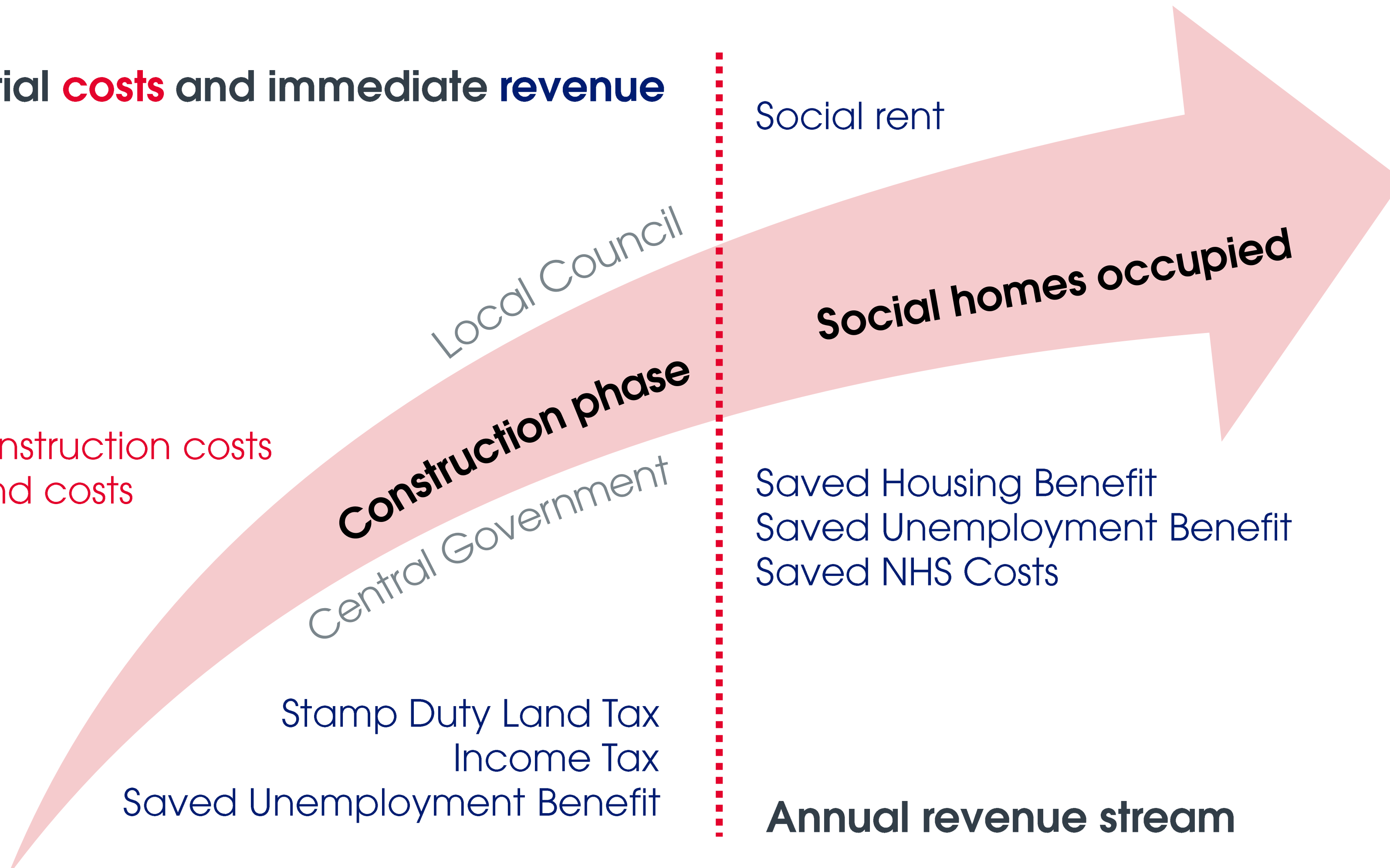
Impact on public finances of building 100,000 social rent homes (with 50 per cent public/third party land contribution)
England

Source: Pragmatix Advisory calculations

Advantage to public sector plugs funding gap

Initial costs and immediate revenue

Construction costs
Land costs



Stamp Duty Land Tax
Income Tax
Saved Unemployment Benefit

Social rent

Saved Housing Benefit
Saved Unemployment Benefit
Saved NHS Costs

Annual revenue stream

Whitehall boost more than offsets council costs

Although future rental incomes alone cannot typically remunerate the construction of new social rent homes, increased tax revenues and reduced costs elsewhere in the public sector make such an investment fiscally sound.

On average, a new home requires £42,000 of additional funding over and above the discounted value of its future net rent stream. This is more than offset by the £64,000 present value of future savings to housing benefits, universal credit and temporary accommodation costs. Then there's a further cautiously estimated £56,000 of fiscal improvement from lower spend on unemployment benefit and health service, and higher tax receipts.

A programme of building 100,000 new homes for social rent each year will deliver a real annual return to government coffers of 3.8 per cent.

	Rental income funding gap	Housing benefit savings	Higher tax receipts; NHS and other savings	Public sector surplus
North East	-£12,000	+£12,000	+£54,000	**+£54,000**
North West	-£35,000	+£42,000	+£55,000	**+£62,000**
Yorks & Hum	-£32,000	+£32,000	+£54,000	**+£54,000**
East Mids	-£32,000	+£34,000	+£54,000	**+£56,000**
West Mids	-£28,000	+£54,000	+£52,000	**+£77,000**
East	-£44,000	+£65,000	+£55,000	**+£76,000**
London	-£100,000	+£203,000	+£69,000	**+£172,00**
South East	-£73,000	+£100,000	+£61,000	**+£88,000**
South West	-£40,000	+£70,000	+£54,000	**+£84,000**
England	**-£42,000**	**+£64,000**	**+£56,000**	**+£78,000**

Impact on public finances of building new social rent homes
England, £ per dwelling net present value over 25 years (with no developer but 50 per cent public/third party land contribution)

Source: Pragmatix Advisory calculations

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New homes deliver real returns for taxpayers

	1 bed flat	2 bed flat	3 bed house	4 bed house	All
North East	4.5%	3.4%	2.9%	2.8%	**3.3%**
North West	4.5%	3.9%	2.6%	3.2%	**3.4%**
Yorkshire & Humber	4.3%	3.6%	2.2%	2.8%	**3.2%**
East Midlands	4.0%	3.6%	2.2%	3.0%	**3.2%**
West Midlands	5.0%	4.8%	3.0%	3.6%	**4.4%**
East of England	4.0%	3.8%	2.3%	2.7%	**3.4%**
London	6.1%	5.1%	3.5%	3.3%	**5.0%**
South East	3.8%	3.6%	2.0%	2.9%	**3.2%**
South West	4.9%	4.7%	3.3%	3.8%	**4.3%**
England	**4.6%**	**4.1%**	**2.7%**	**3.2%**	**3.8%**

Real rate of return to the public sector

England, real rate of return over 25 years (with no developer but 50 per cent public/third party land contribution)

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Case stacks up on alternative assumptions

The appraisal model has been used to test a range of alternative assumptions and identify the extent to which the overall findings are sensitive to them.

Reasonable variations to the underlying assumptions do not change the key conclusions. Building 100,000 new homes for social rent delivers a significant positive benefit to public sector finances and generates a positive real rate of return for taxpayers.

	Public sector surplus	Real annual rate of return
Central case assumptions	**+£7.8 bn**	**3.8%**
50 year appraisal (not 25; borrowing at 80 pbs above central rates not 47 bps above)	+£28.5 bn	5.9%
Only public land used (not 50 per cent)	+£9.6 bn	5.3%
No stamp duty land tax (not four per cent of land acquisition)	+£7.8 bn	3.8%
All borrowing at central government rates (not council borrowing at 47 bps above)	+£8.5 bn	3.8%
Five per cent of construction ecosystem workers otherwise unemployed (not 50 per cent)	+7.3 bn	3.3%
Local Housing Allowance rises at one per cent p.a. (not two per cent)	+£5.8 bn	2.9%
'Scaling up' distribution of new homes regionally (not 'Levelling up')	+£8.6 bn	3.8%
Excluding indirect and induced impact of construction spend	+£5.8 bn	2.2%
Local Housing Allowance set at twentieth percentile of local market rents (not 30^{th})	+£6.2 bn	3.0%
Local Housing Allowance set at 50^{th} percentile of local market rents (not 30^{th})	+£11.4 bn	5.4%

Public sector surplus and rate of return from construction of 100,000 new social rent homes – different assumptions

England, £ million (net present value, 2020)

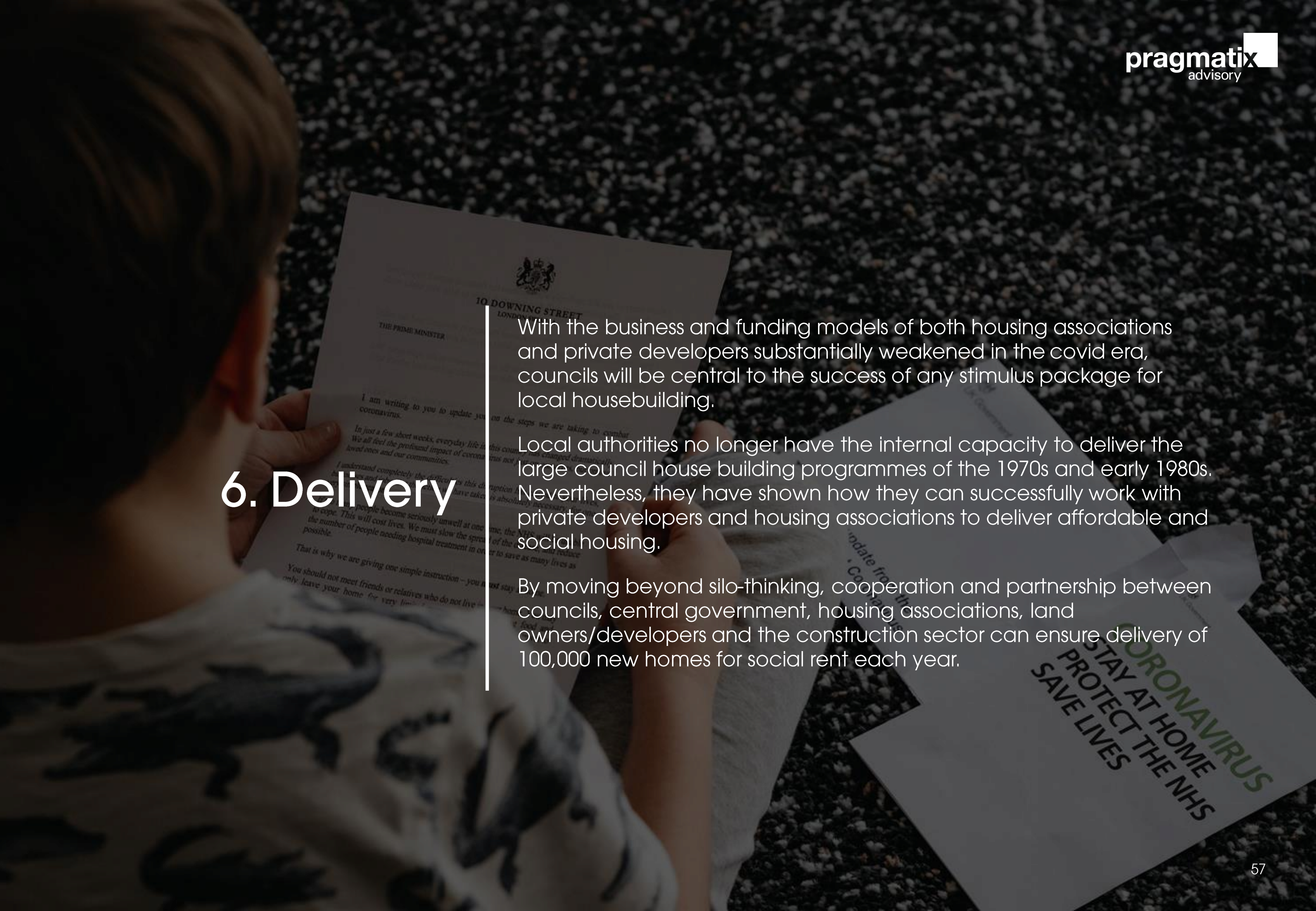
Macroeconomic boost from new social homes

With new social rent homes facilitating increased levels of economic activity and employment among otherwise disadvantaged families, we can expect a longer-term boost to the macroeconomy.

By helping people into the workforce and securing employment opportunities, the government not only gains through reductions in welfare spend but also through potentially higher levels of tax receipts from increased employment and output.

The proposed policy to build 100,000 new council homes a year not only provides the immediate fiscal stimulus required during the covid recovery period, but continuing benefits for central government.

These longer-term macroeconomic improvements have not been quantified as part of this exercise, and are not included in appraisal calculations and results.



6. Delivery

With the business and funding models of both housing associations and private developers substantially weakened in the covid era, councils will be central to the success of any stimulus package for local housebuilding.

Local authorities no longer have the internal capacity to deliver the large council house building programmes of the 1970s and early 1980s. Nevertheless, they have shown how they can successfully work with private developers and housing associations to deliver affordable and social housing.

By moving beyond silo-thinking, cooperation and partnership between councils, central government, housing associations, land owners/developers and the construction sector can ensure delivery of 100,000 new homes for social rent each year.

Councils must have bigger role in the covid era

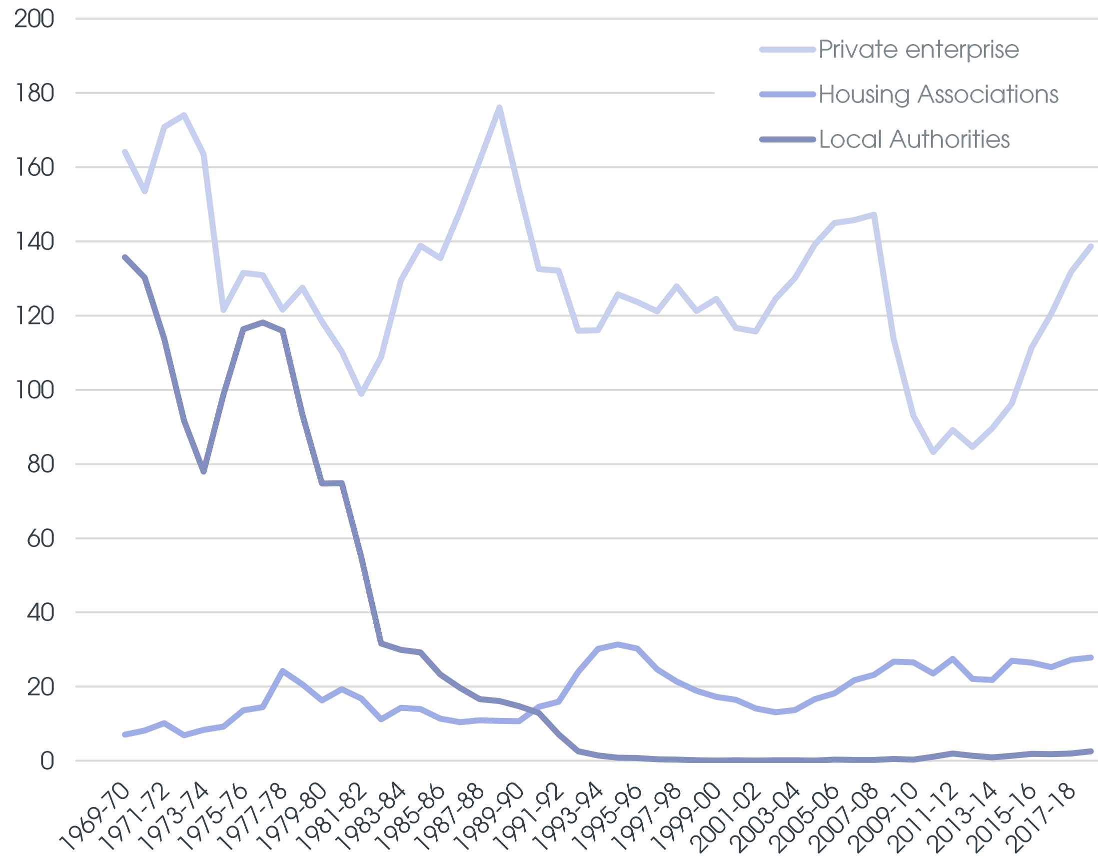
The number of homes built by local authorities, as distinct from housing associations and private developers, has fallen dramatically since the 1970s and early 1980s.

Similarly, officer capacity at councils to deliver homebuilding programmes has reduced.

With the business and funding models of both housing associations and private developers substantially weakened in the covid era, councils will be central to the success of any stimulus package for local housebuilding.

If 100,000 new homes for social rent are to be delivered each year, councils will need to scale up and innovate – and quickly. But there will also need to be flexibility and joined up working with other stakeholders in central government, in housing associations and in the construction sector.

Permanent dwellings completed
England, thousands



Source: Ministry of Housing, Communities & Local Government

Lifting HRA borrowing cap was positive move

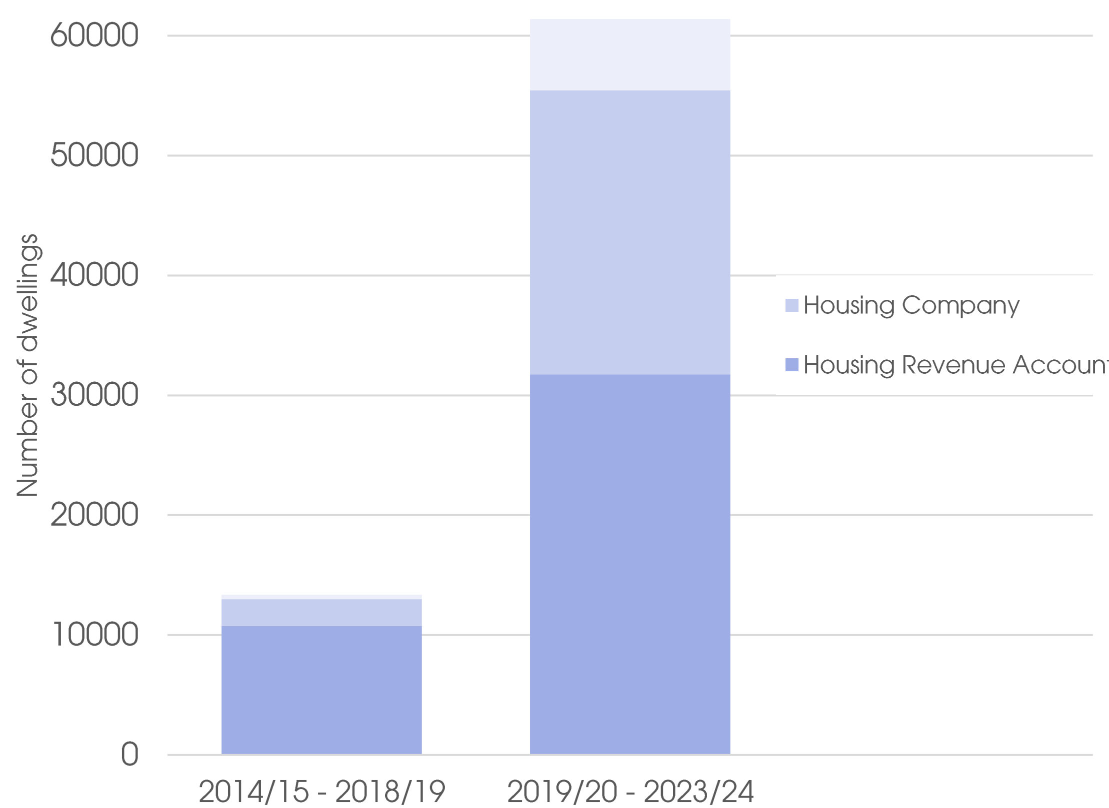
The removal of the Housing Revenue Account borrowing cap in 2018 has had a positive impact on planned levels of council house building.

It has allowed local authorities to scale up build numbers seen in the previous four years, to projected levels that will comfortably meet the Treasury estimate of 10,000 new homes a year.

In spite of this, the impact of lifting the borrowing cap is not enough on its own to facilitate building the number of new social homes that are required to meet demand.

Local authorities have shown that when increased funding is made available they are able to accelerate building. Consequently, partnership working with central government to agree a funding solution is required.

Council house building by local authorities with top 50 biggest development plans
England



Source: Inside Housing

Move beyond silo-thinking is key building more

Collaboration can help councils to break through barriers to developing housing. It has been seen that local authorities that work in partnership with housing associations and developers are successfully addressing concerns over competition for land and resources, and skills deficits or construction capacity.

Public sector finances

- Evaluate projects on whole public sector basis
- It's taxpayers' money whether on central government or council accounts

Land

- Develop council and wider public agencies' capacity to release land
- Open up dialogue to allow transfer of public land assets to councils

Constructi on capacity

- Share best practice and capacity between councils, housing associations and the private sector

Photo by Tolu Olubode on Unsplash

Partnership working: case studies

Northumberland County Council built 288 new homes at a cost of £29 million over a period of seven years. These are managed in-house within the HRA, and were relatively expensive to build, as some of the sites presented difficulties and land values in rural and coastal areas are often high.

The council also supports community organisations, parish councils, community land trusts and similar bodies to create new community-owned housing at the local level. In some cases the land or buildings are owned by parish councils or by the council. The council and partner organisations are also looking to enable this programme using Section 106 land or homes.

Stroud District Council works with housing associations and supports private sector housing development through the planning process. By the end of 2017/18 the council had delivered 226 new council homes, the majority for affordable rent. Grants from Homes England and receipts from Right To Buy sales subsidised the housebuilding programme.

Nuneaton Borough Council established a capital programme to create the building of new council properties and the purchase of homes on the open market. Funding was from HRA headroom funding, rental streams, Homes England grants, and RTB receipts. A number of `acquisition routes' were investigated, including properties that previously were subject to RTB and housing association stock that is being disposed of for asset management reasons.

East Riding of Yorkshire Council has exhausted its own land supply, so has established itself as a 'first port of call' for partnership with developers. Its target at October 2018 was to build or acquire 100 homes per year, including buying Section 106 homes from private developers and buying land on the open market.

The council employs a rural housing enabler as part of the York, North Yorkshire and East Riding Local Enterprise Partnership's strategic housing group, who consults with communities and land-owners to help bring forward sites in rural areas.

Source: Local Government Association

Stockport Homes have been developing for over ten years and in that time have built 774 homes & acquired 100 homes including 14 modular build houses. They are currently on site with 373 homes, are about to start on site with an Extra Care scheme and have secured over £52m in grant (Homes England/HCA). They established Viaduct Housing Partnership in 2016 as part of the Stockport Homes Group to help provide the right governance and structure to continue to develop 200 homes per year for the next five years. Approximately half of these homes are planned to be built in the Housing Revenue Account and half in the ALMO. Their development plans will complement and help the council achieve the following objectives: the regeneration of the town centre, growth of the local housing market, ensuring future homes meet the digital agenda, maximise the use of modern methods of construction where possible and the delivery of carbon neutral homes.

Cheltenham Borough Council and Cheltenham Borough Homes have together developed 98 new homes in the ALMO and 39 for the council. They were winners of an RTPI Planning Excellence Award in 2014 for work on St Paul's regeneration and secured £4.14m Homes England funding for completed schemes. Over the next four years, Cheltenham Borough Homes has plans to build 500 new homes using a £100m loan facility from Cheltenham Borough Council, the capacity within the HRA now the debt cap has been lifted, Commuted Sums, RTB receipts and Homes England Grant . This ambitious Housing Investment Plan will enable the ALMO to accelerate its new supply programme across a variety of tenures.

Northampton Partnership Homes (***NPH***) *manages over 11,500 homes on behalf of Northampton Borough Council (NBC). In 2018 NBC and NPH agreed a proposal to build a minimum of 1,000 new homes over the next 10 years. NPH, having already completed over 200 new homes, with 200 more on site are exceeding original expectations. In the next three years the development programme will deliver 650 homes and with a further 1,000 in the pipeline, NPH is on target to significantly surpass the original target. Covid-19 did not stop NPH developing, the development team went to extraordinary efforts to overcome the challenges they were presented with to make sure that work to build much needed homes for the local community continued. NPH is using every option available to them to increase the local supply of homes. Live projects include the development of garage sites across Northampton, numerous developments of family homes on brownfield sites, an office block conversion creating new apartments for key workers and 5 major schemes to include housing for adults with support needs. These, along with current activity to acquire new sites on behalf of the council, will ensure that delivery of the longer-term programme is achieved*

Barnet Homes manages the council housing in the LB Barnet, with one of busiest homelessness services in London. They have about 2,500 households in temporary accommodation who desperately need a secure and affordable home to move into. When self-financing was introduced for council housing Barnet Homes started its own development team and proved to the council it could deliver high quality new council homes. In 2014/15 they developed three homes to show proof of concept, before building 40 homes for the council and a 53-home extra care scheme. These were small and difficult infill developments, so once expertise and experience was built up they set up a Registered Provider, Opendoor Homes with a loan from the council and grant funding from GLA. So far they have already built and acquired over 400 homes with an additional 1,050 affordable homes in the development pipeline.

Source: National Federation of ALMOs

Councils ready to change and deliver

The LGA report *Delivery of Council Housing: Developing a stimulus package post-pandemic* argues for combined government and council working to deliver a new generation of 100,000 high quality social homes a year as part of the post-pandemic response. It discusses the policy measures and reforms necessary, and makes the following recommendations;

- Bring forward and increase £12 billion extension of Affordable Homes Programme announced at Budget 2020, with an increased focus on homes for social rent.
- Increase grant levels per home to maximise number of schemes that are viable, and reduce timescales involved in administering of grants.
- Provide additional grant investment to compensate for lost cross-subsidy from market sales.
- Promote options for innovative funding mechanisms to support council-led housing delivery including the UK Municipal Bonds Agency.
- Investment in a further phase of the One Public Estate programme, to include further round of Land Release Fund identifying surplus public land and combatting barriers which otherwise make land unusable for development.
- Set up a 'COBRA' for jobs and skills so government departments and agencies, local government, sector and trade bodies can co-ordinate and mobilise a response which increases capacity of the building sector.

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Appendix

Model assumptions

Sources

Central case assumptions

Figures relate to100,000 homes built in a single year during the covid recovery period.

Borrowing rates and evaluation:

- Central government borrowing rate 1.0% p.a.
- Local authority borrowing rate 1.47% p.a.
- 25-year evaluation period

Construction:

- Stamp duty land tax (SDLT) 4% applied to land acquisition
- 50% of construction workers unemployed prior to social housing build (during period of covid impact)
- 50% of land provided at zero cost from public sector, section 106s or other sources
- No other section 106 or other developer contributions
- Build programme uses `levelling up´ allocation between regions (see slide 32)

Inflation rates:

- Private market rent (and LHA) 2.0% p.a.
- Temporary accommodation costs 2.0% p.a.
- Unemployment benefit 2.0% p.a.
- Social rent 2.8% p.a.
- Inflation of maintenance and management costs 2.8% p.a.
- NHS costs 3.8% p.a.

Occupancy:

- Property vacant (i.e. no rent receipts) 5% of the year
- Maintenance and management costs as a share of rent 15%
- 100% of new social housing occupants were previously receiving housing benefit or housed in temporary accommodation.
- 1.3% of housing benefit claimants capped
- LHA remains set at 30th percentile of rents
- 1-in-10 social dwellings taken up result in an occupant not requiring previously claimed unemployment benefit

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	1 bed		2 bed		3 bed		4 bed	
Local authority density	High	Low	High	Low	High	Low	High	Low
North East	5,014	7,072	7,019	7,956	14,038	15,911	20,054	21,215
North West	9,438	14,999	13,213	16,873	26,427	33,747	37,752	44,996
Yorkshire & Humber	8,440	19,515	11,816	21,954	23,632	43,909	33,760	58,545
East Midlands	7,828	14,405	10,960	16,205	21,919	32,411	31,313	43,215
West Midlands	14,322	21,031	20,050	23,660	40,100	47,321	57,286	63,094
East of England	33,191	34,595	46,467	38,920	92,934	77,840	132,762	103,786
London	69,416	43,762	97,182	61,266	194,365	122,532	277,664	175,046
South East	33,805	51,770	47,327	58,242	94,654	116,483	135,219	155,311
South West	19,839	25,523	27,775	28,713	55,550	57,426	79,357	76,568

Land values by region, size of dwelling and population density of local authority

England, £ per dwelling, 2020

Local authority density based on Office for National Statistics 'RUCLAD' classification. 'High density' are RUCLAD 4-6 areas.

Source: Pragmatix Advisory calculations and estimates using Valuation Office Agency data

	1 bed		2 bed		3 bed		4 bed	
Local authority density	High	Low	High	Low	High	Low	High	Low
North East	79,000	83,000	101,000	106,000	129,000	135,000	151,000	158,000
North West	82,000	86,000	105,000	110,000	134,000	141,000	157,000	165,000
Yorkshire & Humber	80,000	84,000	103,000	108,000	131,000	138,000	154,000	162,000
East Midlands	83,000	87,000	106,000	112,000	135,000	142,000	159,000	167,000
West Midlands	81,000	85,000	104,000	109,000	133,000	139,000	156,000	163,000
East of England	91,000	96,000	117,000	123,000	149,000	157,000	175,000	184,000
London	145,000	136,000	186,000	175,000	236,000	222,000	277,000	261,000
South East	83,000	87,000	106,000	112,000	135,000	142,000	159,000	167,000
South West	107,000	113,000	138,000	145,000	176,000	184,000	206,000	216,000

Construction costs by region, size of dwelling and population density of local authority

England, £ per dwelling, 2020

Local authority density based on Office for National Statistics 'RUCLAD' classification. 'High density' are RUCLAD 4-6 areas.

Source: Pragmatix Advisory calculations and estimates using Valuation Office Agency data and Council Officer interviews

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	1 bed		2 bed		3 bed		4 bed	
Local authority density	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
London	954	357	682	255	341	127	239	89
England excluding London	140	90	100	80	50	40	35	30

Development density by region, size of dwelling and population density of local authority
England, dwellings per hectare, 2020

Local authority density based on Office for National Statistics 'RUCLAD' classification. 'High density' are RUCLAD 4-6 areas.

Source: Pragmatix Advisory calculations and estimates using Council Officer interviews

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	1 bed		2 bed		3 bed		4 bed	
Local authority density	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
North East	84.42	74.47	97.52	86.88	111.38	138.08	146.61	138.08
North West	89.43	88.60	108.57	108.23	127.04	127.30	164.36	165.44
Yorkshire & Humber	84.23	83.65	101.71	104.33	115.58	121.23	152.45	150.80
East Midlands	86.30	84.13	107.32	104.89	122.46	119.46	160.01	162.00
West Midlands	101.85	86.99	128.24	107.01	147.53	126.18	193.48	164.17
East of England	120.90	111.60	150.88	140.14	179.77	168.28	229.95	218.75
London	259.08	191.92	312.64	241.56	370.14	295.20	440.27	365.36
South East	138.29	129.55	174.58	162.33	206.14	197.07	281.12	265.09
South West	110.42	102.57	139.35	130.74	167.86	156.66	218.38	201.35

LHA rates by region, size of dwelling and population density of local authority

England, £ weekly per dwelling, 2020

Local authority density based on Office for National Statistics 'RUCLAD' classification. 'High density' are RUCLAD 4-6 areas.

Source: Pragmatix Advisory calculations and estimates using Valuation Office Agency data. Estimate of 30th percentile of market rates

	1 bed		2 bed		3 bed		4 bed	
Local authority density	High	Low	High	Low	High	Low	High	Low
North East	75.00	75.00	85.00	85.00	94.00	94.00	112.00	112.00
North West	66.00	66.00	74.00	74.00	81.00	81.00	89.00	89.00
Yorkshire & Humber	64.00	64.00	73.00	73.00	79.00	79.00	85.00	85.00
East Midlands	66.00	66.00	75.00	75.00	81.00	81.00	88.00	88.00
West Midlands	69.00	69.00	77.00	77.00	87.00	87.00	96.00	96.00
East of England	77.00	77.00	89.00	89.00	100.00	100.00	111.00	111.00
London	92.00	92.00	104.00	104.00	119.00	119.00	138.00	138.00
South East	80.00	80.00	91.00	91.00	103.00	103.00	111.00	111.00
South West	70.00	70.00	78.00	78.00	88.00	88.00	96.00	96.00

Social rents by region, size of dwelling and population density of local authority

England, £ weekly per dwelling, 2020

Local authority density based on Office for National Statistics 'RUCLAD' classification. 'High density' are RUCLAD 4-6 areas.

Source: Pragmatix Advisory calculations and estimates using Ministry of Housing, Communities & Local Government data

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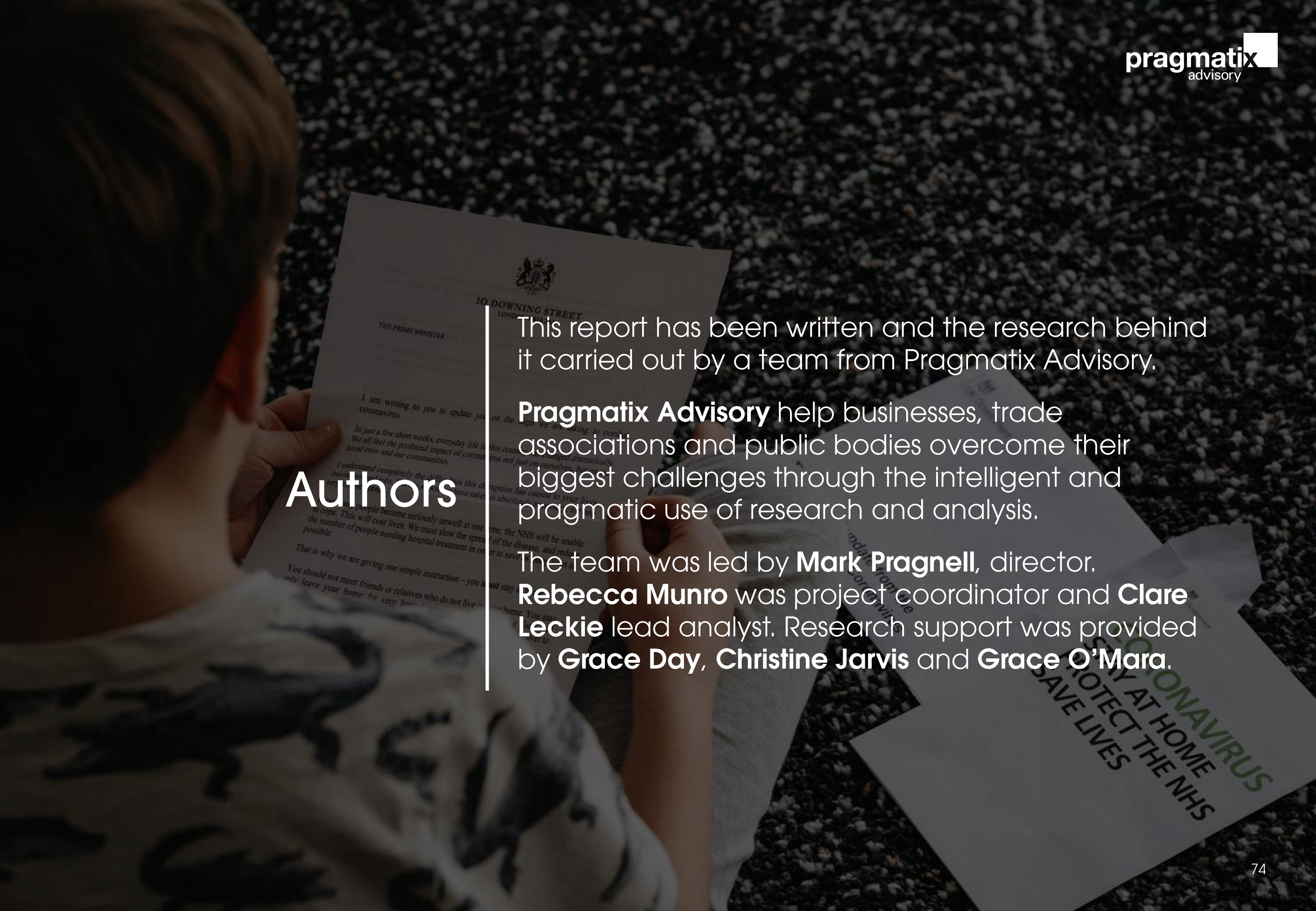

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Pragmatix Advisory help businesses, trade associations and public bodies overcome their biggest challenges through the intelligent and pragmatic use of research and analysis.

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Mark Pragnell founded Pragmatix Advisory to help businesses, trade associations and public bodies around the world overcome their biggest challenges through the intelligent and pragmatic use of research and analysis.

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Mark has covered a wide spectrum of topics from offshore finance through pharmaceutical pricing to small business taxation, but includes work on social housing for Shelter, the Local Government Association, National Federation of ALMOs and the SHOUT campaign, and on the housing shortage for the Joseph Rowntree Foundation.

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