

Increasing investment in Social Housing

A Capital Economics report for Shelter's Social Housing Commission

What might be the cost and impact of social housing programme?

- Shelter's Social Housing Commission sought to inspire government to re-discover the value of Social Housing as part of the solution to the UK housing crisis
- 3.1 million homes over 20 years (155,000 per annum)
 - Provisions focused on those in the greatest need
 - Young households stuck in private renting
 - Older households without housing choices

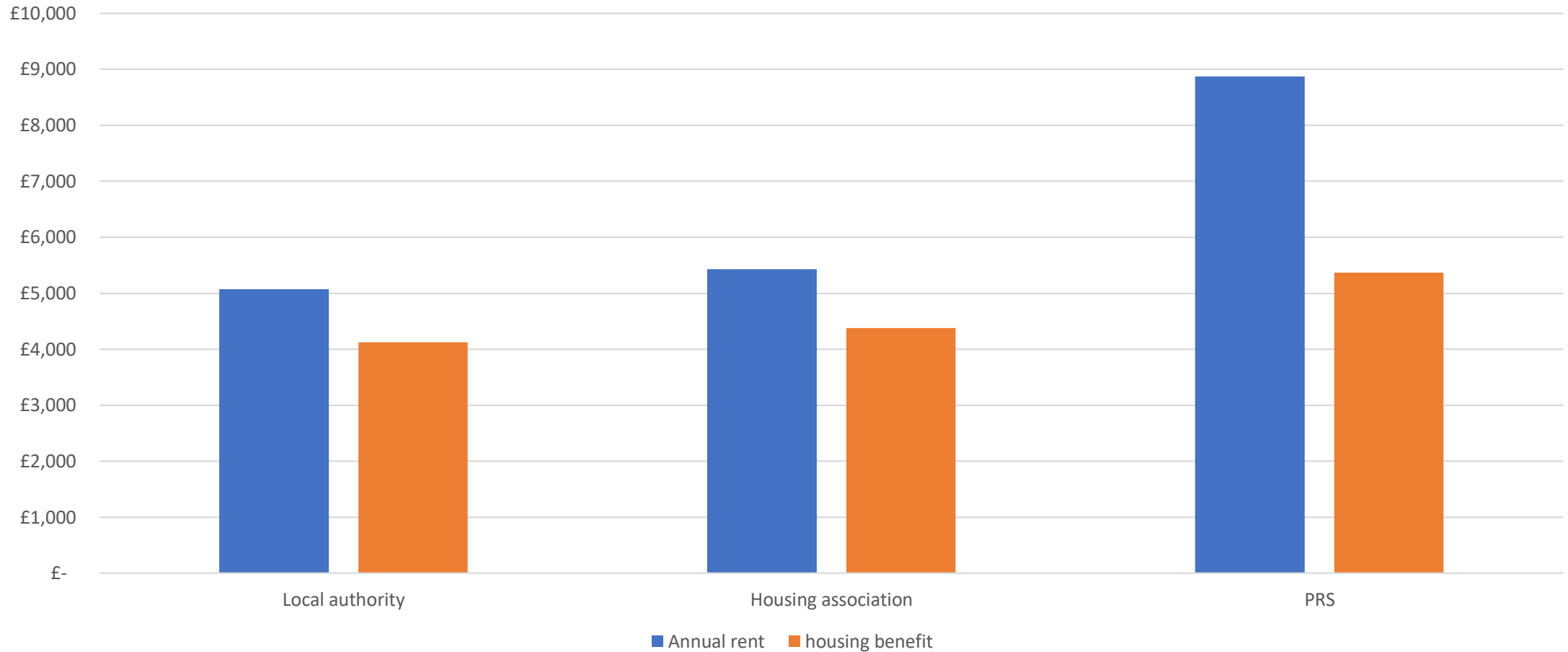
The economic case

Capital Economics were commissioned to model this supply ambition. The work is a simplified model focusing on;

- The grant cost per home
- The impact on GDP vis the tax base
- Cost saving associated with a reduction in housing benefit payments
- The rents generated for the owners of new stock

While the commission gave guidance on the desired outputs from CE's work, the results were produced independently.

Rents and housing benefit payments, by tenure (EHS 2016-17)



Model assumptions (1) - Baseline

- Office for Budgetary Responsibility forecast (July 2018 FSR)
 - Public finances
 - Inflation
 - GDP
- Affordable house building set at existing levels,
 - AH grant estimated at £26,000
 - Annual total units 39,000
- Private sector building set at 145,000 per annum – no growth in supply assumed
- Baseline also assumes rent and LHA/HB levels (which are applied here and with the counterfactual)

Model assumptions (2) – grant funding of homes

CE report details two potential delivery options – fully government funded and grant funded – commission chose to focus on the grant only.

- Homes built over 20 years 2020-39
- Delivery increased incrementally to account for sector upscaling
- Homes assumed to be in ownership of Housing Associations
- Grant level set at £72,600 (2017-18 prices)

Model assumptions (3) – grant funding of homes

The commission did not stipulate in its analysis where homes were needed, so CE were required to make assumptions on the location and allocation/usage.

- Property size was estimated as 65m² and bedroom requirements from DWP claimant data
- Land costs taken from MHCLG LV estimates 2018 – weighted in line with household projections i.e. not targeting high demand areas only
- CE estimated average build cost (land and construction, nationally) as £135,700 this is split equally between the two elements.

“Allocation”

Homes were ‘allocated’ with a focus on housing benefits.

- 1.1 million HH receiving HB in the PRS at present – these are allocated homes first
- Next is future/newly forming HH. Using current claimant levels CE estimated that 0.5 million HH will need HB assistance between 2020 and 2039
- The remaining 1.5 million homes will be allocated to those not requiring HB to pay rents.

This means that almost half the homes will be collecting rents that do not require government support.

Displacement

Capital Economics assumed zero displacement of other construction activity in this model.

- Total supply in this scenario matches the governments stated ambition (300,000 per annum)
- CE identified rationale why increased supply could be sustainable/non-inflationary in the short term
 - Slack in the construction sector presently
 - Long term government investment a signal to investors
 - MMC investment should help to support growth and supply

CE also ran 50% displacement as sensitivity check to result.

The construction multiplier

Model key assumption - construction spending yields significant multiplier effects resulting from UK focused supply chain.

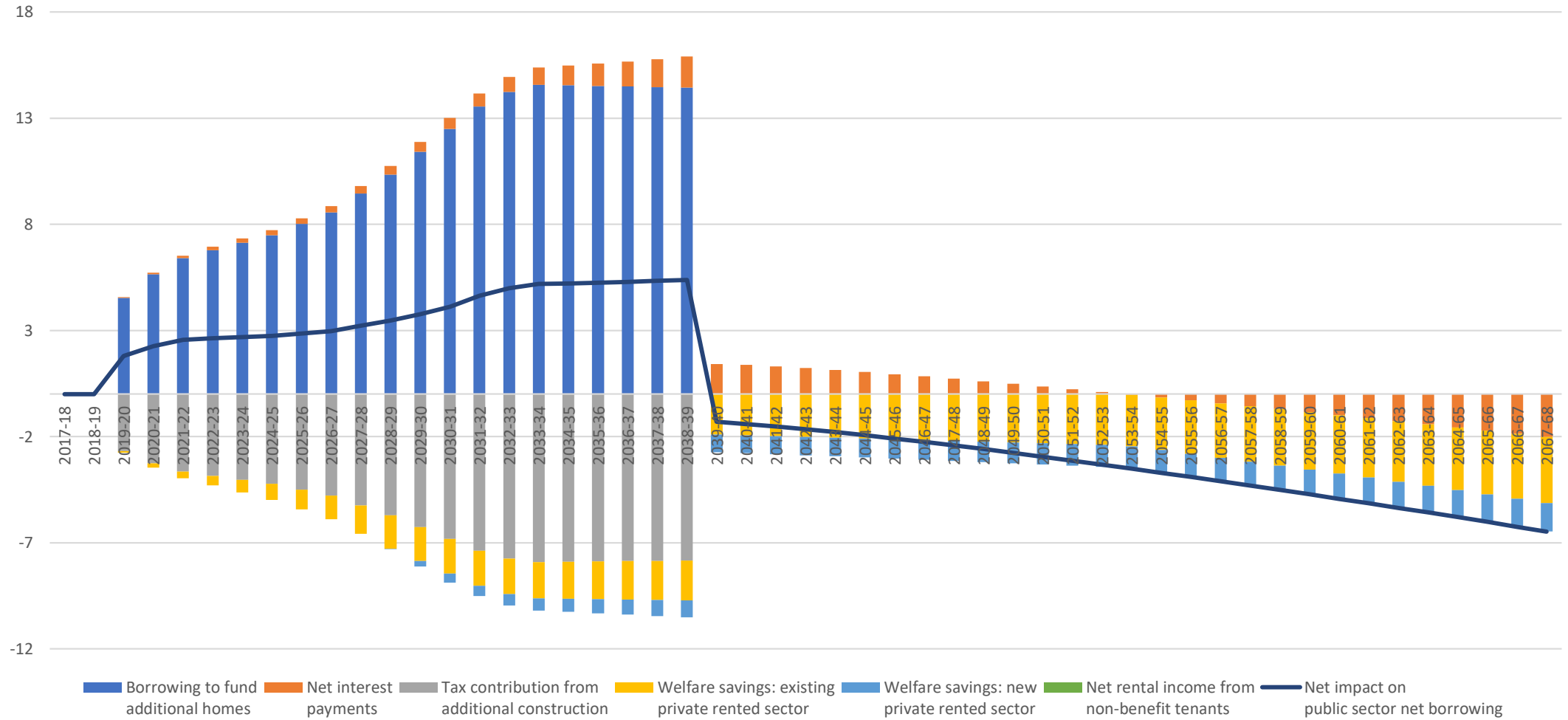
- Multiplier effect describes the permeation of investment through an economy.
 - Investment would generate **direct** economic impact (equal to the investment)
 - **Indirect** impact resulting from the increased supply chain spending as suppliers spend from new demand (=1.09 x investment value)
 - **Induced** impact from additional spending outside of the supply chain; households; other industries and heightened activity overall.

Results (1) – headline results (zero displacement)

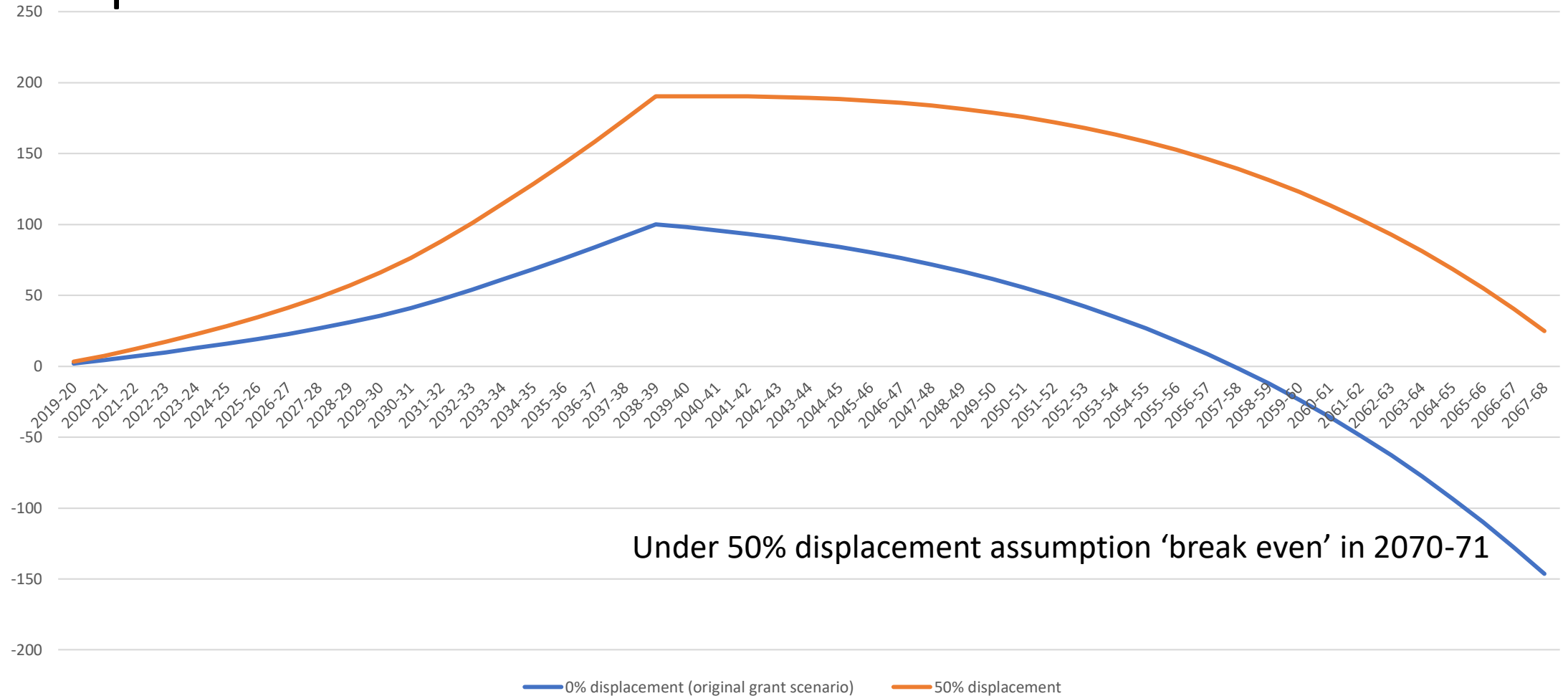
all figures quoted in billions	Real (2017/18)	Nominal
Total build cost (borrowing and interest)	213	278
increase in net Gov. debt	76	100
Total <i>benefit (HB + tax)</i> 30-yr	177	247
Tax	117	154
GDP boost	40	61
Total HB saved PRS 30-yr	60	93
HB from existing PRS 30-yr	45	69
HB from new PRS 30-yr	15	24
Rent values do not accrue to government but are included for completeness		
Rent revenue 30-yr	58	95

Under the assumptions used in the published report, this programme would ‘break even’ by 2057-58

Results (2) – Net impact on PS net borrowing



Results (2) – Net levels of PS debt; 2 displacement scenarios



Next Steps

- Continue to explore land market reform to bring land into development at lower cost
- Land in public ownership
- Explore evidence into the health benefits of good housing (Dr Amy Clare Essex)

- Questions / suggestions