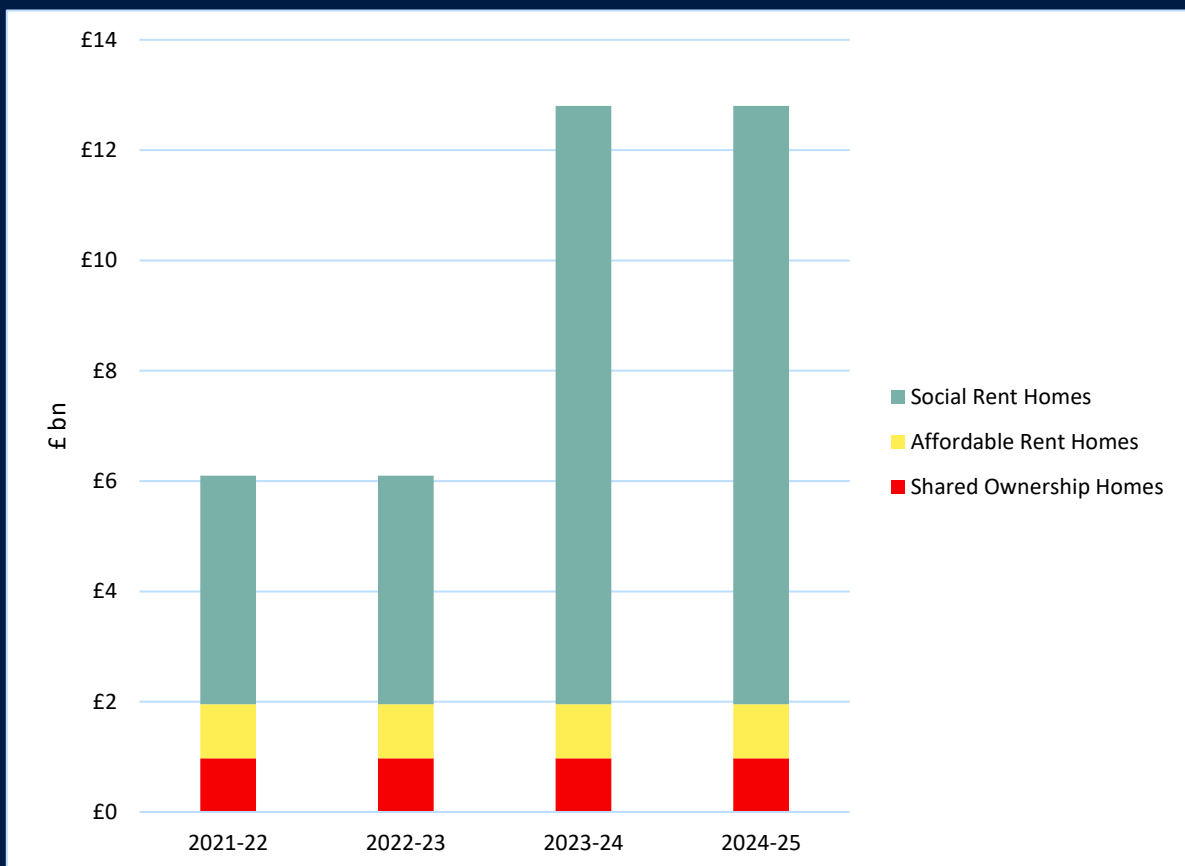


Macroeconomic Benefits of Social Housing Funding

Final Report



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1. Introduction and Summary

1.1. Introduction

- 1.1.1. An expansion of the affordable housing grant funding programme can offer a range of substantial macroeconomic and social benefits. It can make a significant contribution towards meeting the needs of households least able to afford housing. In the context of the Covid19 induced recession and market uncertainties it can help unlock wider housing schemes that include affordable housing but which stall because of viability and/or risk concerns. As a significant injection in to the construction sector the programme will also help generate economic activity with wider multiplier benefits. This can act as a countercyclical balance to the economic impact Covid-19 on the UK housing market. A range of research has also found that investment in social housing can have significant wider social and economic benefits from for example reduced expenditure on health, education, crime prevention and housing benefit.
- 1.1.2. Shelter proposes that the government expand its affordable housing budget and programme by committing to investing £6.1 billion per year for two years. This would mostly be for social rent with the proposals include the provision for the same level of grant funding for affordable rent and shared ownership as the reference case (based on NHF forecast need for funding by tenure). Shelter proposes that the programme is expanded to £12.8 billion per year for all affordable tenures for a further two years.
- 1.1.3. In this report we appraise Shelter's proposed affordable housing grant programme and compare it to the continuation of the existing Affordable Homes Programme.

1.2. Summary

- 1.2.1. Deducting the reference case from the intervention case results in the following net additional economic benefits of Shelter's planned funding programme:
- Estimated to generate an approximately 340,000 construction job years (direct and supply chain) over the reference case planned affordable housing programme.
 - The first two years funding of £6.1 billion per annum results in a net additional 21,000 construction jobs per annum and 23,300 supply chain jobs per annum, while the 2023/24 to 2034/25 funding of £12.8 billion per annum results in net additional construction jobs expanding to 59,400 construction jobs per annum and 65,900 supply chain jobs per annum.
 - The substantial increase in the final two years of the proposed programme is driven by the increase in funding.
 - The net present value (NPV) of the intervention case's construction GVA is estimated to be £6.3 billion more than the reference case, and the NPV of its supply chain GVA is expected to be £7.5 billion more than the reference case. This results in a total net additional GVA of £13.8 billion.
 - The intervention case is estimated to result in an additional 173,100 new affordable housing dwellings additional to the reference case.
- 1.2.2. Our analysis assumes Shared Ownership prices will remain viable, however our work for Shelter in the summer of 2020 forecast a drop in prices as a result of the Covid19 induced recession. In the event that this prediction proved correct we might expect the actual GVA gain from Shared Ownership and/or other low cost

ownership options in the AHP would not generate as much benefits as assessed in this analysis. Price movements would also impact on Affordable Rent homes, but would not impact on Social Rent values, as their rents are set based on a formula and not the market.

1.2.3. Investment in good quality social housing is likely to have significant benefits beyond the construction sector and meeting housing needs. A range of research suggests that there are significant social and economic benefits for tenants and local communities. In this section we consider a series of estimated social impacts associated with the expansion of social housing supply.

1.2.4. The social impacts we consider are the following:

- Reduction in Housing Benefit costs
- Reduction in homelessness
- Construction apprenticeships
- Reduction in unemployment
- NHS savings from reductions in unemployment
- Other benefits including reduction in crime and enhanced education attainment.

1.2.5. We estimate:

- Total steady state social value benefits of around £1 billion per annum
- Net present value of social benefits in the region of £14 billion.

1.2.6. The net present value is similar order of magnitude to the net present value of construction activity (of around £14 billion). This contrasts with the total net additional cost of the expanded programme of around £28 billion. Although it is possible there is some double counting in some of the estimates of social value there are also a range of benefits not quantified, including education and reduced crime. Once these benefits are taken in to account the overall benefits to society of investing in an expanded social housing programme are expected to further outweigh cost and represent good value for money.

1.3. Structure

1.3.1. This report is structured as follows:

- Section 2 sets out our method and macro assumptions
- Section 3 presents details of the Shelter proposed programme (the intervention case) and compares it with the reference case
- Section 4 estimates economic benefits
- Section 5 considers social value benefits.

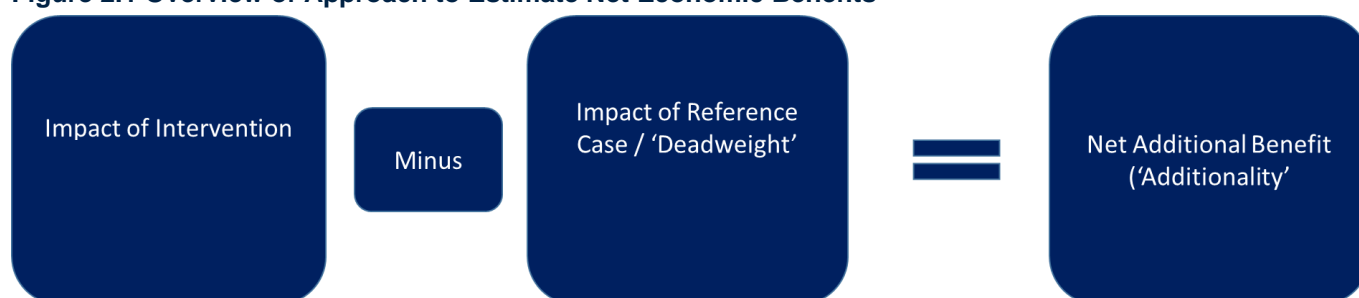
2. Approach

2.1. Framework

2.1.1. There are a number of different methods for assessing economic impact. Differences in approach include the factors considered in calculating additionality, the treatment of 'deadweight' and methods for estimating Gross Value Added (GVA). The method used in this report follows the principles set out in the DCLG Appraisal Guide¹ and the UK Homes & Communities Agency (HCA) Additionality Guide².

2.1.2. Our approach is to compare the 'reference case' (or the 'do nothing' case) with the proposed grant funding (sometimes called the 'intervention case') to estimate the net economics benefits.

Figure 2.1 Overview of Approach to Estimate Net Economic Benefits



Source: Savills, DCLG Appraisal Guide, 2016 and HCA Additionality Guide, 2015

2.1.3. Most interventions will have both positive and negative effects. In appraising the effects of an intervention it is important that all of these are taken into account in order to assess the additionality of the intervention.

2.1.4. To calculate net additionality the level of economic impact/activity for both the reference case and the intervention case need to be assessed.

2.1.5. There are a number of steps to calculate the level of economic impact/activity of an intervention compared to its reference case. The economic impact of the intervention and reference case are quantified by assessing the following:

- Gross direct effects
- Leakage from target area / study area
- Displacement
- Multiplier effects.

2.1.6. **Gross direct effects** are the outputs from the reference case or intervention option before account is taken of factors such as displacement, leakage and multipliers.

¹ DCLG Appraisal Guide, DCLG (now MHCLG), December 2016

² UK Homes & Communities Agency (HCA) Additionality Guide, 2015

- 2.1.7. **Leakage** is assessed to establish what proportion of the intervention’s impacts will benefit those outside of the target area or group. This takes into account access – how easy it is for local people to get to where the job opportunities are expected to be and commuting patterns.
- 2.1.8. **Displacement** is accounted for as most interventions will result in the reduction of activity and benefits somewhere else. For example, new construction jobs created by an intervention may result in a reduction on construction activity on other projects and consequent construction employment.
- 2.1.9. **Multiplier effects** account for further economic activity (jobs, expenditure or income) associated with additional local expenditure and supplier purchases.
- 2.1.10. The total net additional local impact is then calculated by deducting the reference case from the intervention case, both including their leakage, displacement and multiplier effects.
- 2.1.11. The calculation of the total net additional local impact of an intervention can be summarised using the equation featured in **Figure 2.2** below.

Figure 1.2 Approach to Assessing Intervention and Reference Case Impacts



Source: Savills, DCLG Appraisal Guide, 2016 and HCA Additionality Guide, 2015

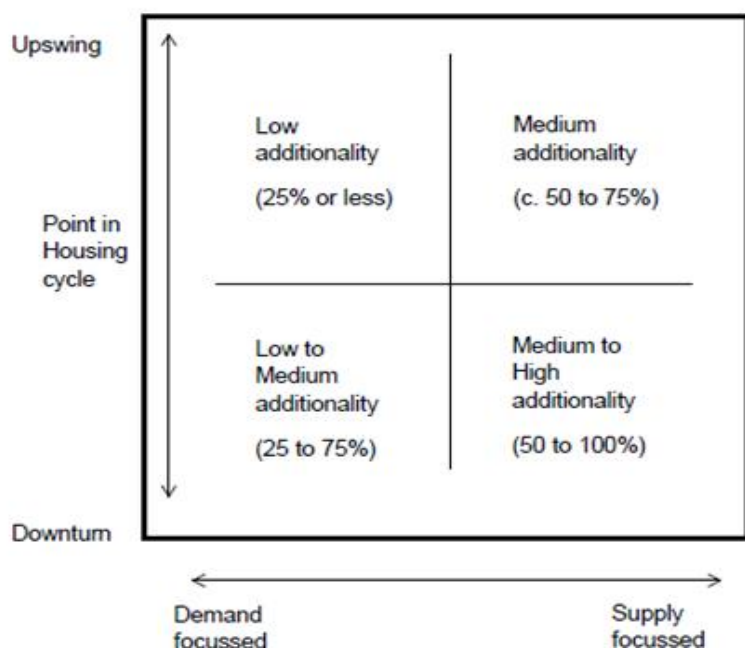
2.2. Multiplier and Displacement Assumptions

- 2.2.1. The above effects can be calculated using input output models or general equilibrium models. Alternatively they can be estimated based on past experience and modelling, including drawing on the conclusions of

input output and general equilibrium models. We use the later approach in this analysis and below is our justification for our chosen effects.

- 2.2.2. A general rule about leakage is that the larger the geography the smaller we can expect the leakage factor to be. Typically for a project deployed at national level, leakage is limited to imports associated with the project. With specific regards to the construction sector, evidence³ suggests that 90% of construction spend is retained within the country. On this basis we set the leakage factor at 10%.
- 2.2.3. The scale of displacement will depend on the strength of the local market. In broad terms the more supply constrained a market is the less displacement will occur (and therefore the greater the additionality), due to there being a significant element of suppressed demand. So for example if there is strong office demand in a local market and limited supply then the market is supply constrained, and provision of new office supply is less likely to result in existing offices falling vacant and/or hindering other proposals coming forward. This is recognised in the DCLG Appraisal Guide and is illustrated in the following diagram taken from the guide.

Figure 1.3 Additionality/Displacement and Strength of Markets



Source: DCLG Appraisal Guide, 2016, page 42

- 2.2.4. For a number of years the housing market in England has been subject to significant supply constraints, which have triggered numerous Government attempts to tackle the under-supply of homes⁴. In addition, the recent slowdown in construction activity during lock-down induced by the Covid-19 pandemic has further delayed housing deliveries. Work by Savills and others has highlighted that the main element of unmet

³ Lichfields (2015), *The Economic Footprint of UK Housing Building*

⁴ E.g. House of Common Library (2020), *Tackling the under-supply of housing in England*

housing need in markets is for affordable housing. This suggests that even if overall demand is reduced this will have little impact on the need for affordable housing and the provision of affordable housing will have little impact on the demand for market housing. This suggests that we should expect additionality in the affordable housing market and house building sector to be high, with a low displacement factor.

2.2.5. With specific regard to the social housing market, evidence on the additionality of affordable housing⁵ indicates that provided there is adequate land, development management and construction capacity, then grant funding to enable viable affordable housing development will have high additionality close to 100%. Another piece of research into the additionality of unviable housing sites found that capital grant invested in costly regeneration sites would enable the delivery of affordable homes that will in turn provide additionality to housing supply even in excess of 100%⁶. For the above reasons in our analysis we use a displacement rate of 5%.

⁵ Savills (2019), *Additionality of Affordable Housing*

⁶ Savills (2013), *Additionality of Affordable Housing*, Report to G15

3. Social Housing Grant Funding Programmes

3.1. Total Expenditure Proposals

3.1.1. Before undertaking the estimation of net economic benefits resulting from the social housing grant we need to understand the what amount of capital expenditure will be unlocked by the proposed grant funding.

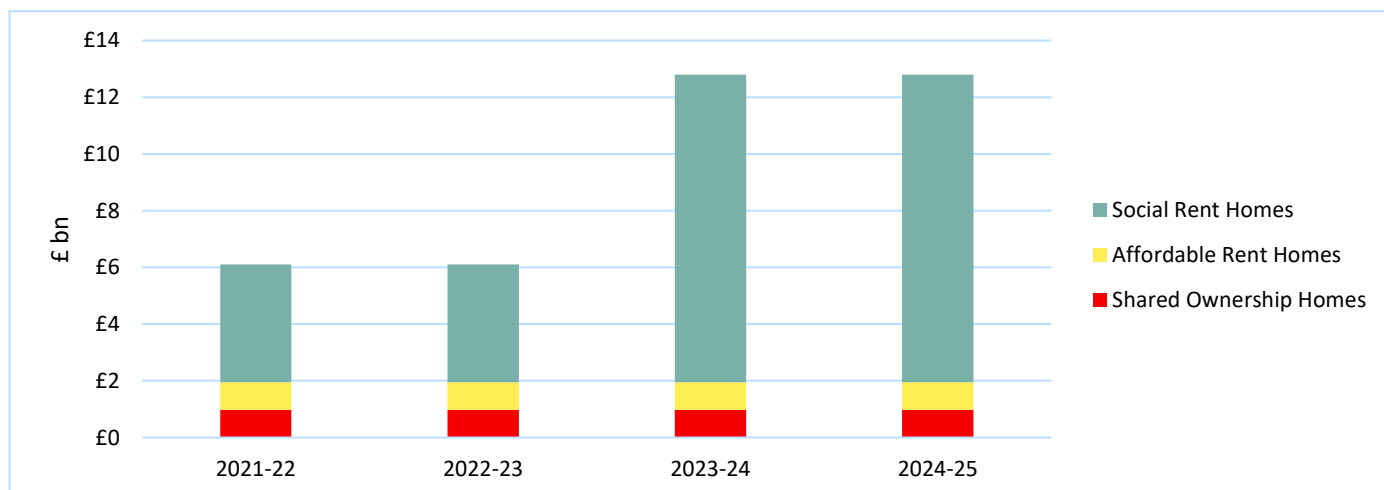
3.1.2. The National Housing Federation (NHF)'s report *Capital Grant Required to Meet Social Housing Need in England 2021-2031* (June 2019), identified that £14.6 billion in grants from the Government each year for ten years (£12.8 billion in 2019 prices) could unlock a housebuilding programme of £46.2 billion per year on average (indicating a ratio of 1:2.3 of grant funding to capital expenditure), and that for grant funded homes this grant would cover 44% of the total scheme costs.

3.1.3. Shelter draws on this proposition and proposes:

- An immediate rescue package of an accelerated two year Affordable Homes Programme of £6.1 billion per year (replacing the first two years of the planned £12.2 billion for the four year period 2021/22-2025/26). Of the £6.1 billion, the majority is directed to social rent (£4.1 billion) and the remainder to affordable rent (£1 billion) and shared ownership (£1 billion).
- Grant funding to increase in the second part of the Comprehensive Spending Review (CSR) period to £12.8 billion each year. Of the £12.8 billion, £10.8 billion is for social rent, £1 billion for affordable rent and £1.1 billion for shared ownership⁷.

3.1.4. **Figure 3.1** illustrates the split by tenure of Shelter's proposed housing grant funding programme.

Figure 3.1 Estimated Affordable Housing Grant Funding by Affordable Tenure (Intervention Case)

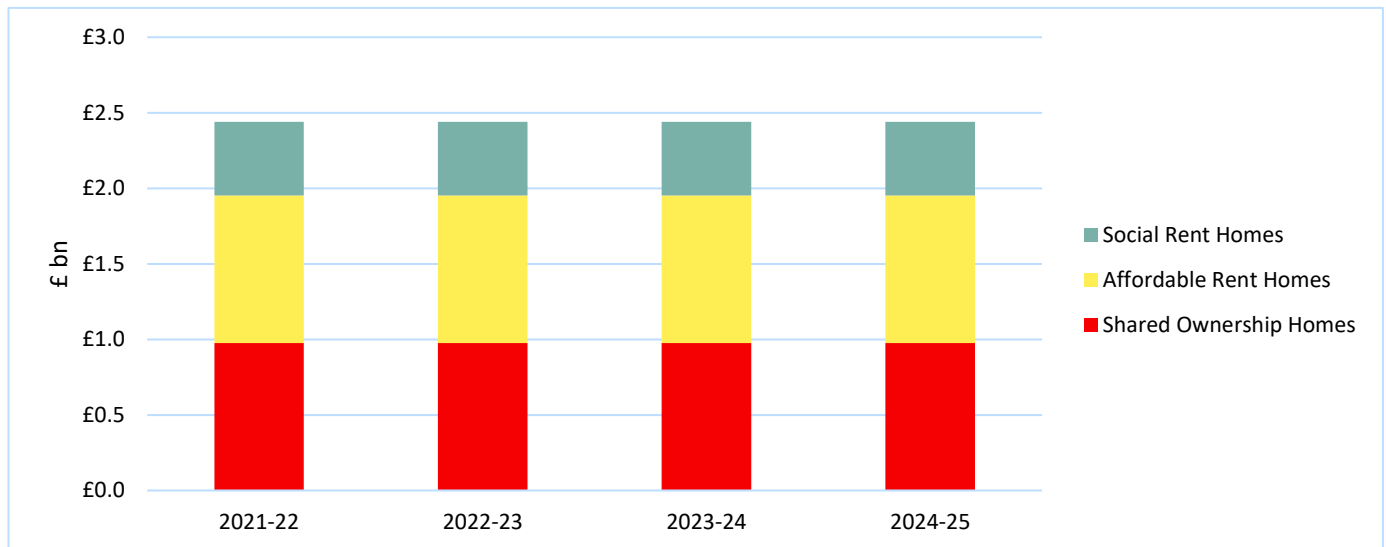


Source: Savills, NHF 2020

⁷ Number not adding up due to rounding

3.1.5. This is compared to the current grant funding programme planned by the Government. This is interpreted in **Figure 3.2** and further discussed in the next chapter.

Figure 3.2 Planned Housing Grant Funding by Tenure (Reference Case)



Source: Savills

3.2. Expenditure per Home

3.2.1. The National Housing Federation (NHF)'s report *Capital Grant Required to Meet Social Housing Need in England 2021-2031* (June 2019) identified a grant requirement per social rent home of £162,000. This is expected to unlock £323,000 in expenditures per home inclusive of land costs. This is set out in **Table 3.1** below.

Table 3.1 Grant Requirement per Home

	Cost per home (£)	Build Cost per Home (£) (55% of total cost)	Grant requirements per home (£)	Grant £ to Build Cost £
Social rent	£323,000	£177,650	£162,000	1:1.1
Affordable rent	£278,000	£152,900	£74,000	1:2.1
Share ownership	£327,000	£179,850	£29,000	1:6.2

Source: *Capital Grant Required to Meet Social Housing Need in England, 2021-31, NHF*

3.2.2. About 55% (£178,000) of this overall costs comprise construction costs. This means that every £1 spent of social housing grant is expected to unlock £1.10 in capital expenditure for social rent.

3.2.3. This differs to shared ownership and affordable rent which require less grant to fund per unit and therefore have a ratio of every £1 spent on affordable rent could unlock £2.1 in capital expenditure and shared ownership could unlock £6.2 in capital expenditure.

3.2.4. The above rates assume a linear relationship and no constraint on need or demand for different tenures and simply sets out that due to the higher gap in viability for social rented houses there is a higher funding requirement per unit.

4. Economic Benefits of Grant Funding

4.1. Introduction and Summary

4.1.1. In this section we estimate the net additionality of Shelter's proposed funding programme by comparing it to the current planned grant funding programme (the 'reference case').

4.1.2. Deducting the reference case from the intervention case results in the following net additional economic benefits of Shelter's planned funding programme:

- Estimated to generate an approximately 340,000 construction job years over the reference case planned affordable housing programme.
- The first two years funding of £6.1 billion per annum results in a net additional 21,000 construction jobs per annum and 23,300 supply chain jobs per annum, while the 2023/24 to 2034/25 funding of £12.8 billion per annum results in net additional construction jobs expanding to 59,400 construction jobs per annum and 65,900 supply chain jobs per annum.
- The substantial increase in the final two years of the proposed programme is driven by the increase in funding.
- The net present value (NPV) of the intervention case's construction GVA is estimated to be £6.3 billion more than the reference case, and the NPV of its supply chain GVA is expected to be £7.5 billion more than the reference case. This results in a total net additional GVA of £13.8 billion.

The intervention case is estimated to result in an additional 173,100 new affordable housing dwellings additional to the reference case.

4.1.3. Our analysis assumes Shared Ownership prices will remain viable. However our work for Shelter in the summer of 2020 forecast a drop in prices as a result of the Covid19 induced recession. In the event that this prediction proved correct we might expect the actual GVA gain from Shared Ownership and/or other low cost ownership options in the AHP would not generate as much benefits as assessed in this analysis. Price movements would also impact on Affordable Rent homes, but would not impact on Social Rent values, as their rents are set based on a formula and not the market.

4.2. Grant Funding and Capital Expenditure

4.2.1. Research by the National Housing Federation (NHF)⁸ estimated the grant funding need across different affordable housing tenures and found that grant funding is needed most in the social rented tenure. However, historically the split of grant funding has been largely in favour of shared ownership and affordable rent tenures. According to figures from Homes England's summary of the 2016 to 2021 Shared Ownership and Affordable Homes Programme (SOAHP)⁹, social rent received about 8% of total grant funding. This is due to the grant coverage being extended to social rent only at later stages in the programme. For the reference

⁸ NHF 2019

⁹ Homes England (2020), 2016 to 2021 Shared Ownership and Affordable Homes Programme summary: end of September 2019

case we suggest a split that broadly follows historic figures but acknowledges that Government may redress the split to increase funding to social rent.

Table 4.1 Grant Split by Tenure

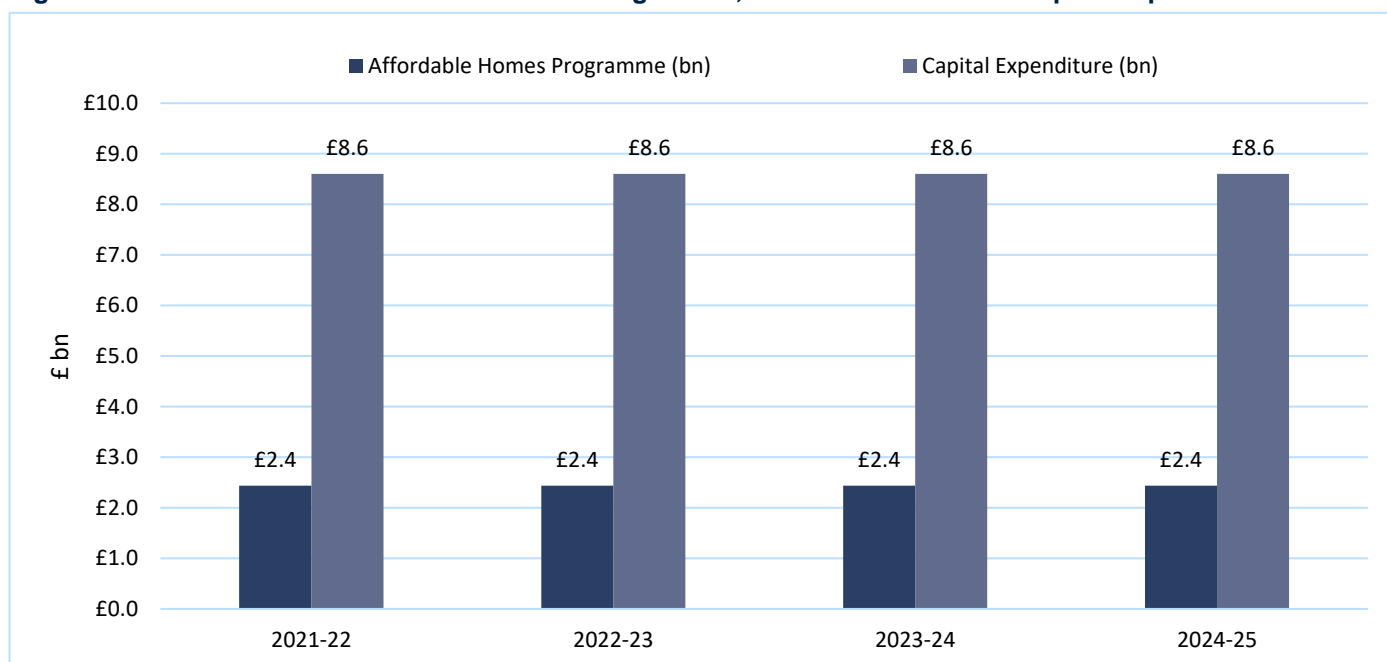
	SOAHP to 2019 Split	Reference Case Split
Shared Ownership	47%	40%
Affordable Rent	45%	40%
Social Rent	8%	20%

Source: Homes England 2020, Savills 2020

4.3. Reference Case

- 4.3.1. The Government's current plan is to spend £12.2 billion on all affordable housing through the next Affordable Homes Programme (2021/22-2025/26). However as the intervention case only runs until 2024/25 we have reduced the programme to four years which equates to a funding programme of £9.8 billion.
- 4.3.2. We have applied the same methodology to the reference case as we have applied to the intervention case to estimate its economic impact.
- 4.3.3. Similar to the intervention case we estimate the build cost associated with the grant funding using the assumptions outlined in **Table 3.1**. The proposed grant funding is estimated to generate a capital expenditure of £34.4 billion over a four year spending programme as outlined in **Figure 4.1** below.

Figure 4.1 Reference Case Affordable Homes Programme, Estimated Grant and Capital Expenditure



Source: Savills, 2020

4.3.4. The above capital expenditure programme results in an additional construction job years of 380,000.

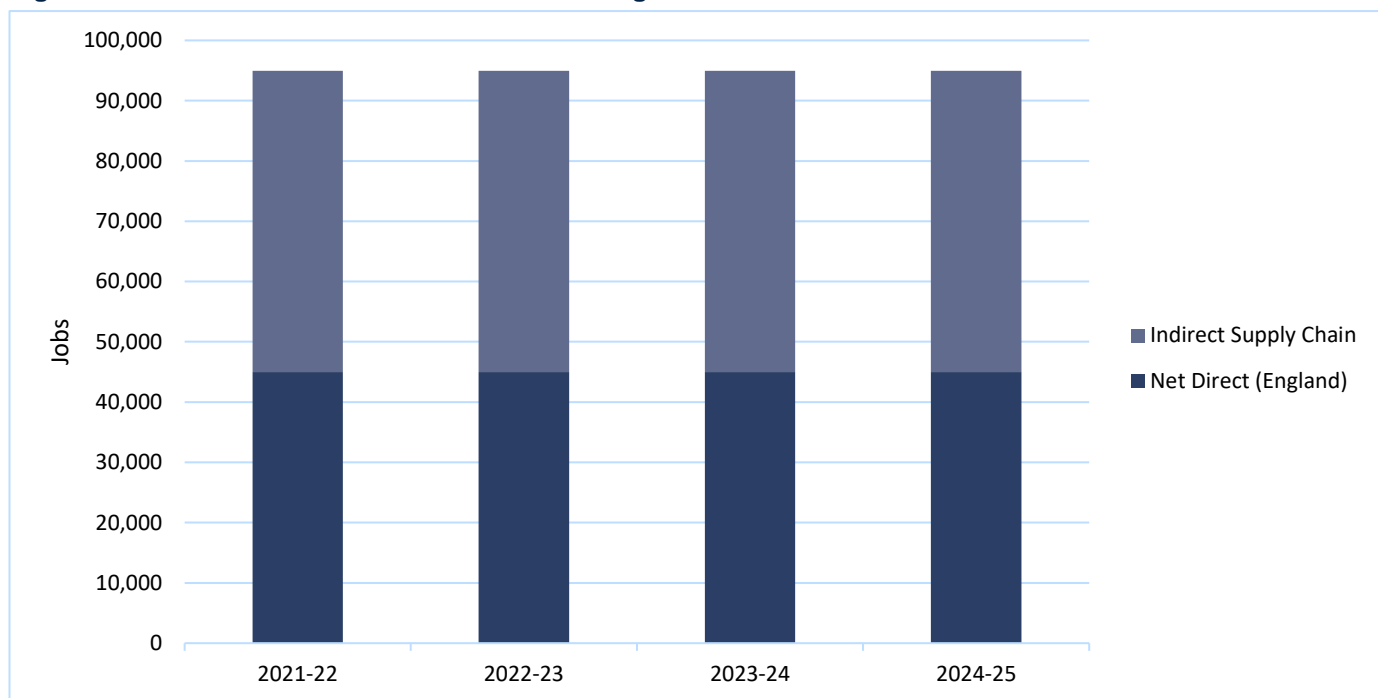
Table 4.2 Reference Case Estimated Total Construction Jobs Per Annum, 2021-22 to 2024-25

Statistic	Construction jobs
Gross Direct	210,489
<i>Leakage (10%)</i>	-21,049
Construction Jobs On-Site Per Annum for Residents	189,440
<i>Displacement (5%)¹⁰</i>	-9,472
Net Direct (England)	179,968
<i>Indirect Supply Chain Multiplier Effect (2.11)¹¹</i>	199,765
Additional Construction Jobs Per Annum * (figures are rounded)	380,000

Source: Savills 2020. *Figures are rounded to the nearest 1000

4.3.5. **Figure 4.2** charts the additional jobs over years. It illustrates that the planned £9.8 billion is estimated to result in an average of 95,000 jobs per annum.

Figure 4.2 Reference Case Affordable Homes Programme Additional Construction Jobs



Source: Savills 2020. *Figures are rounded to the nearest 1000

¹⁰ Savills Research Report to G15, NHF, HFN (2019) concludes that "If there is adequate land, development management and construction capacity, then grant funding to enable the viable development of more affordable housing will have high additionality of close to 100%."

¹¹ Multiplier rate based on ONS UK input-output Analytical Tables (2016)

4.3.6. The construction GVA and supply chain GVA of the construction sector is anticipated to expand by £1.9 billion and £2.3 billion. This equates to an expansion of £4.3 billion of GVA (in total).

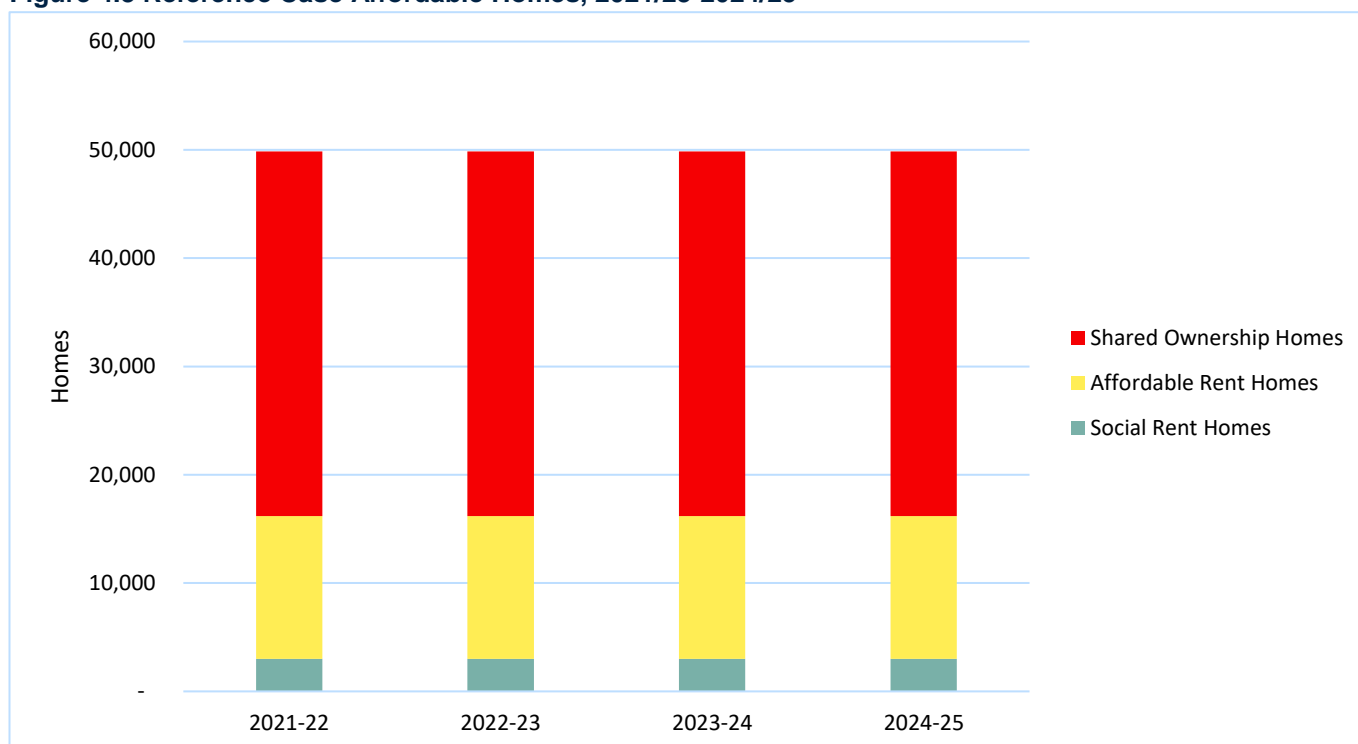
Table 4.2 Reference Case Estimated Average Construction Jobs Per Annum, 2021-22 to 2025-26

Gross Value Added	GVA per annum £Bn
Gross Value Added (Construction)	£1.9
Gross Value Added (Supply Chain)	£2.3
Total Gross Value Added	£4.3

Source: Savills 2020. *Figures are rounded to the nearest 1000

4.3.7. The affordable housing funded by the reference case, under the planned Affordable Housing Programme, is estimated to fund approximately 49,900 affordable housing units per annum. This is broken down by tenure in **Figure 4.3** below.

Figure 4.3 Reference Case Affordable Homes, 2021/23-2024/25

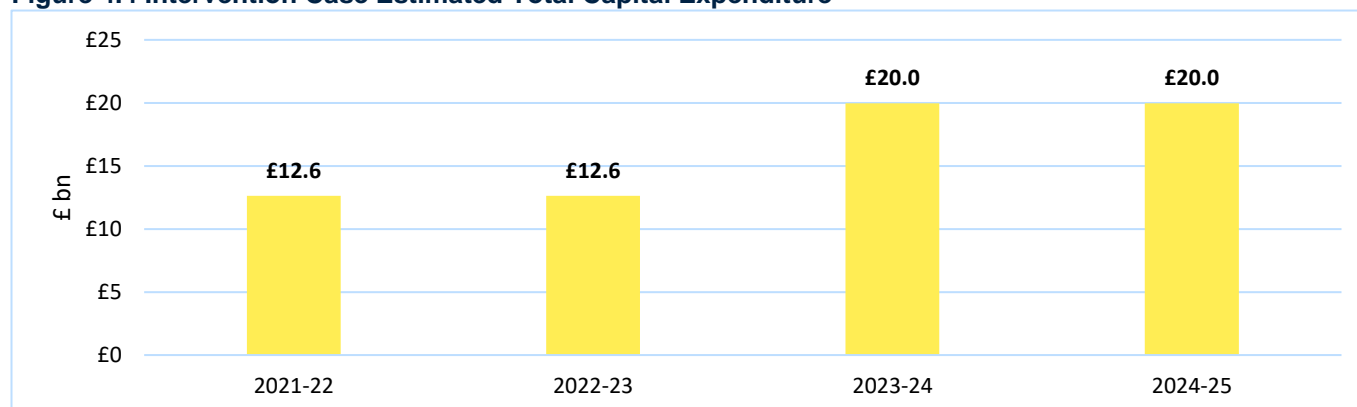


Source: Savills 2020. *Figures are rounded to the nearest 1000

4.4. Intervention Case

4.4.1. Combining the above estimate for grant funding take-up across tenures and the build cost to grant funding ratio for different affordable housing tenures in **Table 3.1** we estimate capital expenditure on build cost of £65 billion (excluding on-cost and land costs). The estimated capital expenditure is outlined in **Figure 4.4**.

Figure 4.4 Intervention Case Estimated Total Capital Expenditure



Source: Savills, NHF 2019

- 4.4.2. To estimate the construction jobs associated with the proposed grant funding we divide the associate capital expenditure (outlined in **Figure 3.2**) by the average homebuilding construction employee turnover in England (£163,500 per worker).
- 4.4.3. Based on this we estimate that the proposed grant funding will result in a total of 718,000 additional construction job years.

Table 4.3 Intervention Case Estimated Total Construction Job (Years), 2021-22 to 2024-25

Statistic	Total
Gross Direct	398,535
<i>Leakage (10%)</i>	-39,853
Construction Jobs On-Site Per Annum for Residents	358,681
<i>Displacement (5%)¹²</i>	-17,934
Net Direct (England)	340,747
<i>Indirect Supply Chain Multiplier Effect (2.11)¹³</i>	378,230
Total Additional Construction Job (Years) * (figures are rounded)	718,000

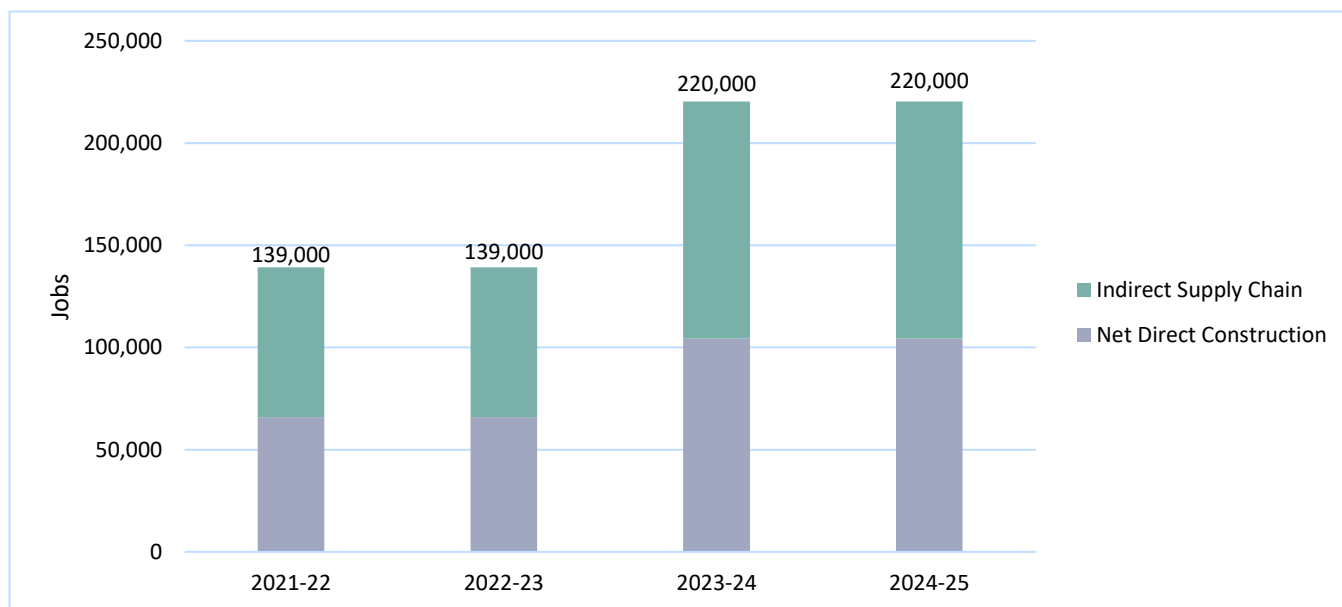
Source: Savills 2020. *Figures are rounded to the nearest 1000

- 4.4.4. **Figure 4.5** shows the additional jobs over the course of the proposed grant programme. It illustrates that the first tranche of £6.1 billion grant funding per annum in 2021/22 and 2022/23 results in an average of 139,000 additional jobs per annum. The second tranche of £12.8 billion per annum for 2023/24 and 2025/26 results in an average of 220,000 jobs per annum.
- 4.4.5. The lower construction jobs seen in 2021/22 and 2022/23 is driven by lower grant funding of £6.1 billion per annum.

¹² Savills Research Report to G15, NHF, HFN (2019) concludes that 'if there is adequate land, development management and construction capacity, then grant funding to enable the viable development of more affordable housing will have high additionality of close to 100%.'

¹³ Multiplier rate based on ONS UK input-output Analytical Tables (2016)

Figure 4.5 Additional Construction Jobs Years, 2021/23-2024/25



Source: Savills 2020, NHF 2019, *Figures are rounded to the nearest 1,000

4.4.6. The construction GVA and supply chain GVA of the construction sector is anticipated to expand by £3.7 billion per annum and £4.4 billion per annum. This equates to an expansion of £8.1 billion per annum.

4.4.7. This is based on GVA per construction job of £43,300 per worker, which results in a total GVA of £3.7 billion per annum. Applying a construction GVA multiplier of 2.20 results estimates a supply chain GVA of £4.4 billion per annum over the course of the grant programme.

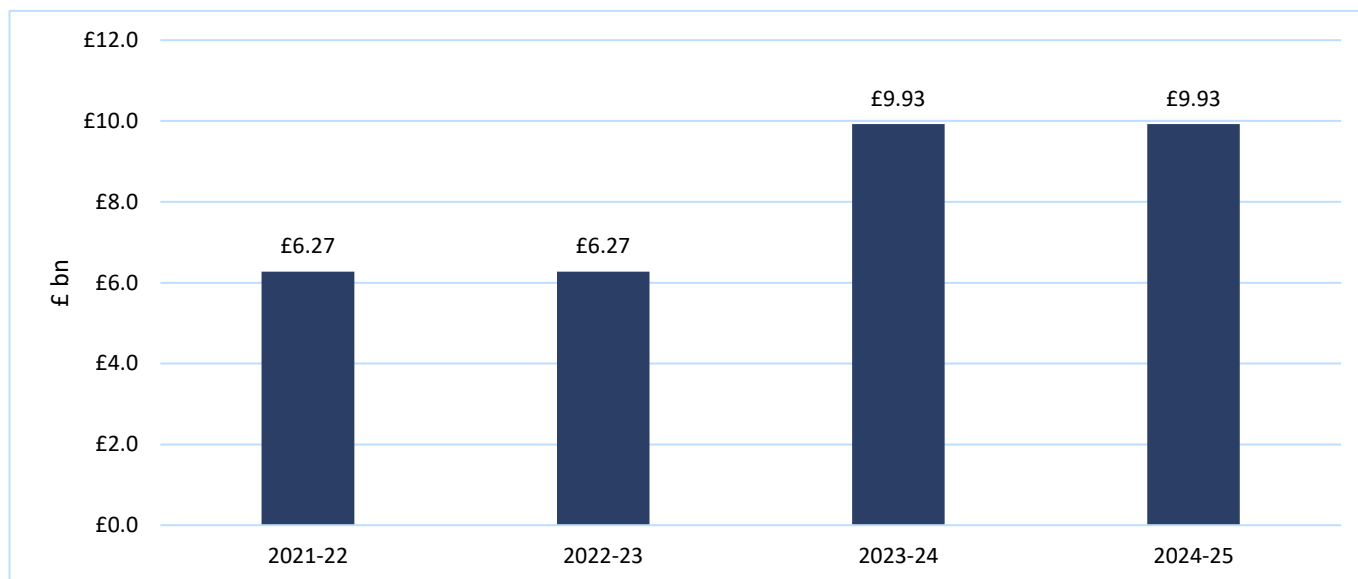
Table 4.4 Intervention Case Total GVA

Gross Value Added (GVA)	GVA per annum £bn
Construction	£3.7 bn
Supply Chain	£4.4 bn
Total Gross Value Added	£8.1 bn

Source: ONS.gov.uk GVA, 2020; Savills, 2020.

4.4.8. **Figure 4.6** shows the additional GVA of the proposed funding.

Figure 4.6 Intervention Case GVA per annum, 2021/23-2024/25

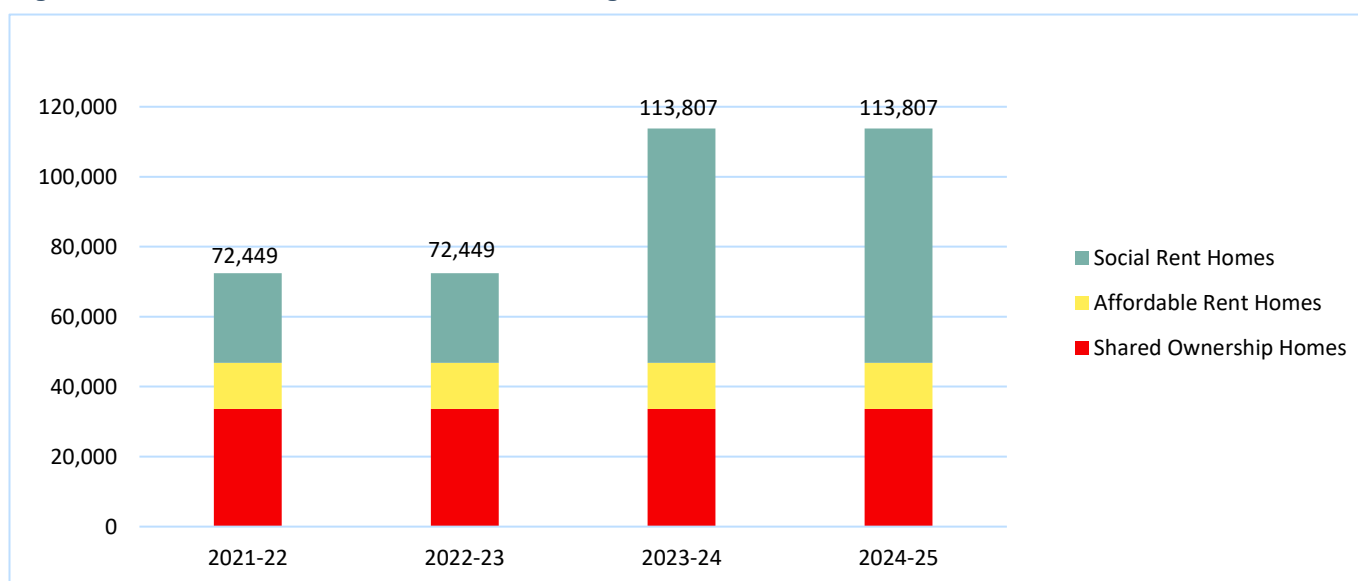


Source: Savills 2020. *Figures are rounded to the nearest 1000

4.4.9. The affordable housing funded under the intervention case is estimated to be 72,500 dwellings per annum 2021/22 and 2022/23, and 113,800 affordable housing per annum in 2023/24 and 2024/25.

4.4.10. We have calculated this by dividing the capital cost by tenure by the average build cost by tenure outlined in **Table 3.1**, estimating the dwellings by tenure as outlined in **Figure 4.7** below.

Figure 4.7 Intervention Case Affordable Housing, 2021/23-2024/25



Source: Savills 2020. *Figures are rounded to the nearest 1000

4.5. Net Additional Economic Benefits

4.5.1. As outlined in **Section 1.2** of this report the net additionality of the proposed funding programme is the intervention case economic benefits minus the reference case economic benefits.

4.5.2. **Table 4.5** shows the overall net additionality of the proposed spending programme. This shows that Shelter's proposed expanded grant funding programme is estimated to generate an approximately 338,000 construction job years plus supply chain over the reference case planned affordable housing programme.

Table 4.5 Net Additional Job Years

	Intervention Case (Job Years)	Reference Case (Job Years)	Net Additional (Jobs Years)
Gross Direct	398,535	210,489	188,046
<i>Leakage (10%)</i>	-39,853	-21,049	-18,805
Construction Jobs On-Site Per Annum for Residents	358,681	189,440	169,241
<i>Displacement (5%)¹⁴</i>	-17,934	-9,472	-8,462
Net Direct (England)	340,747	179,968	160,779
<i>Multiplier Effect (2.11)¹⁵</i>	378,230	199,765	178,465
Additional Construction Jobs Total * (figures are rounded)	718,000	380,000	338,000

Source: Savills, 2020. Figures are rounded and so may not sum exactly

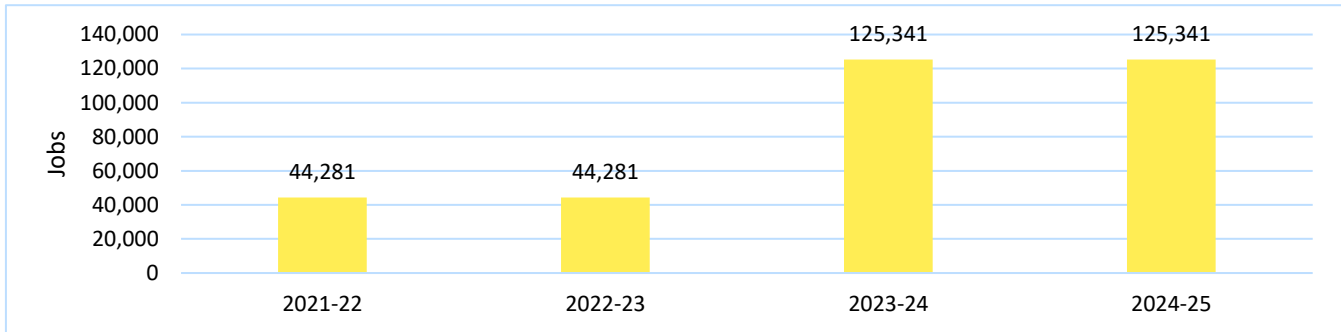
4.5.3. **Figure 4.8** illustrates the net additionality year to year based on both funding programmes. It shows that the first two years funding of £6.1 billion per annum results in a net additionality 44,300 jobs per annum (21,000 construction jobs and 23,300 supply chain jobs), while the 2023/24 to 2024/25 funding of £12.8 billion per annum results in net additional construction jobs expanding to 125,300 jobs per annum (59,400 construction jobs and 65,900 supply chain jobs).

4.5.4. The increase in the final two years of the proposed programme is driven by the increase in funding proposed for these years and also the funding being open to all affordable housing tenures, which require less grant funding to develop than social rent houses (and therefore results in more capital expenditure compared to social rent).

¹⁴ Savills Research Report to G15, NHF, HFN (2019) concludes that "If there is adequate land, development management and construction capacity, then grant funding to enable the viable development of more affordable housing will have high additionality of close to 100%."

¹⁵ Multiplier rate based on ONS UK input-output Analytical Tables (2016)

Figure 4.8 Net Additional Construction Jobs Per Annum



Source: Savills, 2020. Figures are rounded and so may not sum exactly

4.5.5. Gross value added is expected to expand over this period too. **Table 4.6** shows that the NPV of the intervention case's construction GVA is estimated to be £6.3 billion construction GVA more than the reference case, and the NPV of its supply chain GVA is expected to be £7.5 billion more than the reference case.

Table 4.6 Net Present Value of Gross Value Added, £ bn

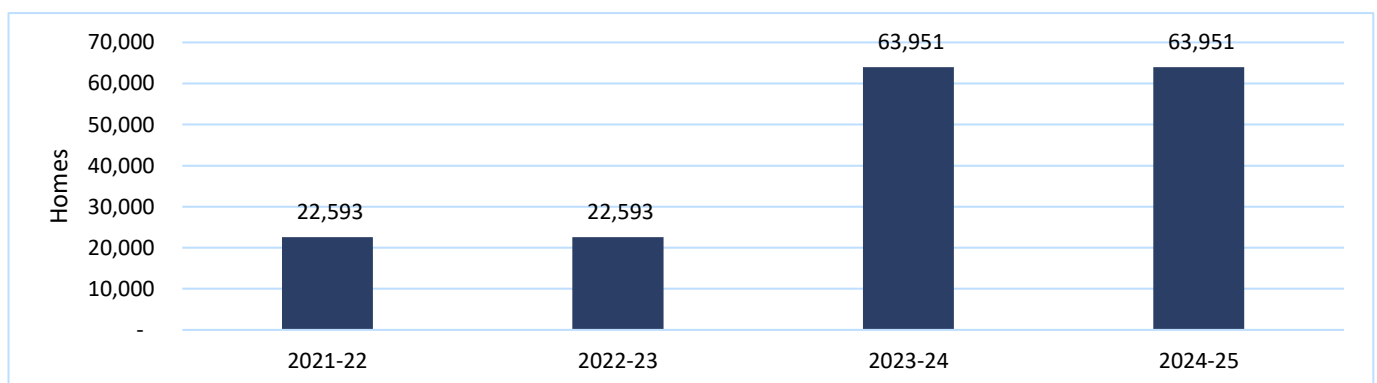
	Construction GVA		Supply Chain GVA		Total - GVA
Intervention case	£	13.4	£	16.1	£ 29.5
Reference case	£	7.2	£	8.6	£ 15.7
Net additional	£	6.3	£	7.5	£ 13.8

Source: Savills, 2020. Figures are rounded and so may not sum exactly, discount rate of 3.5% use for NPV calculation

4.6. Additional Affordable Housing

4.6.1. Both the intervention case and reference case result in additional affordable housing development. Overall we have estimated that the intervention case will fund an additional 173,100 affordable housing than the reference case. These net additional are all social rented.

Figure 4.9 Net Additional Affordable Housing



Source: Savills

5. Social Value of Grant Funding

5.1. Introduction and Summary

5.1.1. Investment in good quality social housing is likely to have significant benefits beyond the construction sector and meeting housing needs. A range of research suggests that there are significant social and economic benefits for tenants and local communities. In this section we consider a series of estimated social impacts associated with the expansion of social housing supply.

5.1.2. The social impacts we consider are the following:

- Reduction in Housing Benefit costs
- Reduction in homelessness
- Construction apprenticeships
- Reduction in unemployment
- NHS savings from reductions in unemployment
- Other benefits including reduction in crime and enhanced education attainment.

5.1.3. We attribute a monetised value to these social impacts following industry guidance and financial proxies from DCLG and the Social Value Portal.

5.1.4. We illustrate social value estimates in a series of charts for each social value impact considered. The charts follow the Shelter Proposed Social Housing Grant Funding scenario showing estimated social value for a steady state year once the housing is built and occupied. We conclude the analysis by estimating the net present value of these future flows of benefits.

5.1.5. We estimate:

- Total steady state social value benefits of around £1 billion per annum
- Net present value of social benefits in the region of £14 billion.

5.1.6. The net present value is similar order of magnitude to the net present value of construction activity (of around £14 billion). This contrasts with the total net additional cost of the expanded programme of around £26 billion. Although it is possible there is some double counting in some of the estimates of social value there are also a range of benefits not quantified, including education and reduced crime. Once these benefits are taken in to account the overall benefits to society of investing in an expanded social housing programme are expected to further outweigh cost and represent good value for money.

5.2. Reduction in Housing Benefit Costs

5.2.1. A benefit of the expansion of social rented housing beyond the reference case is the reduction in housing benefit costs to the government. Social rented housing in this context refers to all affordable housing tenures.

5.2.2. Housing benefit assists people on low income, unemployed or claiming other benefits with housing costs. If these people are moving from private rented sector accommodation to social housing and the rental costs of private renting are higher than social rent then there will be a housing benefits saving. **Figure 5.1** below shows an estimate of the difference in housing benefits per cost on average for social rented and private rented tenures.

Figure 5.1 Average Annual Housing Benefit Cost by Housing Tenure (Jan-May 2018)



Source: *Housing Benefit Caseload Statistics, 2018 Department for Work and Pensions*

Note – latest data available to May 2018

5.2.3. The net increase of social rented homes of 173,100 could result in a reduction in the cost of housing benefit.

5.2.4. **Table 5.1** outlines our estimate of the reduction of cost to the government.

- 15% of new social rented lease tenants come from private rented accommodation
- We estimate that 26,000 additional affordable housing from the proposed grant funding will be leased to tenants previously in private accommodation
- Private rented tenants on average claim £1,170 per annum more than social rented tenants
- This equates to an average cost saving of £30 million per annum.

5.2.5. This may well be an under-estimate as much of the new proposed social housing is social rent housing with lower rental levels than average. Also in overall net terms a much higher proportion of the new social rented tenants could come from the private rented sector, given that that this new stock is in effect net additional. In **Table 5.2** we test the assumption that 50% of social rent units go to tenants that were previously in private tenures. This brings the total housing benefits cost savings to £101 million per annum.

Table 5.1 Housing Benefit Cost Reduction

Social Rent Units	173,000
% from private tenure	15% ¹
Social rent to previous private tenures	26,000
Additional Housing Benefit Cost of private rented	£1,170 ²
Housing Benefit Cost Savings per annum	£30 million

Source: MHCLG, Department for Work and Pensions, Savills

¹ Social housing lettings in England, 2018/2019: Continuous Recording (CORE) data, Table 3f: Previous housing situation of lead tenant⁴, for new social housing lettings, 2017/18 and 2018/19

² Housing Benefit Caseload Statistics, 2018 Department for Work and Pensions

Table 5.2 Housing Benefit Cost Reduction – Higher Share from Private Tenure

Social Rent Units	173,000
% from private tenure	50%
Social rent to previous private tenures	86,500
Additional Housing Benefit Cost of private rented	£1,170 ¹
Housing Benefit Cost Savings per annum	£101 million

Source: Department for Work and Pensions, Savills

¹ Housing Benefit Caseload Statistics, 2018 Department for Work and Pensions

5.3. Reduction in Homelessness

5.3.1. The latest MHCLG release on social lettings statistics indicates that in 2018/19 18% of new social lettings were to homeless households¹⁶. We use this assumption to estimate homelessness reduction for households and ONS household projections for England in 2020 to adjust estimates to number of people.

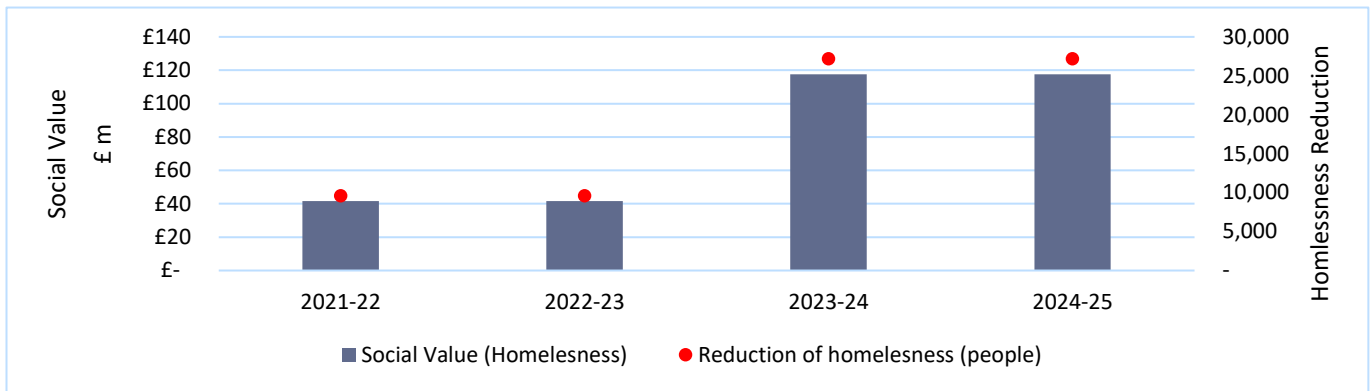
5.3.2. For social value estimates we use DCLG estimated net savings in health costs expressed in 2020 prices of £4,300 per person.

5.3.3. This yields a total reduction in homelessness of over 73,600 people with an associated social value of £318 million in annual health savings. This is illustrated in **Figure 5.2**.

¹⁶ MHCLG (2020), Social Housing Lettings: April 2018 to March 2019, England



Figure 5.2 Social Value of Homelessness Reduction



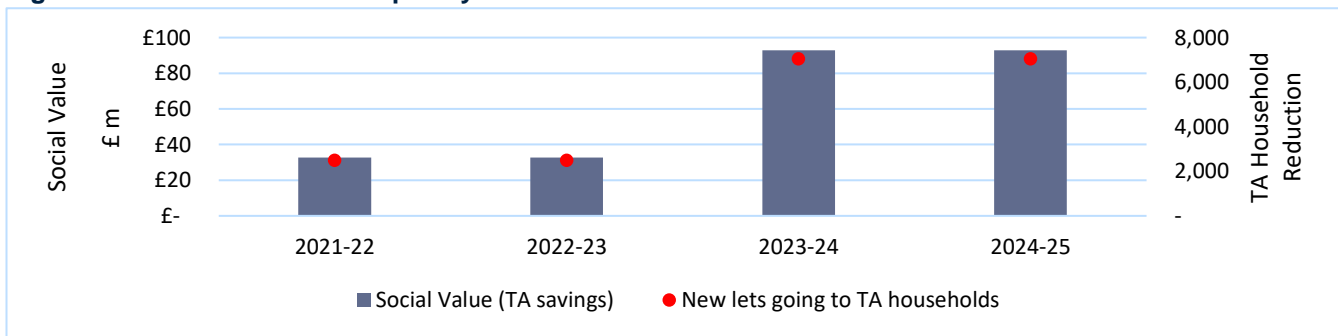
Source: Savills 2020 Note: Chart showing year when social value is unlocked following the Shelter Proposed Social Housing Grant Funding Scenario

5.4. Reduction in Occupation of Temporary Accommodation

5.4.1. The MHCLG’s release on social lettings statistics also reports that in 2018/19 11% of new lettings went to people in temporary accommodation. This means that the social housing grant could see 19,000 households to leave temporary accommodations (TA).

5.4.2. Shelter 2019 research¹⁷ on council spend on social housing suggests that temporary accommodation provision is around £12,820 per household per annum (£13,200 in 2020 prices), including housing benefits and additional council spending. Applying this cost saving to the number of households expected to leave temporary accommodation as a result of the grant yields a total social value of £251 million. This is illustrated in **Figure 5.3**.

Figure 5.3 Social Value of Temporary Accommodation Reduction



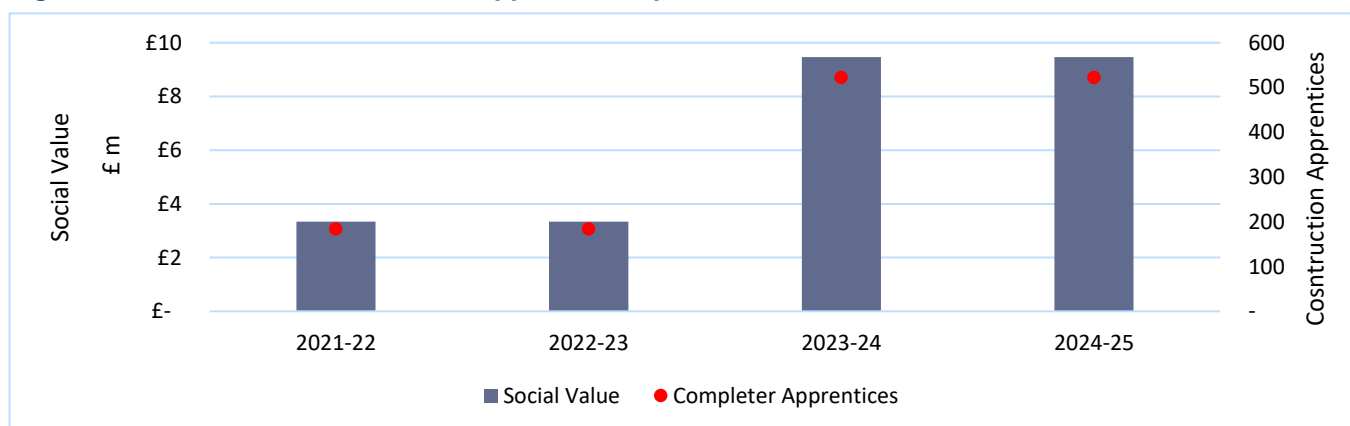
Source: Savills 2020 Note: Chart showing year when social value is unlocked following the Shelter Proposed Social Housing Grant Funding Scenario

¹⁷ Shelter (2019), Homelessness crisis costs councils over £1bn in just one year [available on england.shelter.org.uk, accessed 11 September 2020]

5.5. Construction Apprenticeships

- 5.5.1. The capital expenditure programme unlocked by the social housing grant will lead to substantial construction activity. As a result of this construction activity we expect employers to support a number of construction apprenticeships.
- 5.5.2. The social value of apprenticeships is calculated per week of completed apprenticeship. To estimate expected completed apprenticeships we refer to the latest apprenticeships evaluation research report¹⁸ where it is found that the construction sector supports 8.8 completer apprentices per 1,000 employees. Applying this rate to total construction jobs yields a total of 1,400 completed apprenticeships.
- 5.5.3. We then use proxies from the Social Value Portal's National Themes, Outcomes and Measures (TOMs) 2020 where the social value of apprenticeships is estimated at £207 per week of completed apprenticeships and assume an average apprenticeship duration of 87 weeks based on evidence from DfE¹⁹. This results in a total social value of £25.6 million. This is illustrated in **Figure 5.4**.

Figure 5.4 Estimated Social Value of Apprenticeships



Source: Savills 2020 Note: Chart showing year when social value is unlocked following the Shelter Proposed Social Housing Grant Funding Scenario

5.6. Reduction in Unemployment and Associated NHS Savings

- 5.6.1. The construction programme unlocked by the grant is also expected to lead to reduction in unemployment by giving work to people who were previously unemployed. From previous internal research by Savills we estimate that about 10% of all jobs on construction sites are take-up by previously unemployed people. Given the total net additional total jobs associated with the construction programme we expect 16,100 of these contributing to unemployment reduction.

¹⁸ DfE (2020), Apprenticeships Evaluation 2018-19: Employers - Research Report

¹⁹ 611 days, DfE, FE and Skills commentary November 2019

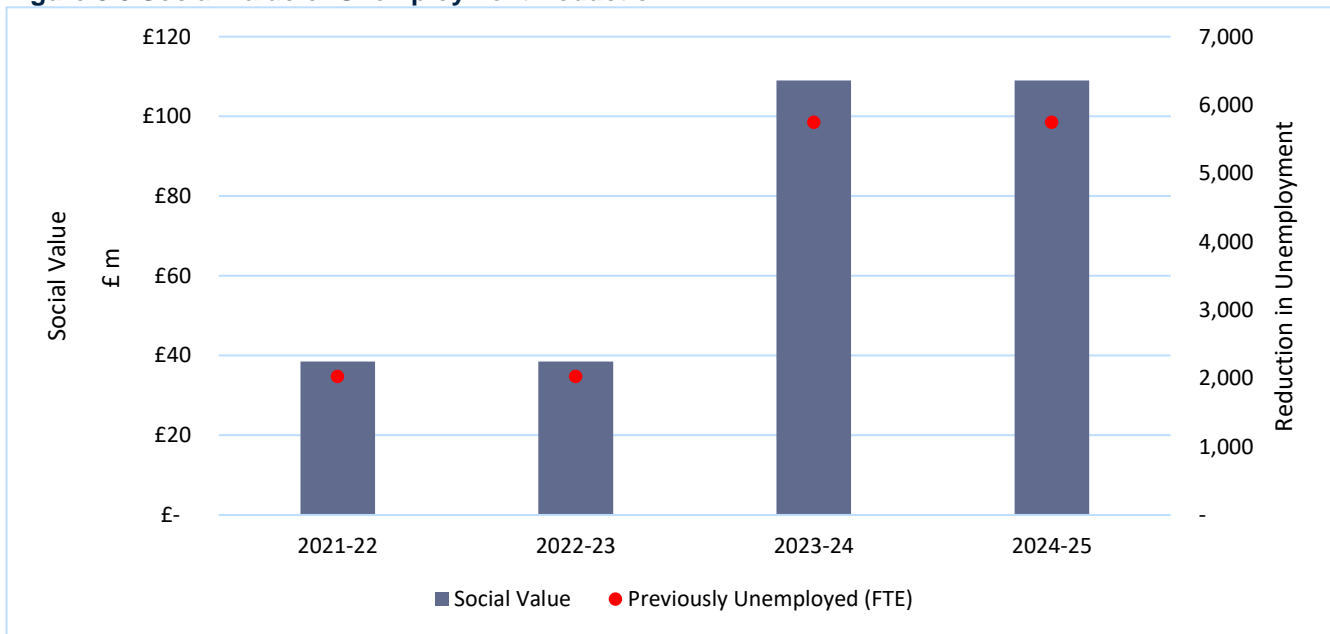


5.6.2. To estimate the social value of unemployment reduction we use a financial proxy of £18,965 per FTE from the National TOMs 2020 tables which are based on GMCA Research Team’s Unit Cost Database (v.2.0). This proxy includes:

- Fiscal benefits to NHS, DWP, HMRC from reduction in health costs from improved health, reduction in benefits payments, and increased national insurance receipts - (excluding transfers)
- Economic benefits from increased output as a result of an individual entering employment.

5.6.3. After adjusting total jobs to FTE jobs using ONS’ labour market statistics (LMS) on average hours of work, we estimate the social value of unemployment reduction to total £295 million. This is illustrated in **Figure 5.5**.

Figure 5.5 Social Value of Unemployment Reduction

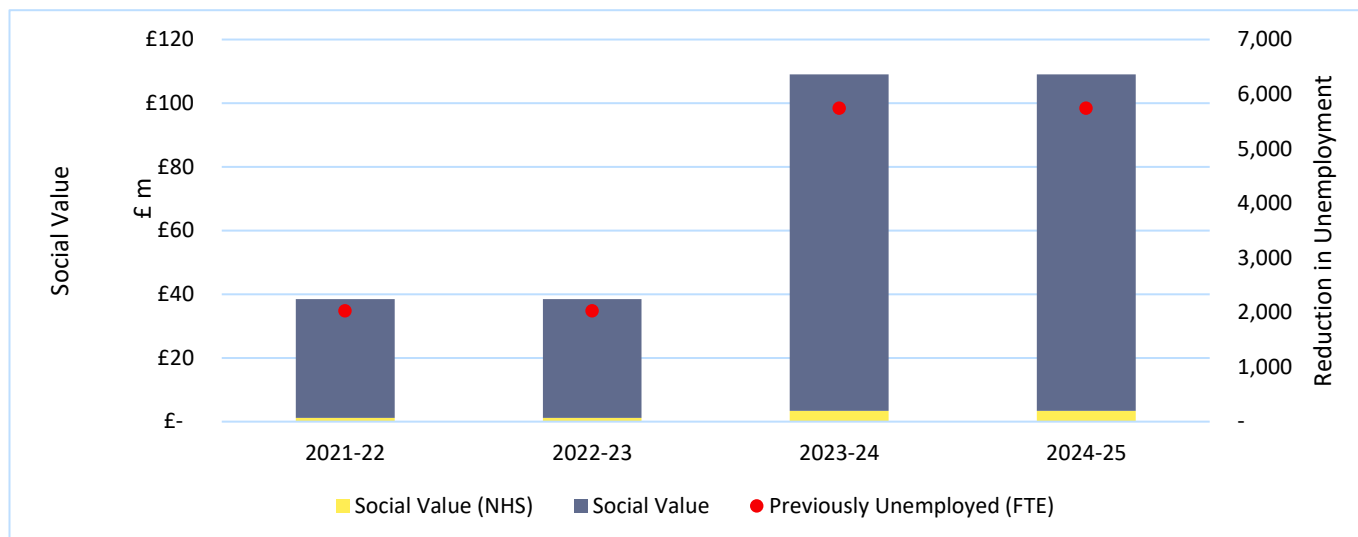


Source: Savills 2020 Note: Chart showing year when social value is unlocked following the Shelter Proposed Social Housing Grant Funding Scenario

5.6.4. Of this NHS savings from improved health of previously unemployed people account for £9 million. This is illustrated in **Figure 5.6**. The assumption behind this is based on evidence of a positive causal effect of employment on individual health outcomes, as reported in DWP (2010) Working Paper No 86²⁰.

²⁰ DWP (2010) The Department for Work and Pensions Social Cost Benefit Analysis Framework

Figure 5.6 Social Value of Unemployment Reduction – NHS Savings



Source: Savills 2020 Note: Chart showing year when social value is unlocked following the Shelter Proposed Social Housing Grant Funding Scenario

5.7. Summary of Social Impacts and Value

5.7.1. The social housing grant is set to unlock a capital expenditure programme that will not only be supported by construction jobs, but will also contribute to homelessness reduction, apprenticeships creation, unemployment reduction and NHS savings.

5.7.2. The summary of social value benefits is shown in **Table 5.2**. This shows that in the steady state position we estimate social value of around £0.9 billion to £1 billion per year.

Table 5.2 Estimated Annual Social Value Benefits

Indicator	Social Value £ m, per annum
Housing benefit savings	£30 to £101
Reduction in Homelessness	£318
Reduction in Households in Temporary Accommodation	£251
Construction Apprenticeships	£26
Reduction in Unemployment	£295
of which, NHS savings	£9
Total	£0.9 bn to £1 bn

Source: Savills 2020, Figures rounded

5.8. Net Present Value of Social Benefits

5.8.1. The summary of Social Value benefits is shown in **Table 5.2**. The first column presents social value on a per annum basis and the second column expresses the net present value of social value discounted at HM Treasury discount rate of 3.5% p.a. over an appraisal period to 2050.

Table 5.2 Estimated Annual Social Value Benefits

Indicator	Social Value £ m, per annum	Social Value £ m, Total Net Present Value
Housing benefit savings	£30 to £101	£448 to £1,494
Reduction in Homelessness	£318	£4,698
Reduction in Households in Temporary Accommodation	£251	£3,707
Construction Apprenticeships	£26	£378
Reduction in Unemployment	£295	£4,353
of which, NHS savings	£9	£134
Total	£0.9 bn to £1 bn	£13.5 bn to £15 bn

Source: Savills 2020, Figures rounded, Net Present Value to 2050

5.8.2. These figures show a total net present value of social benefits in the region of £14 billion. This is similar order of magnitude to the net present value of construction activity of around £14 billion. This contrasts with the total net additional cost of the expanded programme of around £28 billion. Although it is possible there is some double counting in some of the estimates of social value there are also a range of benefits not quantified, including education and reduced crime. Once these benefits are taken in to account the overall benefits to society of investing in an expanded social housing programme are expected to further outweigh cost and represent good value for money.

Appendix: Glossary

CSR	Comprehensive Spending Review
DCLG	Department of Communities and Local Government (now MHCLG)
DfE	Department for Education
DWP	Department of Work and Pensions
FTE	Full time equivalent
GVA	Gross Value Added
HCA	Homes & Communities Agency
HMRC	Her Majesties Revenue and Customs
LMS	Labour market statistics
MHCLG	Ministry of Housing, Communities and Local Government
NHF	National Housing Federation
NHS	National Health Service
NPV	Net present value
ONS	Office for National Statistics