

Business, Energy and Industrial Strategy Committee

Inquiry: Post-pandemic economic growth

Written Evidence Submitted by the Northern Housing Consortium July 2020

About the Northern Housing Consortium

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England. We are the 'Voice of Housing in the North' working with local authorities, housing associations and ALMOs. Our membership covers over 90% of all social housing providers in the North. The NHC's vision is to use our collective voice to have unrivalled influence in achieving housing policy that works for the North and provide outstanding services that support our members to create great places to live.

The NHC's 140 full members are involved in all aspects of the North's housing markets – from strategy to delivery of new homes; and of course, in the ownership, management and maintenance of many of our existing homes. Our work supports economic output of over £10bn and we support over 100,000 jobs across the North¹.

As anchor institutions within their communities, our members have a long and successful history of supporting their tenants and residents into skills development and employment opportunities. They do this because they are socially-purposed organisations and because it makes sound economic sense for them to do so.

We have focused our evidence in response to one of the Committee's key questions:

“What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the ‘levelling up’ agenda?”

The pandemic has shown just how important it is for every person to have a safe, suitable and secure home. We believe the North's housing sector can provide the Government an effective opportunity to reset and decarbonise the economy, as well as deliver on its commitment to 'level-up' the regions.

There are two ways that investment in housing could provide the economic stimulus needed in the North and improve the resilience of the post-pandemic world: **investing in the North's existing homes** and **building new homes in the North**.

Announcements made in the Chancellor's Summer Economic Update regarding the £2bn Green Homes Grants programme and £50m Social Housing Decarbonisation Fund are welcome, but the next step should be to bring forward the balance of the promised £3.8bn Social Housing Decarbonisation Fund so that councils and housing associations can retrofit homes at scale and speed.

¹ Wilson, I, et al (2013) *The economic impact of housing organisation in the North*. Sheffield: Centre for Regional Economic and Social Research. Available at: <https://www.northern-consortium.org.uk/services/policy/economy-and-enterprise/housing-and-the-northern-economic-study/>

The flexibility introduced to the Affordable Homes Programme by the Housing Secretary this month, which gives local authorities and housing associations a year longer to begin building under the scheme, is also welcome. However, due to the North not having access to the majority of the five other key funds, it is essential that the £12.2bn Affordable Homes Programme announced at the Budget be opened with immediate effect and with flexibilities on delivery and tenure.

Investing in the North's existing homes and building new homes in the North would help to address regional imbalances, deliver new skills and employment opportunities, drive forward progress to net zero by 2050 and improve the region's resilience to future shocks.

These two recommendations to Government to rebuild and grow the economy have been set out in more detail below:

Advancing towards net zero by investing in the North's existing homes:

'Levelling-up' the regions

The North's existing homes are older and colder than the English average. One in four of our homes were built pre-1919², and 833,000 households across the North live in fuel poverty³. A quarter of all carbon emissions across the North are from our existing homes⁴. We know that a very significant element of this is down to older private sector homes that are energy inefficient or in disrepair – the average carbon output from our pre1919 homes is around 7.2 tonnes, compared to around 3.6 tonnes from post-1990 properties⁵.

Reaching net zero is highly aligned with local strategy. Over 60 of the North's local authorities have now declared climate emergencies. Clean growth is at the heart of the Greater Manchester Industrial Strategy⁶ – the North's first – which includes an ambitious net zero target of 2038. Other city regions are adopting similarly ambitious measures⁷. Focusing stimulus activity on net zero isn't a short-term expedient – it's about accelerating long-term strategy.

² Smith Institute (2018) The High Costs of Poor Housing in the North. London: Smith Institute. Available at: <http://www.smith-institute.org.uk/book/the-hidden-costs-of-poor-quality-housing-in-the-north/>

³ NEA (2018) Fuel Poverty in the UK. Available at: <https://www.nea.org.uk/about-nea/fuel-povertystatistics/>

⁴ BEIS (2017) Local Authority CO2 emissions estimates within the scope of influence of Local Authorities 2005-2017. London: BEIS.

⁵ DCLG (2014) English Housing Survey: energy efficiency of English housing. London: DCLG. Available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/335756/EHS_Energy_efficiency_of_English_housing_2012.pdf

⁶ GM Local Industrial Strategy: <https://www.greatermanchester-ca.gov.uk/media/2132/gm-localindustrial-strategy-web.pdf>

⁷ Leeds City Region LEP: Local Industrial Strategy Draft Priorities: <https://www.the-lep.com/aboutus/local-industrial-strategy/>

Skills and Employment in the North

Upgrading our homes towards net zero can create a significant number of new jobs. As the Committee on Climate Change have noted in their advice to the Prime Minister, retrofit is by its nature a labour-intensive activity⁸.

New modelling by the Energy Efficiency Infrastructure Group, 2030 suggests that improving all homes in the North to EPC C by 2030 would require a total of 38,100 full-time equivalent jobs⁹. Previous modelling has suggested that – even at a steadier rate of implementation – improving homes to EPC C could create an additional 20,000 jobs per year in the North¹⁰.

The NHC is working with IPPR North to understand better the skills and training pathways needed to ready Northerners for these roles – we would be happy to share findings from this work in the Autumn.

Economic Impact

The scale of the retrofit opportunity is huge. It is estimated that over the next ten years, £27.47bn will need to be invested (from all sources, public and private) to upgrade all the North's homes to EPC C by 2030¹¹. Stimulating and accelerating this investment now – at a time when interest rates are at record lows, and labour availability is high – makes good sense.

In considering Covid-19 fiscal recovery, the University of Oxford's Smith School have identified building efficiency retrofits as one of five policies with high potential both on economic multiplier and climate impact metrics¹².

The Cost Benefit Ratio (Value for Money) indicator for a programme of housing retrofit is estimated at 2.27:1 which classifies the programme as "high" Value for Money.

The returns to GDP are estimated at £3.20 per £1 invested by Government¹³. Upgrading homes will produce ongoing energy bill savings – cash in the pockets of those living in the homes concerned. These savings are estimated at £270 per household per year, or £1.79bn per year across the North if all homes were brought up to EPC C¹⁴.

⁸ CCC (2020) Letter to Prime Minister on Covid-19 Recovery. London: CCC.

⁹ EEIG (2020) Energy efficiency's offer for a net zero compatible stimulus and recovery. London: EEIG.

¹⁰ Washan, P et al (2014) Building the future: economic and fiscal impacts of making homes energy efficient. Verco/Cambridge Econometrics. Available at: <https://www.sustainableenergyassociation.com/wp-content/uploads/2014/10/Building-the-Future-TheEconomic-and-Fiscal-impacts-of-making-homes-energy-efficient.pdf>

¹¹ EEIG (2020) Energy efficiency's offer for a net zero compatible stimulus and recovery. London: EEIG.

¹² Hepburn, C., O'Callaghan, B., Stern, N., Stiglitz, J., and Zenghelis, D. (2020), 'Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?', Smith School Working Paper 20-02.

¹³ Washan, P et al (2014) Building the future: economic and fiscal impacts of making homes energy efficient. Verco/Cambridge Econometrics. Available at: <https://www.sustainableenergyassociation.com/wp-content/uploads/2014/10/Building-the-Future-TheEconomic-and-Fiscal-impacts-of-making-homes-energy-efficient.pdf>

¹⁴ EEIG (2020) Energy efficiency's offer for a net zero compatible stimulus and recovery. London: EEIG.

Delivery mechanism

The social housing sector in England expects to invest £2.2bn¹⁵ on capitalised repairs and maintenance of existing homes in this financial year. Councils and housing associations are skilled asset managers, and many organisations have inhouse repairs and maintenance functions. Previous research for the NHC¹⁶ has shown that ¾ of expenditure by housing organisations in the North is with suppliers based within the North, supporting local jobs and supply chains. This combination of factors makes housing organisations the ideal delivery mechanism for an initial wave of net zero compatible investment.

Indeed, the BEIS Select Committee recommended last year in the report on Energy Efficiency¹⁷ that Government ‘acts with urgency to set out a trajectory and policy framework for the [social rented] tenure’, and that social housing should ‘lead the way’ in terms of energy efficiency. One year on, and no such framework has emerged.

Yet the opportunity exists to use the £3.8bn Social Housing Decarbonisation Fund (SHDF) pledged in the Conservative Manifesto to invest at scale and pace. A priority should be an intensive programme of fabric-first improvements like additional insulation. Given the concentrations of ownership in the social sector, this can be delivered efficiently and effectively on a neighbourhood basis. The £50m announced at the Summer Economic Update for pilots in the social sector is disappointing, given the ambition which exists in the sector.

The SHDF could also be used to bridge the additional costs of net zero: for example meeting the higher costs of switching to low-carbon heat sources (like heat pumps) rather than replacing gas boilers like-for-like. Using the fund in this way – with social housing ‘leading the way’ in the manner the Committee recommended - would enable the establishment of reliable supply chains and ramp up demand, lowering the cost of these components in the longer run for the social and private sectors. In this way, the SHDF can complement the Green Home Grant vouchers already announced by the Chancellor.

Coordinated investment in social sector homes by government and housing organisations is a proven model. During the last recession, the Decent Homes programme (a coordinated investment of £37bn over a decade¹⁸) delivered significant economic stimulus.

The Government has already committed to Green Home Grant vouchers for the owner occupied and private rented sectors. We welcome the additional funding for low-income households, and await clarity on the scheme design. We believe these could be most effective if delivery were coordinated with the existing ECO scheme. A role for local

¹⁵ Regulator of Social Housing (2020) Quarterly Survey for Q4: January – March 2020. Leeds: Regulator of Social Housing. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/886406/Quarterly_Survey_for_Q4_2019-20.pdf

¹⁶ Wilson, I. et al (2013) The economic impact of housing organisations on the North. Sheffield: Centre for Regional Economic and Social Research. Available at: <https://www.northernconsortium.org.uk/services/policy/economy-and-enterprise/housing-and-the-northern-economic-study/>

¹⁷ BEIS Select Committee (2019) *Energy efficiency : building towards net zero. Twenty-First Report of Session 2017-19*. London: House of Commons. Available at: <https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1730/1730.pdf>

¹⁸ NAO (2009) The Decent Homes Programme. London: NAO. Available at: <https://www.nao.org.uk/wp-content/uploads/2010/01/0910212.pdf>

authorities in coordinating both schemes could ensure support for local jobs and supply chains, and enable a neighbourhood focus.

New homes to meet the needs of a levelled-up region:

As well as investing in our existing homes, the North needs new homes. Delivery of new homes in the North has not kept pace with household growth in recent years, let alone the kind of household growth that may emerge from our future economic growth scenarios, or from a new labour market where home-working means geographical location is more flexible and quality-of-life considerations come to the fore.

Building new affordable homes in the North, and readying sites for future development, has significant immediate stimulus potential – and can deliver on Government’s priorities around levelling-up and its new homes target.

Supporting the affordable housing sector to provide counter-cyclical stimulus

At the Budget in March 2020, the Chancellor of the Exchequer announced £12.2bn for the Affordable Homes Programme (AHP). The Prime Minister has since confirmed this funding, but no details have yet emerged on how the programme will operate, or the tenures it will support. As always, every single pound of government funding from this programme will be more than matched with resources from housing organisations: as the Regulator of Social Housing noted in May, the sector remains financially strong¹⁹.

In recent years, Government and Homes England have taken welcome steps to provide more long-term certainty for registered providers who benefit from AHP funding. However, the lack of detail on how the new programme will operate creates uncertainty in the sector and mitigates against the kind of decisive, long-term action we need at a time like this. We recommend that Government should open the new Affordable Homes Programme with immediate effect and do so in a way that maximises its flexibility.

For example, giving all registered providers flexibility over the tenure of the homes they build would de-risk development and provide confidence that new homes can be occupied, regardless of the condition of the shared ownership or outright sales market at the point of completion. Forward funding development would similarly de-risk complex and mixed tenure sites. The Letwin Review²⁰ illustrated the limitations of a focus on a single type or tenure of home. There is an absorption rate for home ownership products, and in uncertain economic times, it is likely this absorption rate will slow. The North’s housing sector has a track-record of developing a market for shared ownership and rent-to-buy products. At this point in time, it is important to maximise the economic impact of the new Affordable Homes Programme by ensuring the tenure mix is as flexible as possible.

¹⁹ Regulator of Social Housing Quarterly Survey for Q 4 Jan to March 2020. Leeds: RSH. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/886406/Quarterly_Survey_for_Q4_2019-20.pdf

²⁰ The Independent Review of Build-Out: Final Report: <https://www.gov.uk/government/publications/independent-review-of-build-out-final-report>

1/3 of Homes England affordable housing completions occur in the North of England²¹. NHC members are keen to do even more. Registered providers have traditionally provided a powerful counter-cyclical stimulus, keeping construction going during downturns, avoiding the permanent loss of capacity and skills. Bringing forward this key fund will enable housing associations and councils in the North to perform this important role and to continue making their valuable contribution to housing supply.

The economic stimulus effect of building new homes is well documented. For every £1 spent on construction, the UK economy benefits by £2.84²². Construction is by its nature a labour-intensive and localised process, with relatively low levels of imports.

This effect is well-proven over previous recessions, with housing construction accounting for 1/3 of the increase in GDP as the UK emerged from the double-dip recession of the early 1930s²³.

Bringing forward the new Affordable Homes Programme, with potential flexibilities on tenure and delivery is a high priority for our members, has also been backed by the Local Government Association and National Housing Federation.

An opportunity to support innovation

Many NHC members are looking to adopt precision-manufactured Modern Methods of Construction (MMC) with entire homes, or significant elements of them, constructed off-site. MMC is consistent with the ambitions of the 2017 Housing White Paper and the current Homes England strategic plan, with a focus on increasing construction productivity which will become even more important if social distancing reduces the productivity of traditional build methods further.

The number of large MMC production facilities located in the North, together with a significant proportion of the country's construction product supply chain led to the emerging specialism being recognised by Government in the 'Construction Corridor' initiative launched by the previous Housing Minister²⁴, and endorsed by her successor at a recent NHC webinar. The NHC is working with our members to aggregate demand for MMC to generate supply chain confidence and reduce costs.

Building tomorrow's infrastructure today

The Single Housing Infrastructure Fund (SHIF) is intended to unlock new homes by funding the provision of strategic infrastructure and assemble land for development. The fund is due to be launched at the forthcoming Comprehensive Spending Review. We believe that the

²¹ See Building #OurNorth : The Vital Role of the Affordable Homes Programme. NHC, Sunderland. Available at: <https://www.northern-consortium.org.uk/influencing/ournorth/affordable-housingprogramme/>

²² Lawrence, Evans and Koch Consulting, Construction in the UK Economy: The Benefits of Investment (The UK Contractors Group, London), 2009; cited in Shelter (2019) A vision for social housing. London: Shelter. Available at: https://england.shelter.org.uk/__data/assets/pdf_file/0005/1642613/Shelter_UK__A_vision_for_social_housing_full_interactive_report.pdf

²³ Crafts, N. and Fearon, P. (2013) The Great Depression of the 1930s: Lessons for Today. Oxford : University Press.

²⁴ MHCLG (2019) Housing Minister unveils £30m boost for 'Construction Corridor'. See: <https://www.gov.uk/government/news/housing-minister-unveils-30m-boost-for-construction-corridor>

current crisis means there is a compelling case for Government to bring forward an announcement on this Fund and start allocating it now.

Our understanding is that the Fund will replace an array of existing funds managed by Homes England, the most significant of which is the current Housing Infrastructure Fund. As such, there are existing delivery mechanisms which can be quickly adapted to allocate these funds. Doing so now will enable localities to get on with building the infrastructure needed to support tomorrow's housing growth right now – at a time of lower demand for the skills and labour involved.

Accelerating the delivery of SHIF, and enabling the whole of the North to access the SHIF, will require a change in the allocation formula which has been used for predecessor funds. This '80/20' formula restricts access to 80% of available funds to just 50% of local authorities (those deemed to have the highest affordability pressures). This arbitrary restriction means only four local authorities in the North have access to the lion's share of housing infrastructure funds. Indeed, areas like York (where average house prices run at 8.6 times average incomes²⁵) and the Chancellor's own constituency of Richmondshire (house price: income ratio of 7.43) are restricted from accessing the majority of these funds. Research for Homes for the North (a group of 17 housing associations who are also NHC members) indicates that the Northern slice of initial allocations from the existing £5.5 billion Housing Infrastructure Fund is less than 11 per cent²⁶.

The Single Housing Infrastructure Fund should be brought forward, and should be designed to judge schemes on their individual merits, without the crude '80/20' geographical restrictions that have applied to its predecessor funds. This will enable schemes in the North to compete on a level playing field.

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²⁵ NHC (2019) Building #OurNorth: The vital role of the affordable homes programme. NHC: Sunderland. Available at: <https://www.northern-consortium.org.uk/wp-content/uploads/2019/09/TheVital-Role-of-the-Affordable-Homes-Programme-NHC-Doc.pdf>

²⁶ Matthews, C. (2019) We need fairer investment and supply to level up housing in the North. Available at: <http://www.homesforthenorth.co.uk/we-need-fairer-investment-and-supply-to-level-uphousing-in-the-north/>