



**Building  
Back Britain**  
Commission



## Levelling up and the housing challenge

First report of the Building Back Britain Commission

November 2021

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WPI Strategy is one of the UK's leading political communications consultancies, with a track record of delivering high impact public affairs campaigns. We offer senior strategic counsel and work extensively with our sister company, WPI Economics, to ensure that campaigns are underpinned by evidence-based content.

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## About the Building Back Britain Commission

The Building Back Britain Commission is focused on providing Government and other political figures with new, constructive policy ideas on the role housing will play in helping to deliver the nation's top priorities as we seek to emerge from Covid-19 and into economic recovery.

The Commissioners are senior leaders drawn from across the housing and construction industry:

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The Commission is supported by a high-level Advisory Group made up of Create Streets; Federation of Master Builders; Green Finance Institute; Home Builders Federation; National Housing Federation; Royal Institute of British Architects; Housing Partnership Network; Society of Local Authority Chief Executives; Housing Europe and Housing Partnership Network.

For more information about the Building Back Britain Commission, please visit: [www.buildingbackbritain.com](http://www.buildingbackbritain.com)

# Foreword

By Terrie Alafat, Chair, Building Back Britain Commission

**The Government's mission to level up Britain after the Covid-19 pandemic will only be successfully completed by putting housing at the heart of those plans. Housing strategy and levelling up must be aligned if we are to get the right homes built in the right places. With our first of two reports, the Building Back Britain Commission aims to ensure that this is the case in the years ahead.**

Our analysis makes clear that there is still important work to do. It shows how the current housing strategy is based on past growth trends and will not be dynamic enough to meet future demand.

We can see how increasing demand in levelling up areas should change the picture for the whole country. In the years ahead, we will need to build more affordable homes of different tenures, more quickly, in different parts of Britain. We will also need to see greater investment in refurbishing existing homes and the replacement of many homes that are no longer suitable or in poor condition.

This means that levelling up and the Government's drive to achieve net zero emissions by 2050 are linked. This is a theme we will return to in our future work, with housebuilders and housing associations on the Building Back Britain Commission committed to delivering low carbon homes for their customers.

In this report, the Commission is calling for a new national housing strategy that is based on a dynamic model of future demand and aligned explicitly to the levelling up agenda. Five years after the Government's MMC champion issued a warning to the industry to "modernise or die", a new national housing strategy should also promote much greater use of Modern Methods of Construction.

We have seen encouraging signs that Government is moving in the right direction on housing and levelling up. The Commission welcomes the creation of the Department for Levelling Up, Housing and Communities and the recognition that programmes to level up the country must include housing and involve local communities.

As the Levelling Up White Paper focuses minds, we look forward to the development of housing policies as a key focus for the Secretary of State as he drives cross-Whitehall efforts to deliver a programme of tangible improvements in every part of Britain. We also look forward to working with the Secretary of State and his team as they consider our report findings.



# Executive summary

The Government has set great stall on its levelling up agenda. However if this is to succeed in its stated aim of driving down regional inequality in the UK, then two things must happen. First, sustainable, high productivity employment needs to be created in our most disadvantaged areas, and this is already Government's primary focus. A critical factor, however, is not yet being addressed: suitable housing will be needed for the potentially large numbers of people moving to take new employment opportunities in levelled up areas.

In short, levelling up can only succeed if we get the right homes in the right places.

Already, this looks like a challenge. We are currently falling well short of building enough housing to meet the Government's present target of 300,000 homes a year, despite significant progress in recent years, and this report identifies further challenges the levelling up agenda places on housing.

## Our analysis

We first look at the current pattern of shortfalls in homes built, finding that most pressure for new housing is in the southern regions, with many local authorities in these areas failing to meet their housing targets.

The analysis then looks at patterns of projected need if the country were 'levelled up' in the way Government desires. This paints a very different picture, where housing need substantially shifts over the next 20 years to areas of the country that will be prioritised for levelling up. In these areas, there is also more demand for affordable homes.

Our results show that in the areas Government defines as most in need of levelling up, around **86,000 to 140,000 homes** are needed per annum over the next 20 years, depending on how many people physically move to the areas concerned. This is around an **additional 13,000 to 67,000 homes** per annum compared to the Government's current estimates for those areas. **Around a third of this need is for 'affordable housing'**.

Our results have profound implications for policy. First, the Government's current housing strategy simply does not fit the levelling up agenda. It is based on past growth trends and will not be dynamic enough to meet future demand. Second, the increase in demand in levelling up areas should reduce the pressure for new homes in areas that are already economically developed, which could be good news for those areas already straining to accommodate ever more development.

## The need for a new national housing strategy

We are calling for a new national housing strategy that is based explicitly on a dynamic model of future demand, not historic need. This should be aligned explicitly to the levelling up agenda and backed up by a housing strategy that creates new targets for the delivery of housing specifically in levelling up areas.

We also suggest that this strategy must take firmer grip of the delivery challenge that is stifling Government's ability to meet its own targets. This includes shortages of skills and materials, and thus rising costs for building new as a result of the combined effects of the pandemic and Brexit.

We thus argue that a new national housing strategy should promote much greater use of 'Modern Methods of Construction' (MMC) which is a method of building modular homes using new technologies, products and ways of working.

## A five-point plan for 'Building Back Britain'

1. Housing delivery strategy should be adjusted from being based on historic growth to take account of a new 'levelling up' model of housing need, and funding streams adjusted accordingly.
2. To tackle skills shortages, the Government should commit to creating at least one 'construction cluster' in every part of Great Britain by 2030 – these clusters would be major regional training hubs where new skills, including for MMC delivery, would be promoted.
3. Create explicit new targets for the increase of MMC in housing delivery, including a commitment to build 75,000, high-quality, MMC homes a year by 2030.
4. All new-built homes must be operational net zero from 2030 while housebuilders and the wider industry accelerate plans to be carbon neutral in construction.
5. There should be greater tax incentives to encourage investment in carbon zero MMC factories.

As things stand the future goals of levelling up agenda look unlikely to be met via current housing policy. Only by implementing these recommendations can we build a more resilient, diverse and productive housing sector that will ensure the successful delivery of the right homes, where we need them.



# Introduction: The challenge we face

**We are currently not building enough housing to meet either the Government's present housing target or the estimated need for the future. Our report will examine this challenge in the context of the levelling up agenda.**

The Government's levelling up agenda has been repeatedly framed as a means of addressing regional inequality in the UK. When launching the [Levelling Up taskforce](#) in September 2020, that body's chair Neil O'Brien pointed to figures showing that in Germany 12 per cent of people live in areas where the average income is 10 per cent below the national average, while in the UK 35 per cent do. "It is very striking that there is no industrialised country that has a more unbalanced economy than the UK and also a higher income, while all the countries that have a higher income have a more balanced economy," he said.

In a speech on 15 July billed in advance as an explanation of the Government's flagship policy, the Prime Minister mainly focused on what he called the "outrage" of glaring regional inequalities.<sup>1</sup> In this speech, Boris Johnson also tried to reassure voters (and Conservative MPs) in southern England that levelling up did not mean making already wealthier areas poorer. He did not go as far as laying down metrics for measuring the success of levelling up, as many have called for. Instead, he said that the Government will have made progress on levelling up when it has increased living standards, spread opportunities, improved public services and restored people's sense of pride across the UK.

Following the September 2021 rebranding of the Ministry of Housing, Communities and Local Government to become the Department of Levelling Up, Housing and Communities, the new department provided the Daily Telegraph's chief political correspondent Chris Hope with an 81 word definition. "Levelling up is about spreading opportunity, boosting living standards and improving public services so that every part of the UK can thrive," it said. "By empowering local leaders and giving communities more control to shape the places they live in, we are creating more vibrant places to live and work which will give more people a real sense of local pride."<sup>2</sup>

And shortly after the 2021 Conservative party conference, O'Brien took to the pages of The Guardian to further explain the concept at the heart of the Prime Minister's keynote speech. "The objectives of levelling up are clear," he wrote. "To empower local leaders and communities. To grow the private sector and raise living standards – particularly where they are lower. To spread opportunity and improve public services, particularly where they are lacking. And to restore local pride, whether that is about the way your town centre feels, keeping the streets safe or backing community life."<sup>3</sup>

## What has been done so far?

Policies to drive the levelling up agenda will be set out in a Levelling Up White Paper due by the end of the year. Among the initiatives already unveiled are a £4.8 billion Levelling Up Fund that will support town centre and high street regeneration, local transport projects, and cultural and heritage assets. The Government's Levelling Up Fund Prospectus published in March 2021 stated: "We recognise that levelling up requires a multi-faceted approach, from supercharging our city regions, to supporting our struggling towns, to catalysing industrial clusters in the sectors that will drive the future economy."<sup>4</sup>

Clusters have been described by Michael Porter of the Harvard Business School as "geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standard agencies, and trade <sup>5</sup> associations) in particular fields that compete but also co-operate". They are important because they enable firms in the cluster to gain competitive advantage.

Research by McKinsey and Centre for Cities in 2014 stated that the UK's economic recovery will be built on thriving firms across all sectors, but "clusters can play an important role in driving future growth". A review of the top UK clusters in 2012 found 31 economically significant clusters in the UK, representing 8% of the businesses but 20% of the GVA.<sup>6</sup>

There is also a £3.6 billion Towns Fund, with funding of up to £25 million per town.<sup>7</sup> The funding announced so far through the Towns Fund and Levelling Up fund is welcome, although concerns remain that, once distributed across the UK, the cash could be too thinly spread to make the difference that we need to see.

Furthermore, eight freeports were also announced in the Budget, with the Chancellor saying they would provide "an unprecedented economic boost across the UK".<sup>8</sup> Discussions are now under way about where other freeports will be in the UK. The Government has also pledged to have 22,000 civil servants based outside London<sup>9</sup> by the end of the decade. So far, the Chancellor has announced that 750 staff from departments including the Treasury and the Department for Business will be based in Darlington with a new "Treasury North" campus in the town. By 2025, the Government will also create a second housing department headquarters in Wolverhampton - its first ministerial base outside London.

## Putting housing at the heart of levelling up

Underpinning all of this, we need new ways to create sustainable, high productivity employment in our most disadvantaged areas. As a March 2021 report by Lord Sainsbury states: "There are major regional inequalities in the UK today and the Government has committed itself to levelling up the wealth of the poorer regions. But it should not be thought that this will be easy to do as regional policy in the UK in the last 90 years has achieved very little. Nor will the spending of large sums of money on projects in the poorer regions increase their wealth long-term if it is not targeted on creating more innovative, high value-added per capita jobs and firms in those regions."<sup>10</sup>

Crucially, a successful levelling up agenda will require suitable housing for those taking advantage of new employment opportunities. More generally, housing is also seen as key to the increased living standards promised by levelling up. The Legal & General Rebuilding Britain Index (RBI), launched in April 2021, found that provision of jobs and good quality affordable housing would define the UK's progress in building back better.<sup>11</sup> The RBI tracks social and economic progress quarterly across the country, using a combination of statistical data and community opinion across 51 measures.

Similarly public polling since the onset of the Covid 19 pandemic has revealed a consistent call for a greater emphasis on quality, affordable homes, skills and good jobs, as well as vibrant town and city centres. Large-scale national polling by PricewaterhouseCoopers for its Future of Government programme found that 70% of the public say that a focus on housing would be the most effective way to level up the country and reduce inequality.<sup>12</sup>

Furthermore it is well-evidenced that housing conditions affect people's health and their local communities. The World Health Organization has stated that inadequate housing causes or contributes to many preventable diseases and injuries, including respiratory, nervous system and cardiovascular diseases and cancer.<sup>13</sup> The Kings Fund set out how critical good housing is to a healthy community in a 2018 report. "We know that good-quality housing is also likely to lead to better health through its indirect impact on other factors including improved outcomes in the early years, better employment prospects and strong community resilience and wellbeing, which are all associated with good health," it states.<sup>14</sup>

The latest figures from Government make clear that progress still needs to be made here. While housing supply has been increasing steadily since 2012/13,<sup>15</sup> we are still not building enough housing to meet either the Government target or the current estimated need.

The Government has said it hopes to build 300,000 homes a year by the mid-2020s but estimates of housing need in England suggest that this figure is too conservative. Research for Crisis and the National Housing Federation undertaken in December 2018 estimated that the total level of new housebuilding required was around 380,000 per year across Great Britain, with 340,000 per year for England, 26,000 per year for Scotland, and 14,000 per year for Wales.<sup>16</sup>

There is also a need to look further than just the number of homes that are built every year. “It is not just the number built but also the balance of tenures and affordability which need to be thought through for an effective housing strategy,” states Sir Michael Lyons in the foreword to a 2017 IPPR report.<sup>17</sup> Accordingly, these Crisis/NHF figures included new social housebuilding per year of 90,000 for England, 5,500 for Scotland and 4,000 for Wales.<sup>18</sup>

Yet in 2019 to 2020 just 243,770 homes were delivered in England, with new build homes accounting for 90% of the total figure. No breakdown of tenure is provided for the 2019-2020 figure, but that headline number comes in a substantial 56,000 homes below the estimated need in England.

Some experts believe that once the pandemic has been factored in, the housing need figure will be higher still. “It is clear that during 2020 housing need is likely to have worsened considerably and that part of this extra need will be longer-term, especially if it transpires that second homeownership has increased during the pandemic,” states the UK Housing Review 2021.<sup>19</sup>

## The role of regeneration

We also need to see greater investment in refurbishing existing homes and the replacement of many homes that are no longer suitable or in poor condition. As is the case with new build homes, the benefits of improving and replacing existing homes stretch well beyond those of sustaining supply to include improved health outcomes and better community safety. Regeneration will therefore be key to successful completion of the mission to restore local pride that Neil O’Brien has spoken of.

According to the latest English Housing Survey, 23.3% of private rented homes failed to meet the Government’s Decent Homes Standard, along with 16.3% of owner-occupied homes and 12.3% of homes in the social housing sector.<sup>20</sup>

In the years ahead, many of these homes and more may be rendered obsolete and beyond economic improvement by the drive to decarbonisation, meaning that some areas will need to provide even more new homes to replace the ones lost. This is likely to be particularly true of areas requiring levelling-up, which are often dealing with a legacy of older housing in poor condition.

In other cases, regeneration will be the answer. There have been many attempts to tackle neighbourhood decline over the years but as the 2021 No Place Left Behind report by the Commission into Prosperity and Community Placemaking states, “success has been patchy, and in many cases the scale of regeneration efforts has simply not been sufficient”.<sup>21</sup>

However the authors of that report express optimism that progress will be made as we step up efforts to achieve net zero. “It is now hoped that the urgent need to retrofit the country’s housing stock to eliminate operational carbon use will finally provide an incentive powerful enough to achieve action on the scale needed to upgrade homes in left behind places,” they state. To ensure that this happens, the report calls for ministers to “empower Homes England with a new mission-based remit to focus on retrofitting, quality, regeneration and long-term placemaking; and more devolved decision-making”.

## The challenge ahead

In summary, the Government has much work to do in the years ahead as it seeks to ensure that levelling up is a success. New jobs and new homes will be at the heart of levelling up but the challenge ahead is not purely an economic one. Improving the disparities in health outcomes and cultivating better community life must also be at the core of the levelling up agenda.

The final, crucial, part of the picture is the new housing that will be required by the drive to achieve net zero emissions by 2050. Around 40% of the UK's emissions come directly from the built environment.<sup>22</sup> Decarbonising property is therefore an essential part of the UK's path to net zero. Much of the discussion to date has centred on the carbon emissions of buildings during their operational phase. Yet while this is clearly a priority we also need to look at the whole life carbon footprint of buildings in order for them to be truly sustainable. Alongside operational carbon, that means a twin focus on CO<sub>2</sub> generated during the construction phase, known as embodied carbon.

Housebuilders on the Building Back Britain are committed to delivering low carbon homes for their customers and Thakeham has set especially challenging targets. From 2025, every Thakeham home will be zero carbon in lifetime operation and the firm has also committed that every home will be carbon neutral in production from 2025.

In our next report we will further explore the role that housebuilders and the wider industry can and should play in the drive to deliver the homes we need in order to achieve net zero emissions by 2050.

In this report we focus on where those homes should be and in what number and tenure. We know there is a need for housing at the heart of the levelling up agenda to sustain high productivity employment growth and improve living standards. Our report delves into the data to consider whether enough of the right housing will be built in the right areas for the levelling up agenda to succeed.

# Chapter 1: The current map of housing need

**Our analysis shows that currently, much of the shortfall in homes built is in London and the South East, with many local authorities in these areas failing to meeting their housing targets.**

Before looking at the potential new demands the levelling up agenda will place on housing delivery, we first need to establish how the current demands are being met across the country. This analysis therefore examines housing need across the country at the local authority level, as it is assessed currently.

Currently, housing need is assessed at the local authority level and is an integral part of a plan-led system of housing delivery. Housing need is typically assessed over a 20-year period from the current point in time and as such it is a view of the future. Broadly, it is assessed by extrapolating out past trends around local demographic growth, implicitly linked to local economic growth and development, with an adjustment for local affordability (house price to earnings ratio) - reflective of the historic housing supply / demand imbalance.

This means that housing need assessments are largely reactive and driven by what has happened in the past. This in turn implies that national housing need is tipped towards local authorities in London, the South East, and South West, where historically economic performance has been strongest.

What follows is a contextual look at housing need as it is assessed currently – both under the local housing need assessments and under the Government’s standard method – and what this means for the distribution of housing need across the local authorities of England. This includes a comparison of housing need in areas requiring levelling up and areas not requiring it. There is then a consideration of housing delivery against these measures of assessed housing need.

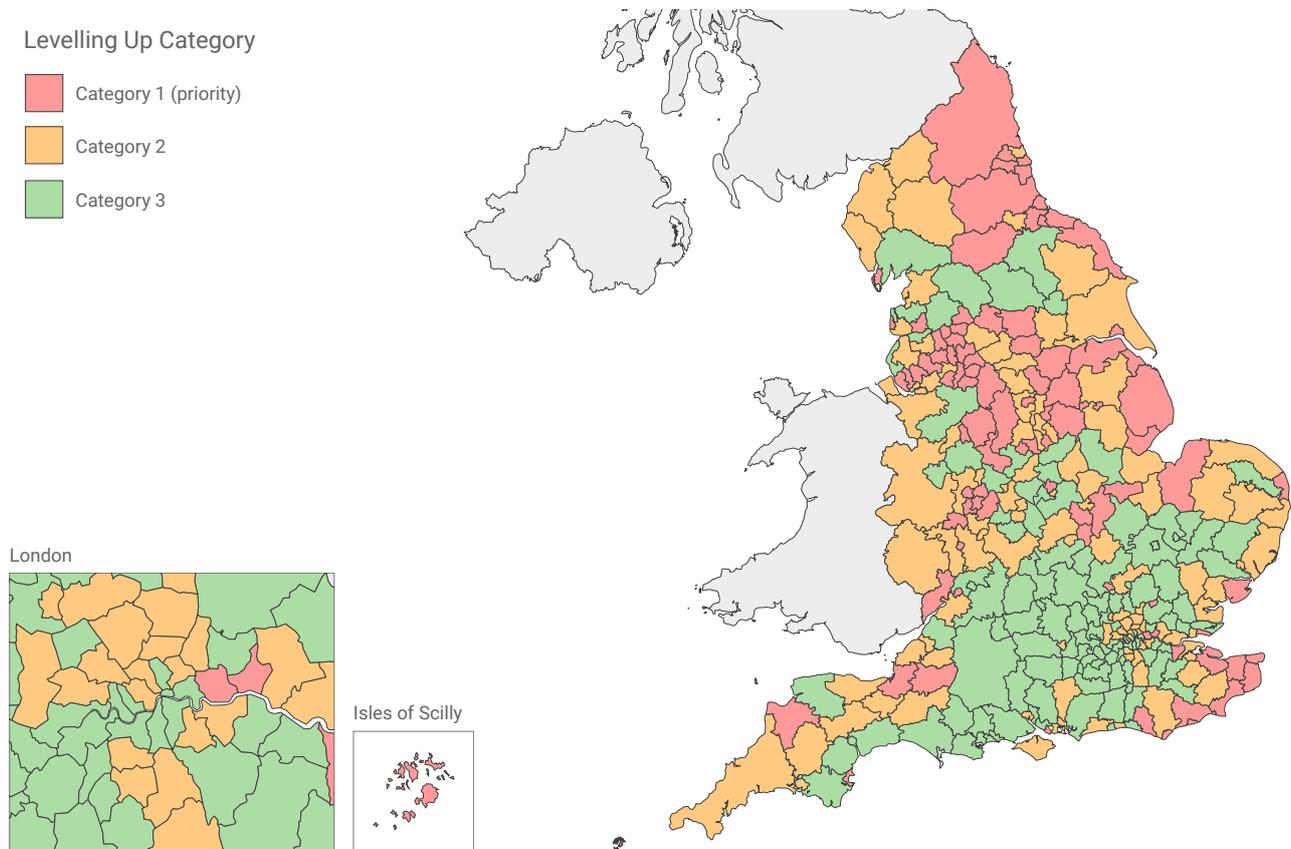
The Government’s Levelling Up Fund (LUF) prospectus sets out an approach of splitting local authorities into three categories – category 1, 2 and 3 - according to their need of being levelled up.<sup>23</sup> Category 1 local authorities (‘priority areas’) are identified as being in the front of the queue for levelling up funding and as being most in need. Within England, 93 of 314 local authorities were identified as category 1 areas.

The following place characteristics were considered in the categorisation:

- The need for economic recovery and growth;
- The need for improved transport connectivity; and,
- The need for regeneration.

For our analysis we define the LUF category 1 local authorities as those in need of levelling up. Visually, the geography of ‘in need of levelling up’ is shown by the red areas of the following map:

**Map: Levelling Up Fund categorisation of local authorities**



Locally assessed housing need figures are taken from the Housing Delivery Test measurement (2020), which the Government published in January 2021.<sup>24</sup> This compares the number of homes delivered to the number of homes required (assessed housing need) in each local authority over the preceding three-year period. The “number of homes required” reflects individual local authority positions on adopted housing requirement figures, and whether the figures in local plans are more or less than five years old. Accordingly, the housing requirement, whilst providing a detailed authority-by-authority assessment of local housing need based on local plans, is not necessarily reflective of national ambitions to build 300,000 additional homes a year. Indeed, dividing the housing requirement by three (to get a single year average) would suggest a “need” of around only 210,000 homes a year across England.

The Standard Method represents a step change to meet a national target of 300,000 homes per year, and the latest version places more emphasis on housing need within urban areas compared to the earlier approaches.

The Government first adopted its “Standard Method” for local housing needs in 2018, equating to an aggregate total nationally of around 266,000 homes per year.<sup>25</sup> The Government has since consulted twice on updating the method to bring it into line with ambition to build 300,000 homes per year. The initial updated approach, which placed a much greater emphasis on housing affordability in its calculation, was subject to much controversy and withdrawn. Instead, and more recently in December 2020, the Government has proposed an approach which “tops up” the original number in the 20 largest cities and urban areas by 35%, bringing the new method up to 300,000 homes per year.<sup>26</sup>

The housing delivery figures are taken from Housing Delivery Test measurement (2020).<sup>27</sup> There is a myriad of steps required in calculating the “net homes delivered”, but it conforms to a net additions measure of housing delivery. Again, the measurement is made over a three-year period. These are compared to

the housing need as assessed locally (i.e. the housing delivery test) and to housing need as assessed nationally under the new Government standard method.

## Results

Housing need in England as assessed locally (as per HDT) amounts to 208,100 homes a year, of which 54,900 homes (26%) are needed in local authorities requiring levelling up.

Housing need in England as assessed nationally (as per 2020 standard method) is 297,200 homes a year, of which 73,300 (25%) are in local authorities requiring levelling up.

241,300 homes – in net addition terms - were delivered in England each year on average during the last three years (2017/18 to 2019/20 inclusive), of which 66,400 (28%) were delivered in local authorities requiring levelling up.

Taken as a whole, local authorities requiring levelling up outperformed in their delivery against locally assessed need by 21% i.e. they met 121% of locally assessed need. They underperformed against nationally assessed need (SM) by 9% i.e. they met 91% of nationally assessed need. This compares to local authorities not requiring levelling up, who outperformed by 14% (vs locally assessed) and underperformed by 22% (vs nationally assessed).

**Table: local authority housing delivery performance, by local authorities requiring levelling up and local authorities not requiring levelling up**

	Locally assessed housing need (HDT)	Nationally assessed housing need (SM)	Housing delivery	Delivery vs locally assessed housing need (HDT)	Delivery vs nationally assessed housing need (SM)
Local authorities requiring levelling up	54,867	73,310	66,398	121%	91%
Local Authorities not requiring levelling up	153,221	223,928	174,902	114%	78%
<b>All local authorities</b>	<b>208,088</b>	<b>297,238</b>	<b>241,301</b>	<b>116%</b>	<b>81%</b>

Broadly, then, local authorities requiring levelling up are performing better in their housing delivery vs need than those not requiring levelling up, and significantly better when judged on the more comparable, national, standard method basis.

Although local authorities overall outperformed against their locally assessed need (as per HDT), 38% of them had a shortfall (this rises to 56% of local authorities under the Standard Method). This amounted to a 23,300 shortfall of homes across all under-performing authorities, which reflects significant variation in delivery performance from one local authority to the next. This is irrespective of whether a local authority needs levelling up or not: around a quarter - 5,700 - of the 23,300 shortfall was in local authorities requiring levelling up suggesting shortfalls are as much an issue for them as for local authorities not requiring levelling up. Put another way, individual local authorities requiring levelling up were similarly likely (40%) to underperform against locally assessed need, compared to other local authorities.

Urban (and mostly urban) local authorities are more likely to underperform in their delivery against locally assessed housing need, with 47% underperforming, when compared to rural (or mostly rural) local authorities, with 26% underperforming. However, this urban / rural contrast in underperformance is much smaller for local authorities requiring levelling up (42% urban / 35% rural). This suggests that housing

delivery for “levelling up” areas will be equally important across urban and rural contexts in ensuring housing needs are met there, rather than solely focusing on built up areas.

Richmondshire, Copeland, Burnley, Redcar and Cleveland, and Cheshire West and Chester are the top five local authorities in terms of performance against locally assessed housing need (top table). The same five local authorities are also the top five when measured against nationally assessed housing need, albeit in a different order.

**Table: local authority housing delivery performance, Top 5**

Local authority	Locally assessed requirement (HDT)	Nationally assessed requirement (SM)	Delivery	Performance against locally assessed (HDT)	Performance against nationally assessed (SM)	Levelling up category
Richmondshire	32	12	665	2112%	1848%	1
Copeland	60	11	414	692%	1255%	2
Burnley	192	62	751	392%	404%	1
Redcar and Cleveland	329	89	1,279	389%	479%	1
Cheshire West and Chester	1,751	584	6,701	383%	382%	2

\*HDT requirements are expressed in terms of figures over three years, whereas Standard Method requirements are for 1 year

When restricted only to local authorities requiring levelling up, the top five performing authorities include Knowsley and Preston – in addition to Richmondshire, Burnley and Redcar and Cleveland in the table above. Again, these authorities are the same top five whether assessed against locally or nationally assessed housing need.

Eastbourne, one of the local authorities requiring levelling up, is the worst performing authority measured against locally assessed housing need, meeting only 29% of requirements. It joins Epsom and Ewell (34%), Southend-on-Sea (36%), North Hertfordshire (36%) and Havering (36%) as the five worst performers overall. When restricted only to authorities requiring levelling up, the bottom five performing authorities (in addition to Eastbourne and Southend-on-Sea) are Sandwell (49%), Bury (52%) and Thanet (54%).

There is some contrast on the makeup of the bottom five authorities when measured against nationally assessed housing need (bottom table). None of the bottom five are local authorities require levelling up, with Enfield the lowest in delivering only 10% of requirement through to Kensington and Chelsea (20%). When restricted only to authorities requiring levelling up, the bottom five performing authorities are Eastbourne (23%), Barking and Dagenham (23%), Thanet (29%), Rother (30%) and Southend-on-Sea (31%).

Again, housing starts over the course of 2020/21 were approximately 88% of pre-pandemic levels, but there does not appear to be a marked difference in changes in starts between local authority areas requiring levelling up and those not.

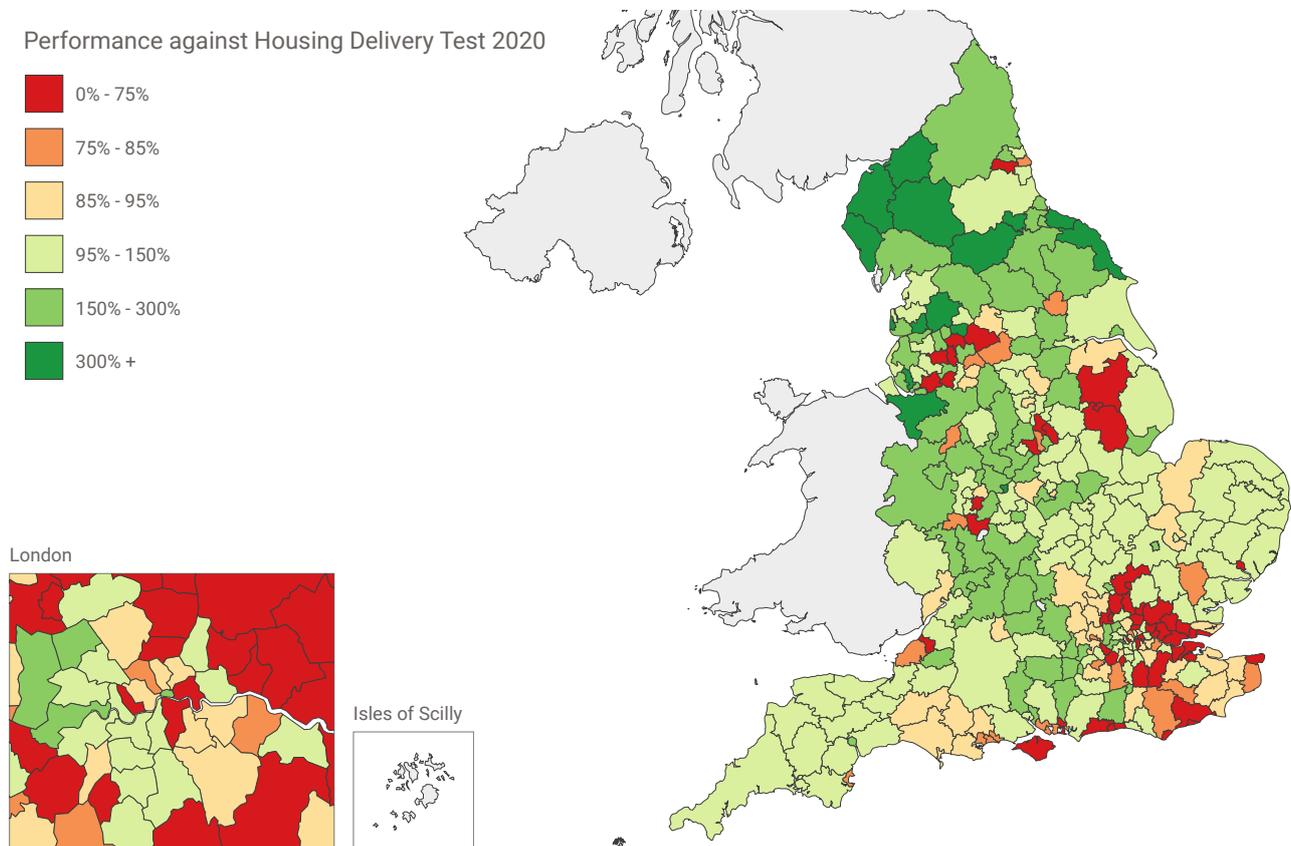
Geographically, there is a large cluster of relatively poor performing authorities against locally assessed housing need in the South-East of England and centred around London (see top map).

However, other clusters exist throughout the country, primarily around urban centres – for example, Sandwell and Bromsgrove in the West Midlands; Warrington, Trafford, Bolton and Bury in the North West (particularly Greater Manchester) and Gateshead in the North East. Other poorly performing authorities include Bristol in the South-West and Ipswich in the East; Erewash, Ashfield and Gedling in the East Midlands, as well as Lincoln and surrounding rural Lincolnshire (North Kesteven and West Lindsey).

Many of the authorities which would underperform against nationally assessed need are often the same as existing authorities underperforming against locally assessed need, although the gap is often greater (see bottom map).

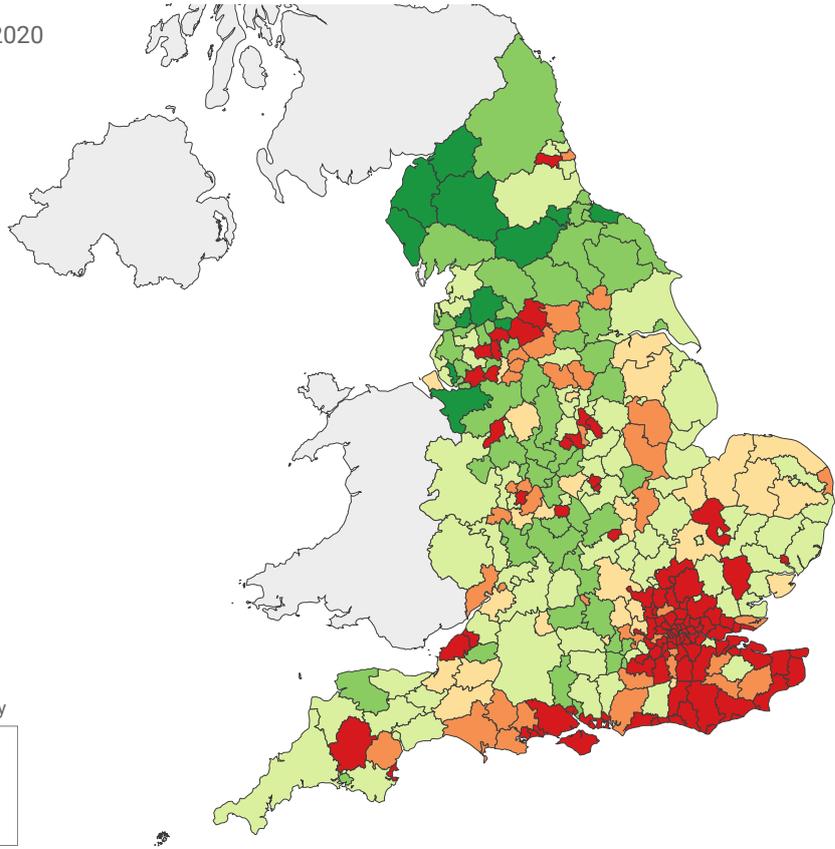
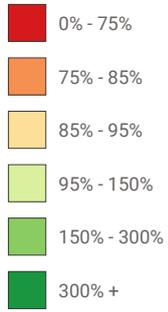
Some of the most notable differences are again in and around London and the South East, where the gap between need and supply widens. In addition, places such as Derby, Leicester, Northampton and Coventry which meet locally assessed need (i.e. pass the Housing Delivery Test) would now sit in the category of worst performers when compared against the new Standard Method.

**Map: Performance against Housing Delivery Test 2020**

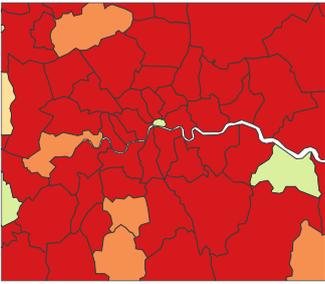


**Map: Performance against Standard Method 2020**

Performance against Standard Method 2020



London



Isles of Scilly



# Chapter 2: Future housing need after levelling Up

**Based on a 20-year trajectory of policy aimed at meeting levelling up objectives, housing need is going to substantially shift to different parts of the country - including many areas that are currently doing comparatively well in meeting current targets.**

Having established that much of the shortfall in homes built is in London and the South East as housing need is assessed currently, we now consider how that assessment would be altered if the Government was to be successful in achieving the objectives of levelling up.

There is broad agreement that one of the central issues that needs addressing in levelling up is the differences in productivity between the regions, which in turn is linked to employment levels and 'good jobs' (i.e. skilled jobs with higher value added, paying good salaries). Tackling the most-deep seated deprivation is also implicit in levelling up. Here it is observed that employment and income deprivation together make up nearly half of the weighting in Government's Index of Multiple Deprivation, albeit the weighting is subjective.

The creation of good jobs in places in need of levelling up is clearly going to be important in the levelling up story. It lends itself to the question of what this means for housing need in these places if levelling up is to be successful.

Employment growth is a key driver of housing growth, especially when driven by internal migration of people into the local area from another. In fact, employment growth is often already used in local housing and economic needs assessments to justify a higher level of housing need locally, particularly where local authorities want to demonstrate a higher level of local growth ambition.

Around 76% of working age adults are in employment nationally, but in many areas considered in need of levelling up the employment rate is much lower – it is a key disparity.

Levelling up then implies a levelling up of sub-par employment rates locally to something approximating the 76% national level, with the creation of good jobs in the left behind places. That will, in turn, create additional housing need.

This is not to argue that more housing is a sufficient condition for achieving levelling up or economic regeneration: ultimately, supply cannot create its own demand. However, more housing is probably a necessary condition for levelling up of local areas where significant employment growth is going to be required.

As such, housing need and delivery ought to be considered alongside policies planned or already in place to drive economic and employment growth in areas in need of levelling up, such as the flagship Freeports policy.

It is in this vein that we argue for a proactive – as opposed to currently reactive - view of housing need and the way it is assessed at the local level, so that it reflects the Government's levelling up ambitions.

For each local authority requiring levelling up, we use the ONS Annual Population Survey estimates of the share of the working population that is economically active and in employment. Nationally this is 76% of the working age population. The latest pre-pandemic data (for 2019 as a whole) is used to capture the underlying structural position.

For each local authority requiring levelling up and a sub-par employment rate, we take the number of people unemployed or inactive (from (1), above) and calculate the number of additional people that would need to be employed to get that number to 24% (100% minus 76%) of the working age population for each of two scenarios of employment growth from:

- 100% internal net migration (i.e. people moving into the local authority from another)
- 50% internal net migration and 50% getting local unemployed / inactive people into work

For each scenario we then take the difference of the number people that would need to be employed for employment to be 76% and (ii) the number currently employed, to work out the additional number of jobs (the employment growth) needed for the levelled-up position.

We use a standardised 0.75 local housing need requirement per additional job created through internal net migration in the local authorities concerned.

This is a much-simplified approach when compared to methods employed in individual local economic and housing needs assessments (HENAs). Such methods require detailed appreciation of local evidence, for example, on “double jobbing”, in-commuting and demographic structures, and this goes well beyond what is feasible for an analysis across all local authorities such as this.

Nonetheless, we find this simplified method to be instructive and the scaling factor to fall within the range used in assessments which have used economic growth scenarios to determine future housing need.

0.75 homes per additional job falls also within a range that is consistent with that seen in various HENAs and compares reasonably to household representative rates. For example, single adults have households’ representative rates close to 1, whereas those with a partner with or without children have household representative rates closer to 0.5 – reflecting the fact that only one partner can count as a head of household (but both might be employed).

Where employment growth comes from getting local unemployed / inactive people into work, we assume these people will be on higher incomes as a result. This in turn will drive additional local housing demand from these people, either in terms of the quantity of housing or the quality of housing. This is captured through an uplift of the standard method need figure based on the ratio total employment in the levelled-up world versus employment currently.

## Results

In both scenarios, the results show that housing need becomes much greater in the ‘levelled up’ UK that the Prime Minister desires.

The national average employment rate is just shy of 76%, the average employment rate of local authorities requiring levelling up is 73% whereas that of local authorities not requiring levelling up is 77%.

However, not all local authorities requiring levelling up have an employment rate below the national average: 28 of the 93 have a higher employment rate. The five local authorities requiring levelling up



and with the lowest employment rates are Birmingham, Manchester, Middleborough, Lincoln and Great Yarmouth, i.e. these require the most levelling up in this respect.

**Table: employed persons, the working age population and employment rate, by LAs requiring levelling up and those not, England, 2020**

	Number of LAs	Nos employed	Working age population	Employment rate
LAs requiring levelling up	93	8,347,900	11,427,600	73.1%
LAs not requiring levelling up	221	18,096,700	23,496,100	77.0%
<b>Total</b>	<b>314</b>	<b>26,444,600</b>	<b>34,923,700</b>	<b>75.7%</b>

Levelling up of employment rates in the local authorities requiring levelling up would mean nearly an additional 1.8 million jobs in them on aggregate. Again, depending on the scenario, all of these jobs could come from internal migration (i.e. from people moving to these local authorities from another part of the UK). Alternatively, we model that just half could come from internal migration, with the other half coming from currently unemployed or inactive local people getting back into work.

The nature of these additional jobs – whether wholly from internal migration or not – has a significant bearing on the assessed housing need numbers. If all the jobs are supplied from internal migration, then the impact on assessed housing need is greatest and acts as an upper bound of the housing need in our levelled-up world. This is captured in scenario 1.

Conversely, if only half the jobs are supplied from internal migration and the other half from unemployed / inactive local people getting into work then the impact is less and acts as a lower bound of housing need in our levelled up world. If the nature of the housing demand from the latter is such that it leads solely to improvements in the housing stock (no net additions), then the impact on assessed housing need is least, given housing need is measured in net additions. This is captured in scenario 2a.

The modelling results show that scenario 1 (max impact) would lead to an approximate doubling of assessed housing need in local authorities requiring levelling up - from 73,310 to 140,256 homes a year on aggregate - if levelling up were to be achieved over 20 years. This is likely to be unrealistic, however, and so alternative the time horizon for full levelling up is considered at 30 years – i.e. levelling up within a generation. This increases the housing need in these local authorities instead from 73,310 to 117,941 homes a year on aggregate, or an additional 44,631 homes a year compared to nationally assessed need under the standard method (2020). This is still a significant increase.

However, the modelling shows that scenario 2a would lead to a much more modest increase in assessed housing need – from 73,310 to 86,267 homes a year on aggregate – even if levelling up were achieved over 20 years. This is much less than half the additional housing need of scenario 1.



**Table: Assessed housing need in local authorities requiring levelling up, currently and in a levelled-up world, annual net additions**

Levelling up time horizon	Currently assessed need		Levelled up world assessed need		
	Locally assessed (HDT)	Nationally assessed (SM)	Scenario 1	Scenario 2a:	Scenario 2b:
Scenario description	N/A	N/A	100% internal migration	50% internal migration, 50% local – improved housing stock	50% internal migration, 50% local - net additional new homes
Over 20 years			140,256 (+66,946)	86,267 (+12,957)	89,484 (+16,174)
Over 30 years	54,867	73,310	117,941 (+44,631)	81,948 (+8,638)	85,165 (+11,855)

In scenario 1, the local authority with the biggest additional assessed housing need, in absolute terms, is Birmingham. To get to a levelled-up world under this scenario over 30 years, Birmingham would need 12,430 net additions per annum, compared to only 4,829 per annum under the standard method, or an additional 7,600 homes per annum. Next is Manchester, followed by Bradford, Liverpool, County Durham and Barking & Dagenham in London. Again, this is not saying that building this number of homes would deliver levelling up, it is saying that levelling up in the manner described would necessitate this number of homes being built.

Finally, the modelling results show that additional affordable housing need\* in local authorities requiring levelling up under scenario 1 (max impact) is 22,884 per annum over 20 years and 15,256 per annum over 30 years.

This represents around a third of total assessed housing need in that scenario, though the proportion is different for different local authorities. For example, 70% of the additional housing need required for levelling up in Barking and Dagenham is affordable housing.

A full breakdown of additional assessed housing need – and additional affordable housing need - for each scenario is available upon request.

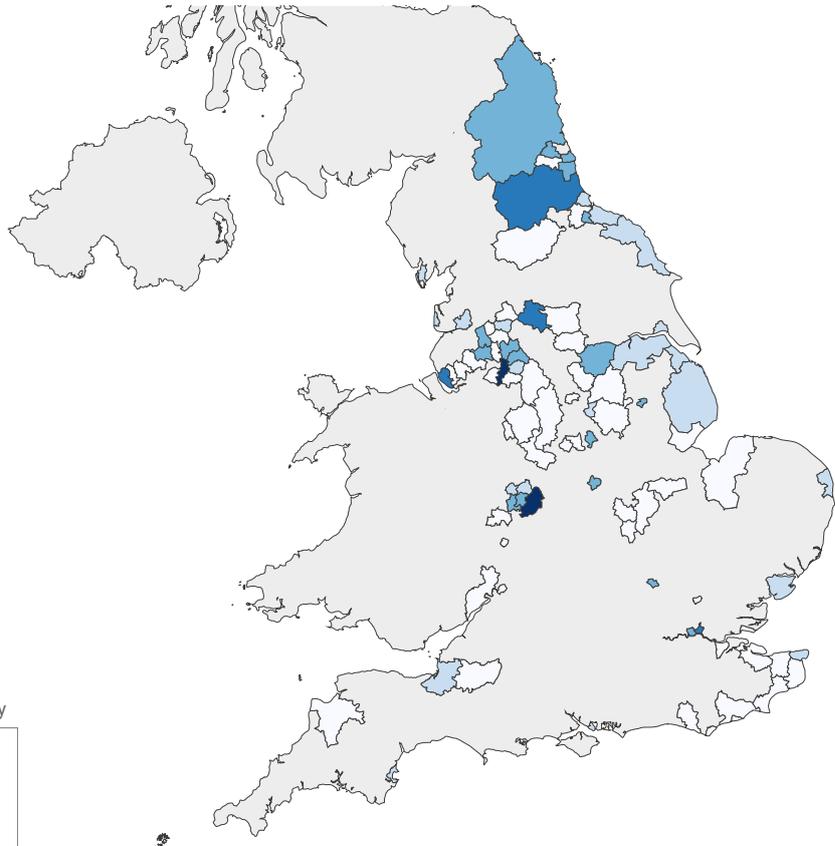
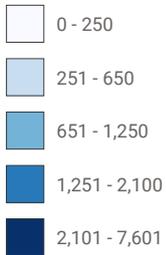
*\*Affordable need is based on what proportion of earners (single earner) could afford the lower quartile private rented sector rent in each authority. The ability to afford is set at a hypothetical level of 33% of gross pay. If rent exceeds 33% of gross pay, the earner would be deemed 'unable to afford' and would require an affordable home. Given the lower quartile rent in each authority, it is possible to calculate the 'required' income to be able to afford the rent. The proportion of earners that would be unable to afford is then observed from the distribution published in the ONS' Annual Survey of Hours and Earnings (ASHE). This proportion is then used to scale the total housing need calculated under each of the scenarios.*

*Lower quartile rents were taken from ONS Private Rental Market Statistics, Table 2.7, March 2021.*

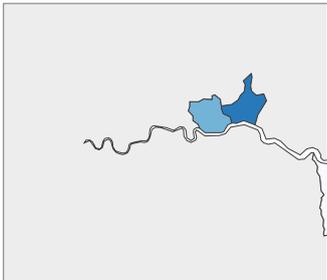
*Annual pay was taken from Annual Survey of Hours and Earnings (ASHE), Table 8.7a, 2020.*

**Map: additional assessed housing need in local authorities requiring levelling up, scenario 1**

Additional need p.a. in Category 1 areas versus the Standard Method (Scenario 1, 30yr levelling up)



London

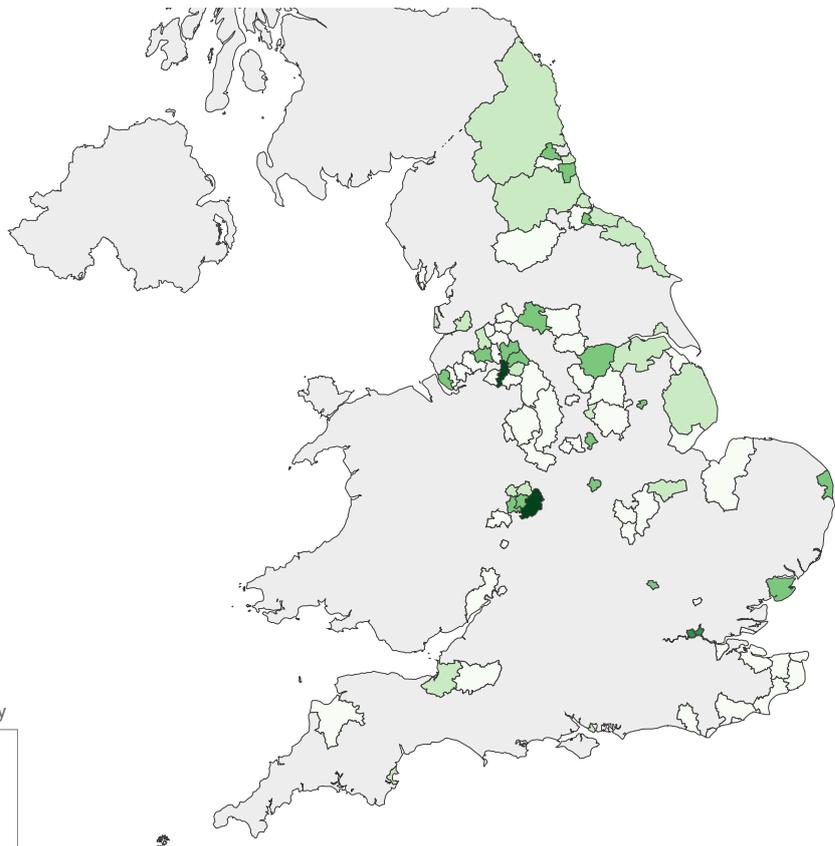
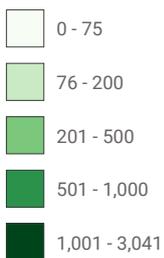


Isles of Scilly

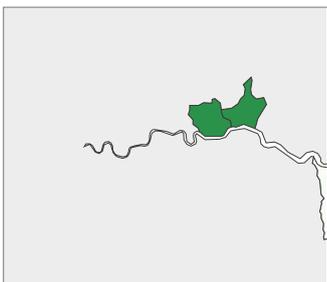


**Map : additional assessed affordable housing need in local authorities requiring levelling up, scenario 1**

Additional affordable housing need p.a. in Category 1 areas (Scenario 1, 30yr levelling up)



London



Isles of Scilly



# Chapter 3: Tackling the delivery challenge

The construction industry faces the twin challenges of overcoming both labour shortages and materials shortages. This backdrop underlines the need to further embrace the opportunities offered by modern technologies, products, and processes for delivering the built environment.

If Government is serious about levelling up, then we not only need a new, more dynamic housing strategy, we must also acknowledge and respond to the pressing problems holding back progress on delivering homes where people need them.

One major problem is the growing skills shortage, with the combined forces of the pandemic and Brexit having potentially exacerbated a crisis that already existed in the construction industry. The 2016 Farmer Review of the UK Construction Labour Model stated that evidence reviewed indicated that the construction industry and its labour model was “at a critical crossroads in terms of its long-term health”. Based purely on workforce age (data from the 2011 UK census showed that one in five construction employees were aged over 55) and levels of new entrant attraction, the report suggested that we could see a 20-25% decline in the available labour force within a decade.<sup>28</sup>

In 2017, the HBF Home Building Workforce Census made clear that housebuilders in England were heavily reliant on foreign labour and would need continued access to skilled EU workers post Brexit to deliver the Government’s housing targets. It found that 19.7% of workers on house building sites across the country were ‘non UK’ and 56.3% of workers on London sites were from overseas.<sup>29</sup>

## Widening skills gap

In the years since the Farmer Review and the HBF report, there have been signs that the skills gap is widening. The RICS Construction and Infrastructure Survey for Q2 2021 picked up concerns around labour shortages for skilled labour and ‘white-collar’ roles – with a net balance of +64% saying a lack of labour will limit new activity (up from +42% in the previous quarter). As an example, in the case of bricklayers this jumped from 34% to 58%.

Looking at the current spread of the construction workforce across age bands shows a clear bulge in the number of workers heading towards retirement. At the same time Labour Force Survey data shows that since reaching a peak in 2017, the number of EU-born construction workers has been in steady decline and with the arrival of Covid-19 the number has plunged by more than 70,000 – about 40%.<sup>30</sup>

As Brian Green has written for the RIBA Journal, this raises the very pertinent question of whether these workers are gone for good. Green states: “With most EU workers based in London before the pandemic and with activity hit hardest in London it is reasonable to assume this is a matter of considerable concern. We might reasonably expect many will have returned to their home countries and are unlikely to return.”<sup>31</sup>

Fitting in with this assumption, industry data and sentiment identified by NHBC identified a shortage of skilled bricklayers in the house building sector, while the body’s data showed the integral role that brickwork plays in driving up the construction quality of new build homes. In response, NHBC launched its first Training Hub in Tamworth in May 2021, in partnership with Redrow and Tamworth Borough Council.<sup>32</sup> The Hub, the first of its kind in the housebuilding sector, trains bricklayer apprentices in a purpose-built

facility with a programme specifically tailored to housebuilders.

## Materials shortages

The second major problem that the industry is currently contending with is one of materials shortages, caused by a rapid rise in prices. This means that if the Government is to build the homes needed to make a success of levelling up then action will be needed to boost material supply chains.

The materials shortage has been in part driven by the recovery in global construction which has reduced availability and raised prices for key materials, such as timber and cement. Material supplies have also been hit by the rise in shipping costs as a result of the pandemic and the lack of capacity in Chinese ports. The result has been many builders struggling to get hold of imported products, especially those from China, such as copper and steel. But products made in the UK, particularly bagged cement, have also been in increasingly short supply.

### Case study 1: Advanced Industrialised Methods for the Construction of Homes (AIMCH)

Advanced Industrialised Methods for the Construction of Homes (AIMCH) is a collaboration between Barratt Developments PLC, Stewart Milne Group, London & Quadrant Housing Trust Ltd, the Manufacturing Technology Centre, the Construction Scotland Innovation Centre and Forster Roofing Services Ltd.

The three-year £6.5m R&D project aims to tackle the challenges the housing sector currently faces while also identifying and developing industrialised offsite solutions needed to meet current and future house building demands. As Oliver Novakovic, Technical Innovation Director at Barratt puts it: "AIMCH is about industrialising housebuilding, that's the core aim of it. It is very much about looking at modern methods of construction, down to its core."

One area of the AIMCH project is to develop and trial advanced MMC systems on live developments. Over the past year Barratt Developments PLC has developed and erected six closed panel timber frame units on a live development near Warrington. Barratt's Closed Panel Timber Frame (CPTF) solution comprises of factory assembled timber wall panels, which are enclosed externally and internally. The timber frame panels consist of pre-fitted insulation, service zones and preassembled floor cassettes.

The CPTF can also utilise scaffoldless timber frame erect and a fully tiled roof system to enable a weather tight timber frame building to be constructed in the same day when combined with factory fitted windows.

In addition, AIMCH aims to produce a single seamless digital system (an Enterprise Resource Planning or ERP system) that will allow businesses to process offsite manufacturing from concept design to completion. This will demonstrate an increase in efficiency, quality and a reduction in lead-time, downtime and processing time.

Throughout the AIMCH project, research will also be carried out on the current and predicted future state of timber offsite panelised manufacturing systems. This will identify gaps and make recommendations for the adoption of technology, through the development of new automated and robotic manufacturing methods.

In April 2021, the Construction Products Association reported that timber prices had risen by more than 80 per cent in the past six months, while copper and steel had jumped by 40 per cent.<sup>33</sup> Brian Berry, Chief Executive of the Federation of Master Builders, said 82 per cent of its members were reporting increased prices and struggling to get hold of basic materials such as roof tiles, timber and insulation.<sup>34</sup>

In the RICS Construction and Infrastructure Survey for Q2 2021, published in August 2021, while respondents indicated the construction sector is now broadly recovering well from the Covid-19 pandemic, constraints on the market's return to normality were also becoming apparent. Some 82% of respondents pointed to a shortage of materials hampering the market during Q2, up from 57% previously. Moreover, the cost of materials was expected to increase by nearly 10% over the next twelve months, with these projections running ahead of the 7% growth anticipated for tender prices.<sup>35</sup>

The Q2 survey also picked up concerns around labour shortages – both for skilled labour and 'white-collar' roles – with a net balance of +64% saying a lack of labour will limit new activity (up from +42% in the previous quarter). As an example, in the case of bricklayers this had jumped from 34% to 58% while for carpenters it had increased from 33% to 55%.

While infrastructure and private housebuilding were viewed as likely to remain the most buoyant areas of the industry, Simon Rubinsohn, RICS Chief Economist, was clear about the two issues that presented big challenges. "Most notably at this point, the availability of building materials stands out as a key problem for respondents to the RICS survey. But almost as significantly, labour and skills are increasingly being cited as obstacles for businesses looking to build out existing commitments or embark on new projects," he said.<sup>36</sup>

As the industry deals with the skills crisis and a materials shortage, it will soon also have to deal with the Government's planning reforms, which have been strongly opposed by several of its own MPs.

Ministers argue that measures in the Planning Bill will speed up the planning process and prevent viable developments being derailed by a small minority of vocal opponents. At the time of publication, it is unclear whether the Government's planning reforms will remain intact once they have been debated and voted on in the House of Commons. What is clear is that, however the Planning Bill works out, it will not negate the need for a refreshed housing delivery strategy.

## The way forward: modern methods of construction

This challenging backdrop underlines the need to further embrace the opportunities offered by modern technologies, products, and processes for delivering the built environment, collectively known as Modern Methods of Construction (MMC).

While there is no precise definition of MMC, the term is often used collectively for a wide range of non-traditional building systems. These were categorised in a 2019 Government report from the MHCLG which identifies seven different MMC categories within its MMC framework. These range from pre-manufacturing 3D primary structural systems and pre-manufacturing 2D primary structural systems to traditional building product led site labour reduction/productivity improvements and site process led labour reduction/productivity improvements.<sup>37</sup>

Whatever definition is employed, it is important to note that MMC is not binary. It would be wrong to state that a house or a project is either MMC or it's not. The reality is that housebuilders can significantly increase the pre-manufactured value percentage of given housing projects without building the entire home in a factory.

MMC also doesn't necessarily require big investments in new factories and modules delivered to site in one piece. Although that's one model of delivery, it is equally possible for MMC homes to be constructed in components in existing facilities, delivered to hubs and then built using simple assembly processes on the site itself.

Advocates of using MMC cite several benefits to using these methods in comparison with traditional construction techniques. The Housing, Communities and Local Government Committee's July 2019 report on Modern Methods of Construction lists 13 such benefits with quicker and more predictable delivery at the top of the list, reflecting the fact that MMC moves housebuilding construction activity away from the construction site and concentrates it. Written evidence supplied to the committee by the Royal Institute of British Architects states that the potential benefits of MMC are substantial: "They can result in a 20%–60% reduction in construction programme time, 20%–40% reduction in construction costs, 70%+ reduction in onsite labour, which creates improved outcomes in health and safety for workers, as well as delivering greater programme certainty."<sup>38</sup>

The potential environmental benefits of MMC are equally significant. Higher productivity and efficiency means significantly less waste than with traditional construction and less disruption to surrounding residents with less materials and construction traffic. A note supplied to the Housing, Communities and Local Government Committee by Buildoffsite states that factories can be optimised to minimise material waste below 1% of total, whereas traditional construction has been shown to vary typically between 18% and 22%.<sup>39</sup> Meanwhile evidence from the London Planning Committee states that with offsite technology buildings can be built and occupied in half the time of conventional buildings, requiring fewer vehicles to transport materials to site, which massively reduces traffic, pollution, noise and disruption, in turn improving local air quality.<sup>40</sup>

As a result, modular-delivered homes also offer a dramatic improvement in embodied CO<sub>2</sub> compared with traditional construction. Heriot Watt University research found that just one building saved the equivalent CO<sub>2</sub> to planting 160,000 trees.<sup>41</sup> Build Homes, Build Jobs, Build Innovation also point to research demonstrating that offsite technology can cause nearly 40% fewer emissions than traditional construction.<sup>42</sup> This equates to saving 26,000 tons of CO<sub>2</sub> - or 7,000 vehicles being taken off the road for a while year, states that report. Furthermore, WRAP estimate that modular construction can reduce energy used in the construction process by 67% and waste produced onsite, by 70–90% in comparison with traditional construction methods.<sup>43</sup>

By reducing the embodied carbon in the delivery, MMC has a vital role to play in decarbonising the existing programme of levelling up interventions from housebuilding to transport infrastructure to free port delivery. As the Housing, Communities and Local Government Committee has rightly noted this approach could be both cost-effective and energy efficient when it comes to housing stock. "MMC should be used to deliver more efficient homes now to avoid costly retrofitting of homes later to comply with more rigorous energy efficiency targets," states the committee's 2019 report on modern methods of construction.

As the industry faces a skills crisis, MMC can also reduce pressures on site trades and labour. Various research studies have indicated that MMC requires less on-site labour to assemble homes than brick and block construction methods, including 2019 analysis by CITB. Employing five different MMC scenarios, this research estimated the likely labour demand resulting from raising housing production between 2017-18 and 2025-26 to hit the Government's 300,000 homes target. "The high-impact scenario suggests 30% less trade and manual labour needed on site, with a quarter of the total trade and manual labour working off site."<sup>44</sup> There are a whole set of reasons to be impressed by that. However, importantly, the CITB estimates show no reduction in the professional and non-manual workforce," stated Brian Green in RIBA Journal.<sup>45</sup>

In this way, MMC presents an opportunity to address the skills crisis by upskilling the workforce and retraining many people who were badly affected by the Covid-19 pandemic. As modular techniques create jobs for a range of skills, these might entice would-be apprentices who could otherwise be put off by low pay and a lack of personal development opportunities.

## How the future could look

A number of manufacturers have already invested in factories, products and system development with ambition to deliver thousands of homes a year. Among them are Legal & General Modular Homes who have built 102 highly efficient homes in the heart of Selby town in North Yorkshire using precision engineering and high-quality sustainable materials from Legal & General's nearby modular factory in Sherburn-in-Elmet. The homes, developed in partnership with Selby District Council, exceed nationally described space standards and have been carefully designed to achieve Energy Performance Certificate Standard A, currently only attained by around 1% of new homes.

Barratt Developments PLC is one member of the Advanced Industrialised Methods for the Construction of Homes (AIMCH), a three-year collaborative project to develop and trial advanced MMC systems on live developments. Riverside is among the 23 registered provider members of the Off-Site Homes Alliance, whose partners have come together to collaborate on their journey into the effective use of MMC, with an emphasis on driving up quality, affordability, sustainability and energy performance in a controlled environment.

### Case study 2: Off-site Homes Alliance

The Off-Site Homes Alliance is a partnership comprising 23 registered providers with a combined pipeline of more than 10,000 new homes in the north of England. Partners have come together to collaborate on their journey into the effective use of MMC, with an emphasis on driving up quality, affordability, sustainability and energy performance in a controlled environment. This is based on a recognition that MMC is unlikely to be affordable for providers working on their own.

For registered providers, the Alliance represents a credible and managed route to delivery - a secure and robust way of procuring and managing offsite constructed homes with much lower risk than working in isolation. For those working as Homes England Strategic Partners, it will ensure that at least 25 per cent of new homes are built using MMC. For the MMC supply chain, it offers a route to sustainable growth by providing a point of access to collaborate with some of the largest developers in the North.

Since its launch, OSHA has established a clear business case and roadmap based on five stages: research and development and testing the most appropriate, cost-effective solutions; identifying appropriate supply chain partners; standardising design and products, which meet required standards for certification and accreditation; initiating (through partners) a series of trailblazer projects, and monitoring their performance through an offsite performance centre, which is currently being developed with a number of industry bodies; and facilitating scaled-up delivery, through the OSHA delivery platform, whilst at the same time developing a business case for a bespoke JV delivery partnership.

The formal partnership has been established under the leadership of a project director, and clear governance mechanisms established. The Alliance is now at stage where supply chain partners are being identified and design solutions developed, prior to going to market with a series of sites later in the year.

### Case study 3: NHBC Accepts

NHBC Accepts is NHBC's comprehensive review service for innovative products and systems. As part of the service, detailed and robust technical reviews at key stages result in provision of a certificate, usage licence for a bespoke NHBC Accepts logo and website listing. An NHBC Accepts certificate is therefore a way of demonstrating that innovative products or systems have already been reviewed thus reducing the risk of delays on site.

"NHBC Accepts is a step forward that sees the UK market leader in warranty and insurance for new homes making its commitment to high quality modern methods of construction clear," says Mark Farmer, UK Government Champion for MMC.

ilke Homes became the first offsite manufacturer to achieve accreditation under NHBC Accepts. The modular housing firm makes factory assembled light steel frame volumetric units to provide a range of standard house types.

"NHBC Accepts means that we now have the opportunity to discuss the requirements of the business so we can fully scope out the works, set a programme and agree a cost for our service," says Dave Sheridan, Executive Chairman, ilke Homes. "Our homes are also backed by some of the UK's biggest financial providers and the NHBC Accepts scheme helps provide added assurance."

BoKlok, the sustainable, quality low-cost home provider jointly owned by Skanska and IKEA, had to submit detailed and robust technical information for its volumetric timber frame system for apartment blocks of between two and four storeys. The system was reviewed in just 67 days and the first site is registered with NHBC and under construction in Bristol for 98 homes.

Noel Sheehan, Housing Director, BoKlok says: "We are very pleased to have been given a seal of approval for NHBC Accepts. We hope that this additional accreditation will provide further confidence in our home development to our customers and the wider industry."

Throughout the UK, local authorities are also exploring modular delivery. They include Barking and Dagenham's housing arm, Be-First, which is developing a 300-home, low rise modular project. On a grander scale, the world's tallest residential modular tower opened in Croydon earlier this year with 546 homes in two towers reaching 44 storeys plus an art gallery and a café. The flats were manufactured off-site in a Bedfordshire factory by Tide Construction and sister company Vision Modular Systems with ready-built modular pods then stacked on top of each other on site.

Ministers are well aware of the vast potential of MMC, as is clear from a number of interventions have already been made in a bid to boost the delivery of MMC housing in the UK. In 2019, the Government invested £30m in Ilke Homes, a Yorkshire-based modular housing factory and Homes England struck a multimillion-pound deal with Japan's biggest house builder Sekisui House, to build thousands of modular homes across the UK. In the March 2021 Budget, it was announced that the Ministry of Housing, Communities and Local Government would set up MMC Taskforce, based at the department's new office in Wolverhampton and backed by £10m of seed funding.

Comments from Homes England indicate that the body also stands squarely behind the drive towards MMC. "If we are to deliver homes at the scale, pace and quality the country needs, we have to seriously shake up how we build homes in England. This is at the very heart of our mission and it means embracing

new technologies like modern methods of construction,” said Nick Walkley, then chief executive of Homes England, in 2020.

Homes England has now finalised research themes for a six-year project monitoring the construction of around 1,800 homes across the country over several years. The study will test the performance of different types of MMC to provide long-term, in-depth and verifiable data so that informed decisions about emerging construction technologies can be made.

## Modernise or die

This commitment to embracing modern technologies is welcome and vital. But it does still not go far enough. Five years after he issued a warning to the industry to “modernise or die”, Mark Farmer, the Government’s champion for MMC, believes that we are moving too slowly. “A productivity imperative was at the heart of my core recommendations supporting a move to modern methods of construction,” he wrote in *Building* magazine August 2021.<sup>46</sup> “The Government has woken up to this and has been pushing hard on this agenda. Indeed, parts of the industry are now sensing that there is a need for change, and we are seeing real evidence of it, partly catalysed by current events. However, despite the added bonus of a new societal driver – climate change – acting as a powerful Trojan horse for challenging productivity and methods of delivery, the real risk is that even this is not forcing change fast enough.”

Also this year, Farmer wrote of “the opportunity to innovate, to build better with homes that use new technology and delivery mechanisms, meet Net Zero Carbon targets, and provide jobs of the future. “The potential benefits of MMC are well rehearsed and compelling, but clearly have not been realised and conventional construction remains dominant in the UK,” he states.<sup>47</sup>

The former West of England Combined Authority Mayor Tim Bowles has been similarly restless: “The post-Covid-19 world provides a genuine chance to turn the page and embrace Modern Methods of Construction to deliver the step-change required. Seizing this opportunity would support advanced manufacturing, create highly skilled jobs and help improve productivity in construction. But that is only part of the story: it would also provide new affordable homes for families in the sorts of numbers we need as a country,” he has stated.<sup>48</sup>

In a March 2021 report, Mace stated that an MMC approach which heavily uses a manufacturing and offsite approach has many benefits including better quality, contribution to achieving Net Zero Carbon and more resilience in delivery. “Importantly it can make a major contribution to levelling-up,” the report added.<sup>49</sup>

The report, *The new normal – levelling up in a post-COVID world*, recommended building six hubs which would be able to support the delivery of social and transport infrastructure in the North, Midlands and East of England. Mace Group chief executive Mark Reynolds said: “If the Government is to deliver its ambitious plans for levelling up the UK economy, we must see a radical transformation in how our industry operates. We cannot expect radically different outcomes if we adopt the same approaches we always have. To see real change, we must be prepared to do things differently.

Clearly, recent decades have not seen enough innovation in how construction projects and programmes are delivered. Now, as the housing sector looks to improve productivity while dealing with a lack of new entrants and an aging workforce, that urgently needs to change.

Homes England is well placed to help change this by facilitating, leading, challenging and enabling the housing sector further as well as by helping to coordinate a demand side stimulus. We also need Government to play its part with a refreshed housing strategy promoting modular and other new approaches as faster, greener and the solution to the skills crisis in construction.

# Chapter 4: Policy implications

**We are calling for a new national housing strategy that is aligned explicitly to the levelling up agenda and backed by an investment and delivery strategy that creates a new impetus for the delivery of more new homes alongside greater regeneration in levelling up areas.**

We need to integrate a new vision for housing strategy with a plan to take firmer grip of the delivery challenge, including shortages of skills and materials, and thus rising costs.

**We therefore propose a five-point plan for Building Back Britain:**

## **1. A new national housing strategy**

Our analysis shows that currently much of the current shortfall in homes built is in London and the South East. But looking ahead to a 'levelled up world', we can see that housing need will substantially shift to different areas of the country, in line with projected employment growth. We need to make faster progress on building new homes where they are most needed, as well as ensuring investment in existing homes sustains the current level of viable housing supply.

Therefore a new national strategy is needed that shifts from being based on historic growth to a new 'levelling up' model of need, and funding streams adjusted accordingly.

We anticipate this will mean confirming how the 80:20 rule on Homes England funding will be replaced in line with levelling up objectives and reviewing the standard method formula which is currently used to determine local housing need.

## **2. Create a 'Construction Clusters in every major region**

To foster innovation, new methods of construction and improve the level of training available to workers, Government should commit to creating at least one 'construction cluster' in every part of Great Britain by 2030.<sup>50</sup>

Building on Mace's proposed construction hubs, and running alongside initiatives such as NHBC's Training Hub, these clusters would be regional training hubs where new skills, including for MMC delivery, would be promoted. Leeds should be the first site to establish a construction cluster by 2025 given the existing presence of Legal & General, a strong academic hub and the National Infrastructure Bank.

## **3. Promote greater adoption of MMC**

Modern Methods of Construction can create highly skilled jobs in construction, help improve productivity in construction and provide more of the homes we need. The post-Covid-19 world provides a chance Government to further embrace MMC to ensure that these benefits are realised without delay.

We therefore support the ambition set out in 2020 in Build Homes, Build Jobs, Build Innovation. In this report Mark Farmer and Mike De'Ath called for a programme to build 75,000 additional, high-quality, manufactured homes a year by 2030.

## **4. Zero carbon homes**

Housebuilders on the Building Back Britain are committed to delivering low carbon homes for its customers. More widely, this has to be the case across the industry if the UK is to meet net zero targets.

We therefore propose that all new-built homes must be operational net zero from 2030 while housebuilders and the wider industry accelerate plans to be carbon neutral in construction.

## 5. Tax incentives

Companies should be allowed greater incentives to offset tax costs to encourage investment in zero carbon MMC factories

As things stand the future goals of levelling up agenda look unlikely to be met via current housing policy. By implementing these recommendations, we can build a more resilient, diverse and productive housing sector that will ensure the successful delivery of the right homes, where we need them.



# Conclusion

Levelling up will only succeed if we get the right homes in the right places to support the new jobs that are being created through initiatives such as free ports and civil service relocation. In this report we have examined what meeting the challenge will look like.

The main lesson to be taken from the analysis in this report is clear. A housing strategy based on historic need is not up to the job of driving down regional inequality in the UK. Current plans for meeting housing need to be reviewed and refreshed. If levelling up is to succeed, then we need a new housing strategy that has a clear alignment with the levelling up agenda.

That does not mean that we need to see vastly more homes built above and beyond current national targets. But we do need to see a new housing strategy with less focus on building new homes in the South East of England.

The new strategy must also acknowledge and respond to two pressing problems that the housebuilding industry is currently grappling with. One such problem that we outline in this report is the growing skills shortage, with the combined forces of the pandemic and Brexit having potentially exacerbated a crisis that already existed in the construction industry. The second major problem that the industry is currently contending with is one of materials shortages, caused by a rapid rise in prices.

This challenging backdrop underlines the need to further embrace the opportunities offered by modern technologies, products and processes for delivering the built environment, collectively known as Modern Methods of Construction (MMC). Not only does MMC offer quicker and more predictable delivery and significant environmental benefits, it also presents an opportunity to address the skills crisis faced by the construction industry.

We are therefore calling for a new housing strategy that is based on a dynamic model of future demand, not based on historic need. This strategy must also grip the delivery challenge to get Government back on track towards meeting its own new build targets and it should promote the greater use of MMC.

Before we move on to explore the role of housing in the Government's drive to achieve net zero emissions in our next report, we hope that ministers will look carefully at the ambitions and policy recommendations we have set out in this report. Because only by taking these actions will the levelling up agenda stand a good chance of achieving its objectives.

**Our analysis highlights the need for right kind of homes in right places within a major new strategy to speed delivery. It is by understanding and responding to housing need, as well as the future economic needs of local areas, that local and national leaders can really begin to reimagine town centres and commercial space and put in place the right infrastructure to create jobs and happier, healthier and more sustainable places to live, work and shop.**

# Annex 1: Note on the analysis

Under the standard method, 24 per cent of housing need is in local authority areas in need of levelling up.

Local authorities in need of levelling up are more likely to have set out more ambitious levels of housing need than other local authorities, when measuring locally assessed need against the national de-minimis requirement set out under standard method. This is likely to reflect local politics and housing growth constraints in more affluent parts of the country.

Local authorities in need of levelling up are more likely to over-perform against housing requirements under the Housing Delivery Test (HDT) and the standard method, than other local authority areas.

38% of all local authorities had a shortfall against the HDT, amounting to an annual average of 23,300 homes across all under-performing authorities. The shortfalls in aggregate amounted to approximately 11.2% of the total national HDT requirement. But authorities in need of levelling up had a shortfall of 5,700 homes against the HDT amounting to only 10.4% of requirement, slightly lower than average.

Urban local authorities – both those in need of levelling up and those not - are more likely to under-perform under the HDT. This has implications as to the implementation of the Standard Method, which places an even greater emphasis on housing need (an additional uplift) in urban areas.

The Standard Method is a step-change relative to the HDT, with gaps between need and supply widening. Many affluent local authorities which “pass” the HDT would fall short of requirements set out under the Standard Method, but this is also true of urban centres in local authorities in need of levelling up areas.

Levelling up employment (raising the employment rate to the national average in authorities where it is currently below) is likely to be a key feature of overall levelling up. An overwhelming majority of local authorities identified in the Levelling up Fund as a priority for levelling up have lower than average employment rates.

Levelling up employment has the potential to significantly increase housing need in these localities, beyond the Standard Method. This could present a delivery challenge for some of these local authorities and a growth opportunity for others.

Levelling up could increase the contribution towards ambition on national supply, from 73k (24% of total supply) under the Standard Method to 103 – 117k (34-39% of total supply) under some levelling up scenarios.

**Full figures have been produced for every local authority that we modelled and are available upon request.**

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