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HBF
HOME BUILDERS FEDERATION

The Economic Footprint of House Building in England and Wales

July 2018

Home Builders Federation

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. HBF's members' account for 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

Lichfields

Lichfields is the pre-eminent planning and development consultancy in the UK. With offices nationwide, Lichfields offers a broad range of planning services including economics, heritage, sustainability, and urban design. Lichfields has clients in both the public and private sectors and is a retained economic advisor to a number of leading house building companies and property sector corporates.

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Last year the house building industry in England and Wales built around 224,000 new homes. Its economic footprint was significant.

Investment

£12bn
invested in land and buildings for homes

£11.7bn
spent on suppliers (90% stays in the UK)

Jobs and Growth

£38bn

of Economic Output
generated by house building each year

Nearly 698,000 jobs
239,000 directly employed in the industry (18% of the construction industry)

3.1 jobs for every home built

4,300 Apprentices, 525 graduates and 2,900 other trainees
supported each year, excluding those in contractors and suppliers

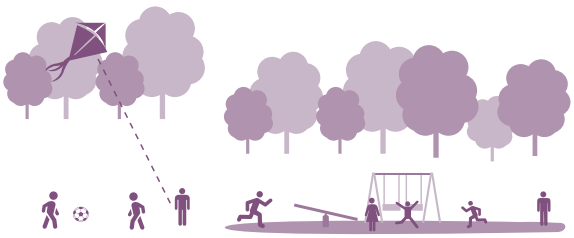
Resources for Public Services

£2.7bn
of tax paid
Stamp Duty Land Tax, Corporation Tax, NI, PAYE, and Residents' Council Tax

£4.2bn of new "Affordable Housing"
20% of all new homes built in England and Wales are "Affordable"

£841m
for infrastructure
including £122m on new and improved schools

Stronger Local Communities and Environment



£45m invested in open space, community, sport and leisure facilities

£5.9bn spent in local shops and services by residents of new homes
A further £1.2bn is spent to make these houses "feel like home"

England and Wales should increase annual supply of homes by around 81,600. Achieving this would mean:

£411m more net capital expenditure	**£14.2bn** increase in economic output	**260,800** extra jobs	**£1.1bn** more tax paid	**£384m** extra investment in local infrastructure	**£2.7bn** additional resident spending on goods and services

These extra benefits would be additional to the economic footprint of the current annual supply of 224,000 new homes.

1.0 Introduction

The importance of the house building industry is firmly in the national policy spotlight, given the Government's clear focus on driving forward the supply of housing, tackling problems of affordability and reversing declining rates of home ownership.

Yet the industry's ability to drive economic growth and support prosperous economies – as well as providing much needed housing to support sustainable communities – is also significant, with the economic contribution that house building makes to the economy having long been recognised by Government, policy makers and practitioners.

In 2015, the Home Builders Federation ("HBF") commissioned Lichfields to assess the economic footprint of the UK house building industry and quantify its economic contribution to the national economy. The study was the first of its kind to calculate the house building industry's national economic footprint in a truly holistic way and its analysis has been an important point of reference for the industry, as well as policy makers and other stakeholders.

This new report has been prepared by Lichfields to update the analysis undertaken in 2015 with the latest information, statistics and trends in house building and to provide an up-to-date view on the economic footprint of the house building industry in both monetary and non-monetary terms. It gives additional focus to some topical issues including the value of affordable housing delivery and the relative impact of recent Permitted Development Rights for residential change of use. This year, the data and analysis covers England and Wales only, to reflect the geographical focus of the HBF's work.[1]

The study looks at a wide and comprehensive range of economic, social and environmental benefits that day-to-day house building generates. It uses a number of primary and secondary data sources to measure the industry's economic footprint and draws on a survey of some of the largest house builders in England and Wales, as well as the latest economic appraisal techniques and benchmarks.

The remainder of the report is structured as follows:

- **Section 2** summarises the methodology and approach;
- **Section 3** provides an overview of the house building industry and recent trends across England and Wales;
- **Section 4** details the national economic footprint of the house building industry across a series of key themes and metrics;
- **Section 5** summarises some of the more qualitative, wider benefits associated with house building activity;
- **Section 6** considers the additional scale of economic benefits that could be realised if the delivery of new homes were to increase to meet the level of need identified by the Government; and
- Overall conclusions are presented in **Section 7**.

[1] A separate organisation – Homes for Scotland – represents the industry in Scotland. homesforscotland.com

2.0 Measuring the Economic Footprint

This update report provides an in-depth analysis of the contribution of house building to the economy of England and Wales. It quantifies the economic contribution of house building in terms of both direct impacts (through house builders themselves and their contractors) as well as indirect and induced impacts (from other sectors and firms that rely on house building and its supply chains and spending). It also summarises some of the "softer" impacts generated by house building that are typically more difficult to quantify.

Due to the scale and complexity of the house building industry, there is no single source of data that provides comprehensive information about its day-to-day economic activity and operations. In light of this challenge and in order to ensure that the outputs from the analysis are as accurate and robust as possible (whilst remaining proportionate), this update replicates the methodology applied in 2015 by using a combination of approaches to measure the economic contribution of the house building industry, broadly following a three stage assessment summarised as follows.

1. **High Level Literature Review** – review of recent work undertaken by industry leading organisations exploring the economic contribution of the house building industry in England and Wales, and the construction sector more generally;

2. **"Top-down" Assessment** – estimating the economic contribution of the house building industry in England and Wales through a "top down" assessment using published Government accounts data and surveys; and

3. **"Bottom-up" Assessment** of the house building industry's economic footprint by collecting a series of primary company data from a sample of house builders, aggregating and extrapolating this up to cover the industry in its entirety. A sample of HBF house builder members were selected from each size tier (i.e. large, medium-sized and small firms) to undertake a detailed "deep dive" analysis of each company's output, financial and monitoring data as far as information is available and reported in a consistent format.

The outputs from each step have been brought together and synthesised in order to estimate the industry's existing economic footprint across the following broad categories:

- **Capital Investment and Expenditure Benefits:** this relates to the value of capital investment and expenditure generated by the industry on new land for housing development;
- **Construction Benefits:** this relates to the impacts of this capital investment on construction employment and associated income generation and economic output during the construction of housing;
- **Direct Employment Benefits:** the number of people employed directly by house builders and their contractors, as well as the levels of economic output generated by these jobs;
- **Indirect and Induced Employment Benefits:** further jobs supported in the wider economy in house building supply chains and by spending amongst direct and supply chain employees on goods and services;
- **Resident Expenditure Benefits:** level of expenditure generated by residents of new housing development;
- **Public Finances:** contribution through tax revenues generated by house builders and their supply chain;
- **Local Authority Revenue Benefits:** the benefits that house building development brings in terms of local authority financial receipts from New Homes Bonus and Council Tax;
- **Local Community Benefits:** financial contributions made by house building to fund new facilities, services and infrastructure for local communities; and
- **Other "Softer" Benefits:** this relates to other benefits that tend to be non-monetary such as the re-use of brownfield land and open space preserved.

Analytical Framework

The analytical framework for the study is summarised below.

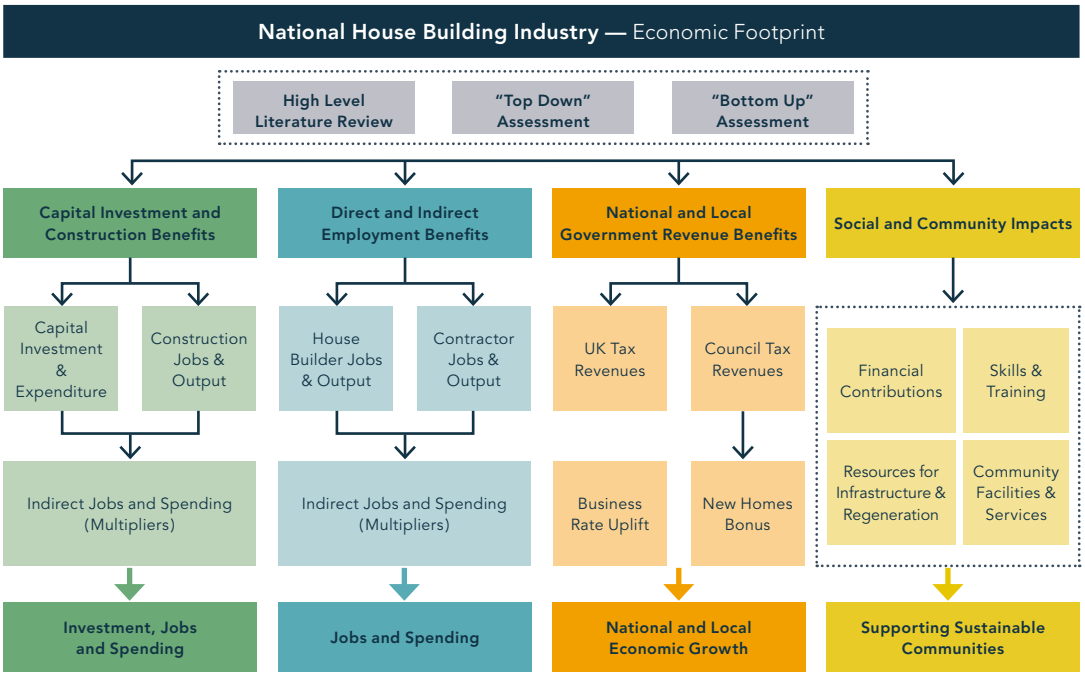


Figure 2.1: Analytical framework.
Source: Lichfields.

A glossary for the various terms and definitions is set out at Appendix 1.

It should be noted that, as with any research report of this nature, there are a number of limitations associated with the methodology and therefore outputs are intended to provide a broad "point-in-time" indication of the house building industry's estimated economic contribution rather than a definitive assessment. It incorporates the latest data and other evidence available at the time of preparation.

The sample survey of house builder firms covers largely private sector enterprises.

The results from the survey have been extrapolated to represent the industry as a whole – including the share of the industry accounted for by housing associations / registered providers and local authorities, both of which have an important role to play in delivering new homes each year – although it is recognised that operational models and day-to-day activity is likely to vary across different sub-sectors of the industry. The data derived from the "deep dive" sample survey of house builder firms, as well as other data derived from third party sources, is assumed to be accurate, but has not been validated by Lichfields.

3.0 House Building in England and Wales

The Need for Housing

The Government's 2017 White Paper on housing[2] opens with the statement *"the housing market in this country is broken, and the cause is very simple: for too long, we haven't built enough homes."*

In the years following the financial crisis, net additional housing supply fell to under 150,000 per annum. Whilst it has recovered most recently to 217,350 net additional dwellings in England in 2016/17[3] (see **Figure 3.1**), it still falls well below the 300,000 homes a year by the mid-2020s set out by the Chancellor in the 2017 Autumn Budget[4] – a figure which, if sustained over a long period, could begin to improve affordability[5] and deliver the necessary supply of affordable homes.

The net additional supply data presented above represents the Government's primary and most comprehensive measure of housing supply and comprises conversions and change of use as well as new build housing.

New build dwellings have traditionally made the greatest contribution towards overall net additional housing supply in England, equivalent to 85% of the total in the latest reporting year (2016/17) (see **Figure 3.1**).

Net additional housing supply in Wales stood at 6,704 in the most recent reporting year (2016/17); the rate of delivery of new dwellings has been increasing over recent years, but has yet to recover to pre-recession levels (see **Figure 3.2** overleaf).

Figure 3.1: Net additional housing supply in England, 2006–2017.
Source: MHCLG Live Table 120/Lichfields analysis.

[2] DCLG, Fixing our broken housing market, February 2017.

[3] MHCLG Net Additional Dwellings data.

[4] HMT Autumn Budget speech 2017; it is understood that 300,000 homes a year refers to England only.

[5] Select Committee on Economic Affairs: Building more homes 1st Report of Session 2016–17 – published 15 July 2016 – HL Paper 20. Paragraph 84 states: *"To address the housing crisis at least 300,000 new homes are needed annually for the foreseeable future."*

As a whole, England and Wales have not built enough new homes for more than a generation and the impact of the financial crisis, recession and economic slow-down has compounded this issue. One of the starkest impacts of a lack of housing supply is affordability, and the quantity of concealed households is growing. ONS Data[6] shows that just over a quarter (26%) of adults in the UK aged between 20 and 34 were living with a parent in 2017, compared to 20% twenty years earlier.

Meanwhile, latest data from the English Housing Survey[7] suggests that:

- Owner occupation has been declining in recent years (but with no change since 2013/14);
- The proportion of those buying with a mortgage is down;
- Private tenants now spend 38% of their income on housing costs, compared to 18% for homeowners; and
- Recent trends within the 25–44 year old group have been particularly pronounced, with a significant drop in owner occupation and a considerable increase in private renting.

Figure 3.2: Net additional housing supply in Wales, 2006–2017.
Source: Welsh Government / Lichfields analysis.
Note: Data comprises new dwellings completed minus demolitions as a proxy for net additional dwellings delivered in Wales.

[6] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/datasets/youngadultsliving withtheirparents

[7] https://www.gov.uk/government/statistics/english-housing-survey-2016-to-2017-headline-report

Permitted Development Rights

Over the last few years, an increasing proportion of net additional housing supply has been delivered through change of use of existing property (see **Figure 3.3**). In March 2015, permitted development rights (PDR) legislation was updated, with new regulations coming into effect to allow greater flexibility to convert buildings for residential use without the need to apply for planning permission.

This legislation was intended to boost new housing supply by making better use of those existing buildings no longer needed for commercial purposes; inevitably, the relative impact and success of the policy has been felt unevenly across England.

In England, 37,190 net additional residential units were delivered via change of use in 2016/17, equivalent to 17% of the total. Of these, around half (just under 18,900) occurred through PDR, predominately office to residential PDR (see **Figure 3.4**). Equivalent data is not available for Wales.

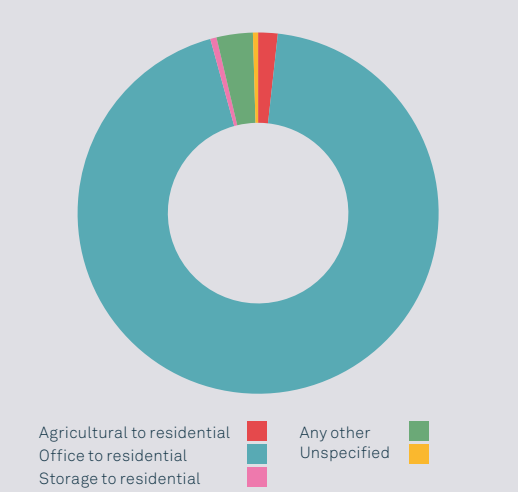


Figure 3.4: Net housing supply – change of use though permitted development rights 2016/17 in England.
Source: DCLG Live Table 120/Lichfields analysis.

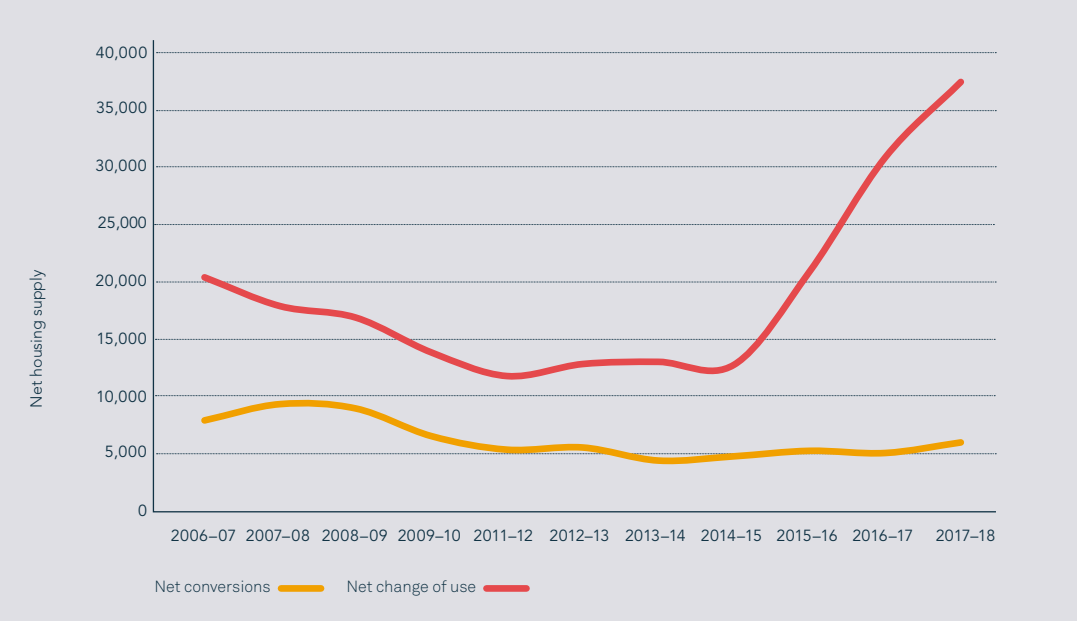


Figure 3.3: Net conversions and change of use to residential in England.
Source: MHCLG Live Table 120/Lichfields analysis.

Affordable Housing

House building also has an important role to play in supporting mixed and sustainable communities by providing affordable housing as part of residential schemes to help meet the housing needs of local people. Affordable housing is defined as social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the wider market. It must remain at an affordable price for existing and future eligible households.

Affordable housing completions have fluctuated over recent years but latest data from DCLG[8] shows that completions have picked up in the latest reporting year 2016/17, with a total of 41,530 affordable units completed in England. This was nearly 9,000 more than the previous year (2015/16). More than half (59%) of these homes were made available for affordable rent, with the remaining delivered as intermediate affordable housing (28%) and for social rent (13%).

These 41,530 affordable units represented approximately 19% of all residential dwelling completions last year in England.

Just under half (43%) of the 41,530 affordable dwellings in England were delivered through S.106 planning agreements, while in 2016–2017 Government estimates suggest that a further 50,000 affordable homes were agreed through S.106 agreements to be delivered over the coming months and years.[9]

In Wales 2,547 affordable units were delivered in 2016/17, representing approximately 38% of all residential dwelling completions in that year, and having increased by 6% from the previous year. Affordable housing completions have also fluctuated year-on-year in Wales, although there has been an overall upward delivery trend over the last 10 years since 2007/08.

[8] DCLG, Affordable Housing Supply: April 2016 to March 2017.

[9] MHCLG, Supporting housing delivery through developer contributions, March 2018.

4.0 The Industry's Economic Footprint

Analysis carried out for the HBF in 2015 sought to quantify the economic contribution that house building makes to the UK economy and found this to be significant and wide-ranging. It makes a direct contribution to GDP through the economic output or Gross Value Added (GVA) that it produces, whilst also supporting a significant employment base and contributing to public finances through the tax revenues that it generates.

More broadly, house building activity also has an important role to play in stimulating further demand and economic activity through its extensive supply chains and networks, which in turn generates additional output, employment, spending and tax contributions.

This section updates that previous analysis by drawing together latest data sources with the results from the house builder survey update. Impacts are generally presented for England and Wales, although where this is not available this is clarified and data is instead presented for the United Kingdom or Great Britain.

Capital Investment and Expenditure

The value of capital investment and expenditure generated by the industry on acquiring new land for housing development is significant, as house builders constantly invest in new land and sites in order to build their development pipeline.

Based on our sample survey, it is possible to estimate that across England and Wales, annual capital investment and expenditure on new land for housing development amounts to nearly £12 billion (£11.4 billion in England and £500 million in Wales). Theoretically this land has the potential to yield a significant supply of new homes, although not all of it benefits from planning allocations in local plans[10] or permission. House builders invested in land with equivalent capacity for 416,000 homes in the latest financial year, including 398,000 homes in England and 18,000 homes in Wales.

In addition, it is estimated that the house building industry generates over £1.1 billion of net capital expenditure[11] per year on acquiring or upgrading physical assets such as property, industrial buildings or equipment to support day-to-day commercial operations. This figure relates to the UK as a whole.

[10] Local Development Plans in Wales.

[11] ONS Annual Business Survey 2016 Provisional Results, as defined by SIC sub-sector code 41:202 "Construction of domestic buildings", using a proxy based on BRES 2016.

Economic Output

House building plays an important role in generating economic output. As shown in **Table 4.1** below, new house building generated £38 billion of economic output to the Great Britain economy in 2017, the majority of which (85%) was contributed through private sector housing. This includes house builders themselves as well as their contractors and suppliers, but excludes induced economic output. This figure is considerably higher than that reported in 2015 (£19.2 billion per annum), albeit construction industry output is heavily affected by seasonal factors and can fluctuate significantly over time.

It is also possible to estimate how much GVA (a measure of economic output) the house building industry directly generates using data from the latest Annual Business Survey. Across the UK as a whole, house building[12] was reported to generate £19.2 billion of GVA in 2016,[13] but this figure will exclude some important supply chain and induced impacts.

Employment

The scale of house building across England and Wales means that its role in creating and supporting employment is significant. This includes people directly employed by house building firms and their contractors, as well as employees supported in the wider supply chain (i.e. in firms that supply house builders with goods and services) and in the wider economy through the spending power of house builder, contractor and supply chain firm employees.

Direct Employment

Official Government data collated as part of the Business Register and Employment Survey (BRES) provides an estimate of the number of people directly employed in the construction of domestic buildings; in England and Wales this equated to 239,000 in 2016.[14] The majority of these jobs (224,500 or 94%) are based in England, with the remaining 14,500 (6%) based in Wales. A very similar figure is identified by the Annual Business Survey which recorded a total of 250,000[15] people employed within the construction of domestic buildings in 2016.

Type	Output (£ billions)	Total
New Housing		
Public Housing	£5.5	15%
Private Housing	£32.4	85%
Total New Housing	**£38.0**	**100%**

Table 4.1: Value of construction output by type (2017).
Source: ONS construction output in Great Britain – February 2018 (totals rounded).

[12] As defined by SIC sub-sector code 41:202 Construction of domestic buildings, using a proxy based on BRES 2016.

[13] ONS Annual Business Survey 2016 Provisional Results; this figure does not include the full extent of house building supply chains.

[14] BRES 2016, Relating to SIC Code 41:202 Construction of domestic buildings, England and Wales.

[15] ONS Annual Business Survey 2016 Provisional Results, as defined by SIC sub-sector code 41:202 Construction of domestic buildings, using a proxy based on BRES 2016.

This ABS figure relates to the UK as a whole, and is equivalent to just under a fifth (18%) of total employment within the UK construction sector in 2016.

This includes employees directly employed by house builder firms and organisations as well as firms contracted to deliver new homes on behalf of the country's house builders. It obviously excludes workers involved in providing goods, services and materials. Direct employment of trade labour by home builders is relatively low, with a recent Workforce Census carried out by the HBF and its members indicating that just over 20% of on-site surveyed workers were employed directly by the developer.[16] Our sample survey suggests that the proportion of on-site personnel that are "in-house" varies between 15% and 33% depending on the size of the house builder.

Based on our sample survey of house builder firms it is possible to estimate that across England and Wales, house builder firms and organisations directly employ just over 91,000 people; 87,000 of which are in England and 4,000 in Wales.

The recent HBF Workforce Census found that the reliance of house building on foreign workers is heavier than for the wider construction industry, and that reliance on foreign labour is the heaviest in the South East, where housing demand is acutest, and in-particular London where over half of workers are from abroad. It also coincides with the greatest tightness in the labour market.

Our sample survey of house builder firms provides an estimate of the number of Apprentices, graduates and trainees that are directly supported by the industry (i.e. in-house through house builder firms and organisations themselves). Across the industry in England and Wales, this is equivalent to over 4,300 Apprentices, 525 graduates and 2,900 other trainees last year. The actual figure is likely to be higher as many more will be employed by contractors and suppliers.

[16] HBF, Home Building Workforce Census 2017 (December 2017).

Indirect and Induced Employment

In addition to direct and on-site employment, it is widely recognised that the house building industry has a large supply chain. Annual expenditure on suppliers (i.e. providing goods, services and materials) across the house building industry in England and Wales is estimated to total £11.7 billion, based on our sample survey of house builder firms. Much of this supplier spending is retained within the UK; for example, it is estimated that for every £1 spent in construction at least 90% stays in the UK.[17]

The extent of the sector's supply chain in employment terms has been explored through a number of previous studies, including:

1. Work by Professor Ball which estimated that for every 50,000 homes built, approximately 75,000 direct jobs and 50,000 indirect jobs are supported,[18] indicating that every 1 direct job supports 0.5 indirect jobs in the supply chain;

2. A report by CEBR for the NHF which identified a supply chain multiplier of 1.78, i.e. 1 construction job supports 0.78 jobs elsewhere in the supply chain.[19]

   This is corroborated by guidance published by the Ministry of Housing, Communities and Local Government (formerly DCLG) that £1m of new housing output supports 19.9 direct and 15.6 indirect jobs. [20]

When also taking into account induced employment effects – i.e. employment supported by the wage spending of construction and supply chain workers in shops, services and other businesses throughout the economy – a range of higher "combined" employment multiplier figures can be identified by recent studies:

1. CEBR's report for the NHF identifies a multiplier of 2.51. This indicates that for every 1 direct construction job, 1.51 indirect and induced jobs are created elsewhere in the supply chain and wider UK economy; [21]

2. Drawing on company specific data, Barratt Developments' 2017 Socio-Economic Footprint identifies an induced employment multiplier of 1.64,[22] indicating that for every 1 direct job created, 0.64 induced jobs are created elsewhere, and for every 1 indirect job created, 0.64 induced jobs are created elsewhere.

[17] CBI (June 2012) Construction bridging the gap; BIS, (July 2013), UK Construction: An economic analysis of the sector; HBF Facts & Messages Bulletin: Q1 2015.

[18] HBF Facts & Messages Bulletin: Q1 2015.

[19] National Housing Federation (2013), Housing and Economic Growth.

[20] DCLG note on direct and indirect construction employment.

[21] National Housing Federation (2013), Housing and Economic Growth.

[22] Lichfields, Barratt Developments' socio-economic footprint FY2017 Output descriptions report (September 2017).

Employment Summary

In combination, then, the house building industry is estimated to support up to almost 698,000 people across a range of organisations, operations and occupations in England and Wales. As summarised in **Table 4.2** below, around a third (34% or 239,000) of these employees are directly employed by house building firms and organisations and their subcontractors. The remaining 458,690[23] is split between indirect employees (i.e. those working within the house building supply chain) and other employees working across the wider economy, for example providing goods and services to house builder, subcontractor and supplier employees.

This scale of employment supported by house building is equivalent to between 2.4 and 3.1 direct, indirect and induced jobs per new permanent dwelling built.[24] This figure will vary year-on-year depending upon the exact nature of new units built (such as an increasing proportion of new supply coming from permitted development change of use which is inevitably less labour intensive than new build housing, per unit delivered) and will also reflect increasing productivity within the sector.

Public Finances

The house building industry makes a significant contribution to public finances through tax revenues generated by house builders and their supply chains.

Stamp Duty Land Tax (SDLT) is charged on all purchases of houses, flats and other land and property in the UK over a certain price. In 2016/17, the tax generated £11.5 billion of revenue for the exchequer in England and £210 million in Wales. House builders alone are estimated through our survey sample to generate over £392 million of Stamp Duty Land Tax per year through sales of new build homes; this includes £375 million in England and £17 million in Wales.[25]

Corporation tax is levied on profit generated by house builders and provides a direct revenue stream for the public purse. Based on our sample survey, it is estimated that house builders incurred over £1.6 billion of corporation tax last year; £1.5 billion in England and £0.1 billion in Wales. Of this, £1.3 billion was "paid" in the most recent year.[26]

	Total
Direct employment supported (i.e. by house builders and their subcontractors)	239,000
Indirect employment supported (i.e. in the house building supply chain)	119,500–186,420
Induced employment supported (i.e. in the wider economy)	174,470–272,270
Total Employment Supported (direct, indirect and induced)	**532,970–697,690**

Table 4.2: Summary of house building employment.
Source: Lichfields analysis (based on the range of sources and employment multipliers outlined above).

[23] Based on the top end of the employment multiplier range.

[24] Based on a total of 224,054 net additional dwellings completed in 2016/17 in England and Wales.

[25] HMRC, Annual Stamp Tax 2016–17 (September 2017).

[26] The difference between corporation tax incurred and paid relates to the accounting processes associated with carrying forward losses.

House builder firms also make a significant contribution to HMRC revenues through employee related National Insurance and Pay As You Earn (PAYE) contributions, which are estimated (through our survey) to total just over £777 million in England and Wales last year (£743 million in England and £34 million in Wales). This figure excludes tax paid by employees themselves, and by contractors in the supply chain.

The industry also contributes to the Exchequer through a range of other taxes such as landfill tax, business rates and non-recoverable Value Added Tax (VAT).

Local Authority Fiscal Benefits

The house building industry delivers economic benefits for local authorities through financial receipts generated in the form of New Homes Bonus payments (England only) and ongoing Council Tax. This additional revenue represents an increasingly important source of income for local authorities as budgets continue to be cut from central Government. In the financial year 2016/17, New Homes Bonus allocations to local authorities across England amounted to £1.46 billion, with a further £1.2 billion announced for the following year 2017/18.[27]

Ongoing Council Tax generates £26.6 billion[28] each year for local authorities across England. Within Wales, it is estimated that £1.4 billion was generated in 2016/2017.[29] It is estimated that residents of the 224,000 additional dwellings built across England and Wales in 2016/17 alone contributed just under £253 million of Council Tax receipts.[30] As the stock of housing increases, these figures will compound year on year. In this regard, one should note the role of additional housing not just in accommodating population growth, but in enabling households to form (with many "concealed" households); it is thus the case that new housing does not itself generate increases in population, and thus increase demands for public services. Those demands will exist in any event. Rather, new housing enables that population to benefit from its own home and in doing so pay Council Tax and generate local revenue.

[27] House of Commons Library Briefing Paper, The New Homes Bonus (England), July 2017.

[28] DCLG, Collection rates and receipts of council tax and non-domestic rates in England 2016–17, June 2017.

[29] Welsh Govt – Council Tax Collection, June 2017. (http://gov.wales/statistics-and-research/council-tax-collection-rates/?lang=en).

[30] Based on an average Council Tax per dwelling charge of £1,128 in 2016/17 in England (used as a proxy).

Local Community Benefits

In addition to delivering much needed housing and supporting employment across a range of sectors of the economy, house building also provides a wide range of other economic benefits for local communities through financial and other contributions made through the planning system. Some of these are detailed below.

Section 106 and CIL Contributions

Section 106 of the Town and Country Planning Act 1990 (amended) provides a tool for securing investment in essential infrastructure arising from development and this contribution can be used by local authorities to fund new services and infrastructure in the local area.

Based on our sample survey of house builder firms it is possible to estimate that across England, over £804 million of S.106 contributions are made each year towards funding these facilities and services, with a further £37 million of contributions made in Wales.

The majority of this funding relates to financial contributions made to the local authority, with the remaining associated with works undertaken directly by house builders to construct and/or implement the facilities themselves. S.106 contributions most commonly relate to education provision (i.e. school places), although significant financial contributions are also made towards funding public open space, sport and leisure facilities and improvements to public transport and highways (**Table 4.3**).

Latest data from MHCLG estimates that in 2016/17, the value of developer contributions generated through house building was £6.0 billion; this includes Community Infrastructure Levy (CIL) contributions as well as a range of other types of contributions including open space, education, transport and travel. This represents a 50% increase since 2011/12.[31]

Type of Facility	Annual S.106 Contributions
Education facilities	£122.3m
Public open space	£24.2m
Sport and leisure facilities	£15.2m
Healthcare facilities	£5.2m
Youth and community facilities	£5.1m
Other contributions (including public transport, highways and public art)	£669.3m
Total	**£841.3m**

Table 4.3: S.106 contributions by type.
Source: HBF/Lichfields House Builder Survey 2018.

[31] MHCLG, Supporting housing delivery through developer contributions, March 2018.

The CIL was introduced by Government in 2012 to allow local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. The income can be used to fund a wide range of infrastructure that is needed as a result of development, including road improvements, flood defences, schools, green spaces and leisure centres. The CIL is levied separately to S.106 contributions.

Based on the sample survey of house builder firms, it is estimated that the industry generates just under £180 million of CIL contributions each year in England and £8 million in Wales, making a significant contribution towards supporting local community infrastructure. This figure has increased significantly since the previous analysis was undertaken in 2015, now that many more local authorities have adopted CIL Charging Schedules.

Affordable Housing

As noted in Chapter 3, affordable housing (social rented, affordable rented and intermediate housing) represents an important component of overall housing supply and completions have picked up across England and Wales over the years following the recession.

These affordable homes are delivered through a combination of private sector house builders, registered providers of social housing and local authorities. Based on our sample survey of house builder firms, it is possible to estimate the value of affordable housing sales at £4.2 billion per year across the UK, representing a total discount to market value (in effect, a subsidy) of around £3.4 billion or 20% on average.

Government estimates suggest that in 2016/17 approximately 50,000 affordable homes were agreed through S.106 agreements, with a total equivalent value of over £4 billion.[32] This represents an almost 10,000 increase in the number of affordable housing dwellings agreed through planning obligations compared to 2011/12.

Resident Expenditure

New housing development also offers an opportunity to increase local expenditure as residents spend their money on goods and services in the local area. It is estimated that residents of the 224,054 net additional homes[33] built across England and Wales in 2016/2017 generated £5.9 billion[34] of spending over the course of the year[35] and a further £1.2 billion of one-off spending on furnishing and decorating a property to make their new house "feel like home".[36] This additional expenditure in turn supports a range of retail and leisure jobs in local service sectors, helping to maintain the vitality of local economies across the country.

[32] MHCLG, Supporting housing delivery through developer contributions, March 2018.

[33] Net additional dwellings include 217,350 in England and 6,704 in Wales (2016/17).

[34] Based on data from the ONS Family Spending Survey 2018 which showed that households across England and Wales spent an average of £503 a week in 2017.

[35] Not all of this will be "net additional" expenditure.

[36] Research carried out by OnePoll on behalf of Barratt Homes (August 2014; https://www.barratthomes.co.uk/the-buying-process/home-buying-advice/).

volunteering
Debt advice
Legal advice

5.0 Wider Economic Benefits

The house building industry also has an important role to play in generating more qualitative, wider benefits that are often harder to quantify or assign a monetary value to.

Its relationship with the wider economy can be characterised in three main ways:

1. Through the impact of activity in the housing (and wider construction) sector;

2. Through the way in which housing wealth affects consumption behaviour; and

3. Supporting the economic competitiveness of places.

These metrics are increasingly recognised as a valuable way of capturing and measuring the industry's contribution in wider socio-economic and environmental terms. They are explored in more detail in the 2015 report, and summarised on the following page.

Housing as a Driver of Economic Growth

Improving the long-term competitiveness of the UK economy, including through its significant network of supply chains and contracting relationships, where domestic spin-off benefits from house building activity are far greater than for many other economic sectors.

Delivering "Real" Jobs and Economic Value

House building is a major source of national employment, with construction supporting more jobs compared with investment in many other sectors of the economy. The house building industry (and construction more widely) provides a crucial labour market entry point for young, lower skilled workers and those moving out of unemployment.

Supporting Labour Market Mobility

A healthy, well-functioning labour market requires a good supply of housing that is affordable for local people to enable them to move jobs freely and match up skills supply with employer demand. A dysfunctional housing market can inhibit labour market mobility, in turn stifling economic growth.

Sector Skills and Employability

The house building industry offers a range of opportunities across different trades and skill sets from bricklaying and carpentry through to plumbing and maintenance. Apprenticeship opportunities are particularly prevalent, and have been increasing over the last few years.

Enhancing Place Competitiveness and Local Economic Development

A well-functioning housing market is considered important for an area to remain competitive and attractive to business and economic activity, which in turn will drive the economic growth the country needs. Housing affordability issues have the potential to harm the ability of key locations that provide unique productivity opportunities to the UK (such as Cambridge) to remain competitive.

Quality of Place

Open spaces provided within housing developments generate opportunities for local residents to undertake recreational activities, contributing to improved physical health, fitness, mental health and wellbeing. A high-quality environment also provides opportunities for social interaction between people of different communities, fostering social inclusion and community development.

Re-use of Brownfield Land

Brownfield land (i.e. land that has been previously developed) suitable for housing has a vital role to play in meeting the country's need for new homes while protecting the countryside. This is particularly important in those areas of the country that face the challenge of a constrained supply of land for development.

6.0 The Economic Benefits of Increasing Supply

As described in Section 3.0, for years the country has been providing far fewer new homes than it requires. The renewed centrality of housing as Government's policy priority was reinforced by the Chancellor in the 2017 Autumn Budget, identifying the need for an additional 300,000 homes[37] to be built a year by the mid-2020s in order to meet demand and improve affordability. Last year net additional dwelling completions across England and Wales totalled just over 224,000; or approximately 218,400 excluding conversions. The scale of delivery has been characterised by a marked increase over the last few years, but annual delivery is still falling short of the c. 300,000 per annum target by around 81,600 each year.[38]

The analysis presented in this update report shows that house building already generates significant economic benefits to the economy of England and Wales, although the scale of benefits and value that can be achieved is being constrained by under delivery.

Table 6.1 indicates that if housing supply were to increase by around 81,600 per year (i.e. in order to broadly match the Government's ambitions for England and projections for Wales), the benefits could be substantial.

In other words, these are the additional economic benefits that could be achieved each year across England and Wales if the supply of housing was to increase to meet these ambitions.

All figures are indicative, and are based on current estimates/levels which are likely to change in scale and value in future years. Commensurate to a strategic high level study, assessments have been based on conservative assumptions of economic benefit per new dwelling, taxes levied and resident spending profiles based on current averages. On this basis, the additional economic benefits that could be achieved in the future if house building were to increase in scale and volume could be even greater than illustrated here.

At the same time, it should be noted that the dwelling completions figures noted above relate to "net additions" which include new build completions as well as change of use of existing buildings to residential. Inevitably, the scale of economic impact associated with change of use is generally lower than new builds on a "per unit" basis due to the scale and complexity of work involved.

[37] HMT Autumn Budget speech 2017; the 300,000 homes a year figure refers to England only.

[38] The 300,000 dwellings per annum figure has been used as a broad proxy for the level of additional housing needed across England and Wales – it incorporates 300,000 dwellings per annum for England minus an allowance for some of these dwellings being completed through conversions (rather than new house building, equivalent to 5,680 in 2016/17) plus an allowance of around 5,800 dwellings per annum for housing delivery in Wales (based on Welsh Government 2014-based household projections, in absence of a stated ambition by the Welsh Government).

Type of Economic Benefit		Annual Economic Footprint		
		Current Delivery [39]	Potential Uplift [40]	Total Potential Footprint [41]
Net Capital Expenditure	Acquiring or upgrading physical assets to support day-to-day operations	£1.1bn	+£411m	£1.5bn
Economic Output	Builders, their contractors and suppliers	£38bn	+£14.2bn	£52.2bn
Employment	Direct	239,000	+89,300	328,300
	Indirect	186,420	+69,700	256,100
	Induced	272,270	+101,800	374,000
	Total	697,690	+260,800	958,500
UK Public Finance Revenue	Stamp Duty Land Tax Receipts	£392m	+£147m	£539m
	Corporation Tax Incurred	£1.6bn	+£598m	£2.2bn
	NI and PAYE Contributions	£777m	+£290m	£1.1bn
Local Authority Revenue	New Homes Bonus payments [42]	£1.46bn	+£546m	£2.0bn
	Council Tax Receipts	£253m	+£95m	£348m
Local Community Benefits	S.106 Contributions	£841m	+£314m	£1.2bn
	Community Infrastructure Levy Payments	£188m	+£70m	£258m
	New Resident Expenditure	£7.1bn	+£2.7bn	£9.8bn
Affordable Housing	Value of Affordable Housing Sales	£4.2bn	+£1.6bn	£5.8bn

Table 6.1: Economic benefits of increasing housing supply (by 81,600 units per year).
Source: Summary of economic footprint analysis presented in Section 4/Lichfields (totals rounded).

[39] Based on 218,400 total net additional dwelling completions across England and Wales in 2016/17 (excluding conversions).

[40] Based on an extra 81,600 dwellings (to achieve the 300,000 dwelling completions target/ ambition per annum).

[41] Delivering 300,000 dwellings per annum. Figures may not add due to rounding.

[42] England only.

7.0 Summary and Conclusions

This report provides an up-to-date assessment of the house building industry's economic footprint across England and Wales by updating and replicating previous analysis undertaken in 2015 with the latest information, statistics and trends in house building and delivery. Back in 2015, many house builders were still suffering effects of the financial crisis and recession but for many the outlook has markedly improved and the overall rate of housing delivery has been increasing year-on-year. Across both England and Wales, house building has become even more of a policy priority for Government, recognising that for 30 or 40 years the supply of new homes has simply been too low.

The analysis demonstrates the significant contribution that house building makes to the economy and its ability to drive economic growth and maintain prosperous economies, as well as providing much needed housing to support sustainable communities. The report identifies some headline conclusions on the economic value of the c. 224,000 net additional homes completed across England and Wales[43] last year:

1. Annual capital investment and expenditure on new land for housing development amounts to nearly £12 billion;

2. £1.1 billion of net capital expenditure per year on acquiring or upgrading physical assets such as property, industrial buildings or equipment;

3. Official figures show that house building generated £38 billion of economic output to the Great Britain economy last year, including £19.2 billion of Gross Value Added (GVA);

4. The number of people directly employed in the industry is 239,000, equivalent to just under a fifth of total employment within the UK construction sector;

5. Annual expenditure on suppliers (i.e. providing goods, services and materials) of £11.7 billion, of which 90% is likely to stay in the UK;

6. Taking into account the supply chain and induced effects, up to 697,690 jobs are estimated to be supported across a range of organisations, operations and occupations. This is equivalent to 3.1 jobs per net additional dwelling;

[43] Net additional homes including conversions; Some data is only available for the UK so has been used instead as a proxy.

7. The industry provides opportunities to over 4,300 Apprentices, 525 graduates and 2,900 other trainees each year, with many more in contractors and suppliers;

8. Significant fiscal benefits, notably £392 million of Stamp Duty Land Tax, £1.3 billion of Corporation tax paid (the amount incurred is £1.6 billion), and National Insurance and PAYE contributions of over £777 million per year. Residents of the 224,000 additional dwellings built in 2016/17 alone will have contributed just under £253 million of Council Tax receipts;

9. Affordable housing accounted for 19% of all new dwellings completed in England last year and 38% in Wales. House building firms built about £4.2bn of affordable homes last year, with a discount to market value (in effect, a subsidy) of around £3.4 billion;

10. In 2016/17, approximately 50,000 affordable homes were agreed through S.106 agreements, with a total equivalent value of over £4 billion;

11. In 2016/17, the value of developer contributions generated through house building was £6.0 billion; this included CIL contributions and a range of other types of contributions including open space, education, transport and travel;

12. Over £841 million of S.106 contributions are made each year towards funding facilities and services, notably education facilities (£122.3m), public open space (£24.2m), sport and leisure (£15.2m) and healthcare facilities (£5.2m), with a further £669.3m contributing towards important areas such as transportation and highways;

13. A further £188 million of Community Infrastructure Levy payments each year to fund local community infrastructure across England and Wales; and

14. It is estimated that residents of new homes built last year generated £5.9 billion of spending in shops and services over the course of the year and a further £1.2 billion of one-off spending to make their new house "feel like home".

Analysis in this report shows that if annual house building output across England and Wales increases by around 81,600 units to achieve c. 300,000 homes (reflecting the broad ambition for dwelling completions per annum across England and Wales) there will be an economic as well as a housing dividend:

- An extra £411 million of capital expenditure;
- £14.2 billion extra economic output in the England and Wales economy;
- 260,800 extra jobs;
- £1.1 billion of increased UK tax revenues;
- £384 million of S.106 and CIL payments for local infrastructure improvements;
- An additional £1.6 billion in affordable housing sales; and
- Residents of these extra new homes could spend £2.7 billion on goods and services.

APPENDIX 1: Glossary

Affordable Housing
Affordable housing is defined as social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Brownfield Land
Brownfield land is an area of land or premises that has been previously used, but has subsequently become vacant, derelict or contaminated. Brownfield sites typically require preparatory regenerative work before any new development can go ahead.

Business Rates
Businesses and other non-domestic occupiers of property pay non-domestic rates (known as business rates) to contribute towards the cost of local authority services.

Capital Investment and Expenditure
Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This includes both capital expenditure (i.e. on-going asset management, upgrade, maintenance and refurbishment work) and capital investment (i.e. in a new building or extension).

Community Infrastructure Levy (CIL)
The Community Infrastructure Levy is a levy that local authorities in England and Wales can choose to charge on new developments in their area. The charges are set by the local council, based on the size and type of the new development. The money raised from the CIL can be used to support development by funding infrastructure that the council, local community and neighbourhoods want, such as new or safer road schemes, park improvements or a new health centre.

Concealed Households
Concealed households are family units or single adults living within "host" households.

Corporation Tax
Corporation tax is a corporate tax levied in the United Kingdom on the profits made by companies.

Gross Domestic Product (GDP)
Gross Domestic Product is one of the primary indicators used to gauge the health of a country's economy. It represents the total value of all goods and services produced by a country over a specific time period.

Gross Value Added (GVA)
Gross Value Added is the amount of wealth created by a company, calculated as net sales less the cost of bought-in goods and services. This information can be aggregated up to provide average GVA per employee by sector.

Indirect and Induced
Impacts supported by additional spending effects in an area as contractors/ suppliers and workers directly benefiting from an intervention purchase goods and services from local providers.

Multiplier Effects
Further economic activity (jobs, expenditure or income) associated with additional local income, local supplier purchases and longer term effects.

New Homes Bonus
The New Homes Bonus is a grant paid by central Government to local councils for increasing the number of homes and their use. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. A premium is payable on affordable units.

Pay As You Earn (PAYE)

Pay As You Earn is the system by which an employer deducts income tax from an employee's wages before paying them to the employee and sends the deduction to the Government.

Registered Providers

Registered providers (often known as social landlords) are the bodies that own and manage social housing. They tend to be non-commercial organisations such as local authorities or housing associations.

Section 106 Planning Obligation

Planning obligations are legal contracts made under Section 106 of the 1990 Town and Country Planning Act. They are used to prescribe the nature of development to comply with policy, compensate for loss or damage created by a development, and mitigate a development's impact.

Stamp Duty Land Tax (SDLT)

Stamp Duty Land Tax is charged on all purchases of houses, flats and other land and property in the UK over a certain price.

Town and Country Planning Act 1990

The Town and Country Planning Act 1990 is an act of the United Kingdom Parliament regulating the development of land in England and Wales. It is a central part of English land law in that it concerns town and country planning in the United Kingdom.

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