

# Housing by the community, for the community

*An assessment of the value for money of community led housing in  
England*

15 September 2020

Grant Colquhoun

## Basis of engagement

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## Foreword

For those involved in the community led housing projects, the economic, social and environmental benefits to their community are clear and numerous. It is what drives them to dedicate hundreds of hours of volunteer time to develop homes for local people.

This independent report by Capital Economics proves what the community led housing sector has instinctively known all along: the benefits of community led housing far outweigh the public investment.

The research found that public investment in the sector offers medium to high value for money, and firmly high value for money when a long-term view is taken. This means that each pound invested can be expected to generate much more value in return.

A significant factor in the value for money is the additionality of community led housing: the fact that the homes built would not otherwise be delivered. In fact, it is unique in the way it can generate public support for new housing, unlocking previously unavailable sites for development.

The other two factors are the affordability of the homes built and the wellbeing community led housing brings about by virtue of being community led and controlled and delivering more than just housing.

The Government's investment in the Community Housing Fund was hugely successful, catalysing hundreds of new housing projects across the country. Since it was launched in its current form in 2018, this fund has more than trebled the pipeline of community led homes across England. However, that investment was short-lived and there are now over 10,000 homes waiting to bring about the benefits outlined in this report.

What is needed is a renewal of the Community Housing Fund in the forthcoming Comprehensive Spending Review and for five years to provide the sector with long term certainty.

Community led housing is ready to play an essential role in helping the country build back better. It's time to unleash this sector and reap the benefits.

We give our thanks to the Nationwide Foundation and Power to Change for enabling us to commission this important piece of research.

**Catherine Harrington, Joint Chief Executive of the National CLT Network**

## Foreword

“ We welcome this independent research. It brings much-needed clarity and focus as to how the community led housing sector builds homes that can realise tangible long-term benefits. Community led housing groups are well positioned within their cities, towns and villages to galvanise and harness the power of communities to do good.

The projects that are being developed by this sector are also a critical source of contracts for small and medium sized builders during this difficult time, keeping them in business and providing local jobs. Given the economic downturn following Covid-19, it is clear that community led housing groups can help power the recovery whilst also providing high-quality, affordable homes on land that mainstream developers often wouldn't touch.

A five-year renewal of the Community Housing Fund makes sense and the evidence for this is clear. It will contribute new decent, affordable homes, it will unlock a growing pipeline of shovel-ready projects and it can help power our economic recovery.”

**Leigh Pearce, Chief Executive, Nationwide Foundation**

“Power to Change has invested nearly £4m in enabling the early stages of community led housing projects through our Homes in Community Hands (HCH) programme since 2017. We really welcome this independent research that bears out our long held belief that community led housing brings many more benefits than simply the delivery of homes and lies at the heart of good neighbourhood regeneration and development.

Continued investment in community led housing by the government is vital to maintain and increase the momentum gained in the sector over the past years, catalysed by both the Community Housing Fund, funding by ourselves and others. Now, more than ever, community led housing has a fundamental part to play supporting the creation of better, safer and healthier places for people to live and enjoy a good quality of life.”

**Vidhya Alakeson, Chief Executive, Power to Change**

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# 1. Executive summary

# Housing delivered by communities for communities to meet housing needs

## Helping to meet housing needs

Community led housing is a small, diverse and growing sector that is helping to deliver the new homes widely recognised as being much needed. Some homes built by community led groups have particularly high design standards or are notable for their impressive environmental performance. Many, however, are built to similar specifications to affordable homes constructed by housing associations. Organisations developing community led homes also have much in common with other small builders, especially the challenges faced in accessing finance and land.

What makes community led homes different from other homes is that they are delivered by local communities for local communities. It is this difference that enables the sector to deliver high value for money for the public funds invested in it.

## Value for money via additionality, affordability and wellbeing

Three key features of community led housing add up to high value for money: additionality, affordability and wellbeing. Community housing groups form to meet local housing needs that are not being met. In many cases, groups develop sites that are unattractive or unavailable to other developers and would otherwise be left undeveloped. In this way, groups deliver additional new homes rather than substituting for housing developments that might otherwise take place.

Affordability is an important motivator of community housing groups and over 80 per cent of homes in the development pipeline are planned to be for rent at below-market rates. The homes are also typically legally protected in perpetuity, locking in affordability for the long term. In addition, community led housing contributes to wellbeing by bringing communities together, supporting local amenities and enabling resident participation and control.

How community led housing delivers medium to high value for money



Sources: Capital Economics

# Community led housing delivers medium to high value for money for public funding

## Assessing value for money of public funding

As with other developers of affordable housing, community led housing groups receive public funding to deliver new homes. For groups receiving public funding, cash grants are equivalent on average to just under 30 per cent of building costs, some £54,000 per home. Gifts or discounted sales of public development sites to groups contribute a further £8,000 per home, on average.

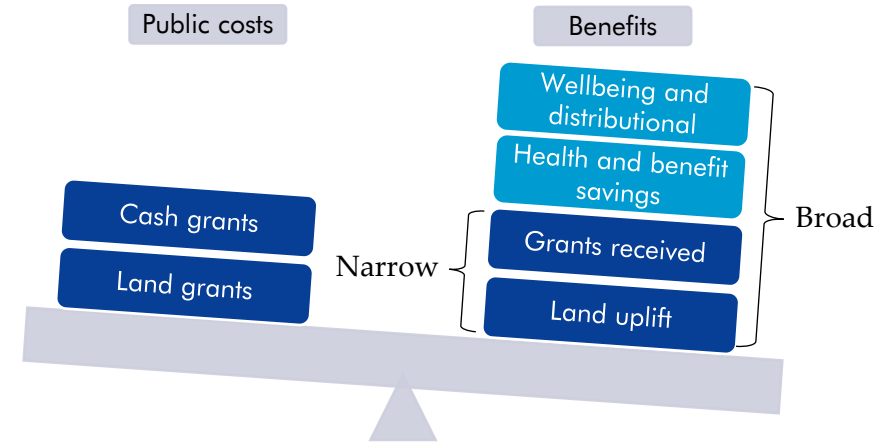
This report assesses the value for money of community led housing using an analytical framework, the Green Book, employed by government officials to evaluate spending proposals. Section four of the report explains the approach in further detail but, in brief, benefits generated by community led housing are assigned monetary values which are compared to the public costs of grants of cash and sites.

A ratio of benefits to costs of between 1.5 and two is considered medium value for money, while a ratio between two and four represents high value for money.

## High value for money over the long term

Using a ten-year horizon, which is common in spending appraisals, we find each pound of public support delivers 1.8 pounds of benefit, rising to 2.7 pounds when health and benefit savings, wellbeing and income distribution benefits are factored in. This places community led housing support in the medium to high value for money categories. We believe the long-lived nature of community led housing means a longer timeframe for assessment is more appropriate. Over thirty years, each pound of public support delivers 3.1 pounds of benefit when health and benefit savings, wellbeing and income distribution benefits are allowed for. This places community led housing further into the high value for money category.

## Benefits and public costs of community led housing



## Benefit Cost Ratios and value for money categories of public funding for community led housing

		10 year horizon	30 year horizon
Narrow	Benefit Cost Ratio	1.8	1.8
	Value for money category	Medium	Medium
Broad	Benefit Cost Ratio	2.7	3.1
	Value for money category	High	High

Sources: Capital Economics, HM Treasury and Department for Transport



## 2. Overview of community led housing

# Community led housing delivers additional homes by the community for the community

## Additional housing to meet local needs

As the name implies, community led housing is where communities come together to deliver additional new housing to meet local needs. The key motivation for community led housing groups is the provision of homes, whether new build or from the refurbishment of existing properties, rather than the generation of profits.

Often it is a shortage of housing affordable to those on local incomes that prompts communities to take action. For many groups, there are also a range of other drivers including the aim of bringing communities together, the desire for greater influence over housing and the wish to create a community with shared values or to live in a community with others that have similar needs.

Reflecting the variety of drivers, there are a myriad of models and forms of community led housing. The four main models are: Community land trusts, co-operatives, cohousing and self-help, for which further explanation is provided on the next slide.

## Improved funding has supported a revival in recent years

Community led housing is not new and part of it has roots in the co-operative movement of the nineteenth century. However, the bulk of the current stock of community led housing is attributable to housing co-operatives formed in the 1970s and 1980s (Goulding, 2018).

In more recent times there has been a revival in community led housing, driven by new groups, most numerous of which are community land trusts. Funding from charitable organisations supported this renaissance, with the government's Community Housing Fund, first announced in December 2016, providing a further boost in more recent years.

## Features of community led housing

Open and meaningful community participation and consent takes place throughout the process of providing new homes.

The community group or organisation owns, manages or stewards the homes in whichever way they decide.

The housing development is of true benefit to the local community, a specific group of people (an intentional community), or both. These benefits should also be legally protected in perpetuity.

Sources: Community Led Homes

## Overview of four types of community led housing

### Community Land Trusts

- A community land trust is a not-for-profit organisation that is made up of community members. Trusts can be involved in a range of community activities other than housing.
- Community land trusts acquire land, then deliver or oversee the development of affordable housing to rent or buy. Trusts remain stewards when the homes are complete.
- An asset lock means the affordability is legally protected so that future residents will also benefit. Homes cannot be sold for inflated profits, and any extra money that a community land trust earns or raises must go back into the pot to be used for community benefit.

### Cohousing

- Cohousing is an approach to creating a community, with people coming together to build a neighbourhood that embodies particular values.
- Often the values are around living in a way that increases connectivity, the spirit of looking out for one another and in a way that is environmentally-conscious. Residents are the decision-makers and decisions are often based on consensus.
- While cohousing has a big focus on living communally, it is different from a commune. Residents have their own homes which surround shared spaces and they decide when and how they wish to interact.

### Housing co-operatives

- Co-operatives are not-for-profit and democratic organisations run for and by their members. They can be involved in housing or business and have a long history.
- The co-operative movements values are: self-help, self-responsibility, democracy, equality, equity and solidarity. When these values are related to housing it means residents: are in control, self-manage the homes in a democratic way, have security and pay fairer costs.
- In housing co-operatives, residents either own property as a collective by paying into one mortgage or are both the tenants and landlords.

### Self-help housing

- Self-help housing groups refurbish existing properties, often with 'hands on' involvement by members. This is in contrast to 'self-build' which involves the building of new homes.
- It's sometimes thought that self-help housing is only an option for inner cities, particularly in the North of England where property prices are lower and vacancy rates higher. In reality there long-term vacant properties across the country.
- Groups generally either purchase and refurbish properties or lease and refurbish properties. For the latter, properties need to be leased for long enough to make it financially viable and ideally at a pepper corn rent.

Sources: Capital Economics and Community Led Homes

## Five stages of a community led housing project



Sources: Community Led Homes

## The sector is a small but expanding one and active across England

Despite community led housing's long history and diversity, the sector remains a relatively small one in England. The most recent comprehensive study of the sector's size, by the Smith Institute, found 1,196 active organisations and 172,548 homes in 2015.

At least 1,200 new homes have been delivered since 2015 and over 1,000 of these have been community land trusts, according to figures provided by the National CLT Network.

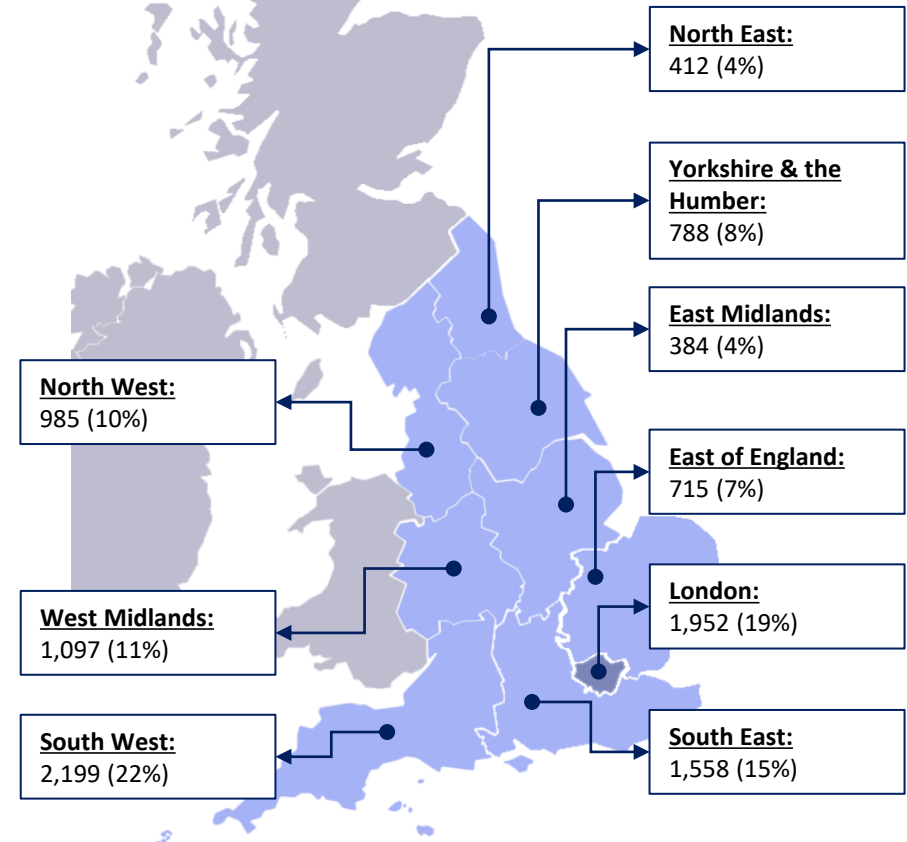
Research this year shows a pipeline of 530 community led housing projects for which good information is available. Between them, they have ambitions to deliver over 10,000 additional homes (Archer, 2020). The pipeline is spread across the country, but the two regions with the largest shares of the pipeline are the South West, followed by London. Between them, these two regions account for over forty per cent of homes in the pipeline.

### Number of community led housing organisations and homes in England, numbers in 2015

	Organisations active	Homes provided
Community land trusts	170	532
Co-operatives	836	169,000
Cohousing	20	266
Self-help	170	2,750
<b>Total</b>	<b>1,196</b>	<b>172,548</b>

### Community led housing pipeline in England, number of homes and percentage of pipeline\*

\* Only projects at Group, Site and Plan stages for which good information is available. England total 10,090.



Sources: Capital Economics, the Smith Institute and Dr T. Archer

# There is a clear need for more and lower-cost housing in England

## England's housing shortage is most acute in the social sector

Growth in the community led housing pipeline comes at a time of consensus that there is a long-term under-supply of housing in England. Estimates of the annual number of additional homes required per year are as high as 340,000, of which 145,000 should be affordable homes (House of Commons Library, 2020). The government's own target is for delivery of 300,000 additional homes per year by the mid-2020s, a rate of delivery not seen realised since the 1960s. Indeed, since the year 2000, additional dwellings each year have averaged 176,000.

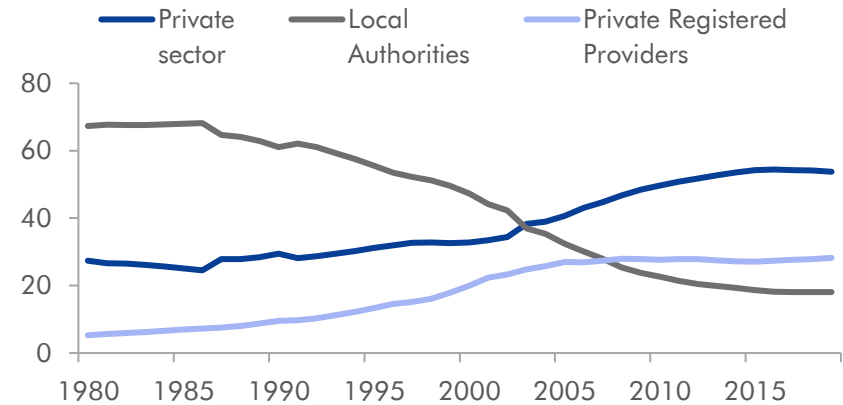
The shortfall in housing is especially acute in the social housing sector. Since the start of the 2000s the number of owner occupied homes has risen by one million and private rented homes have increased by 2.6 million, but rental homes in the social sector have fallen by 0.2 million. Privately rented homes now account for over half of all rented homes compared to one-third in the year 2000.

## Private sector rents are unaffordable to those on low incomes

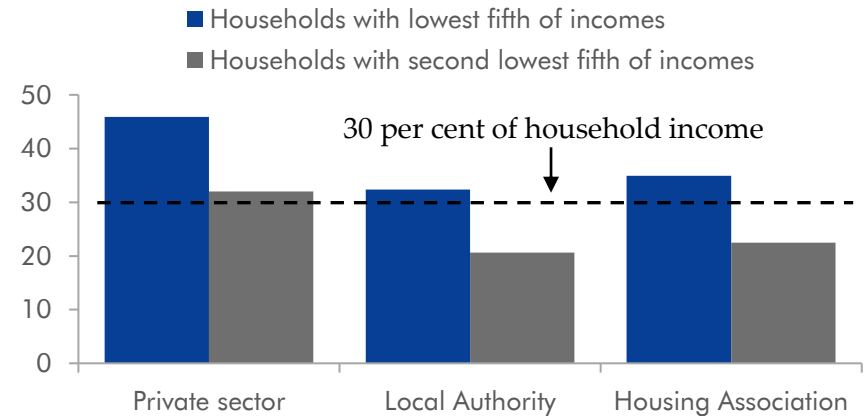
Private sector rents in England are on average double those in the social rented sector and in London they are two and a half times as high, according to the English Housing Survey. Organisations focused on poverty and housing, such as the Joseph Rowntree Foundation and Shelter, consider housing costs of more than thirty per cent of household income as 'unaffordable'.

Even when housing benefits are factored-in, households with the lowest one-fifth of incomes pay 46 per cent of their income as rent in the private sector and around one-third in the social housing sector. Households in the next lowest one-fifth of incomes pay one-third of their incomes as rent in the private sector and around one-fifth in the social housing sector. There is a strong case for extra housing affordable to those on lower incomes.

Rented homes by tenure in England, per cent of rented homes



Proportion of household income spent on rent by lower income households in England, 2018-2019, per cent



Sources: Capital Economics, Ministry of Housing, Communities and Local Government and the English Housing Survey

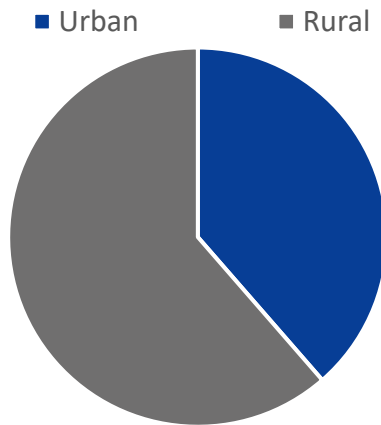
# 3. Evidence from the survey of community led housing groups

## Insight on the sector was gained from a variety of sources including a survey of groups

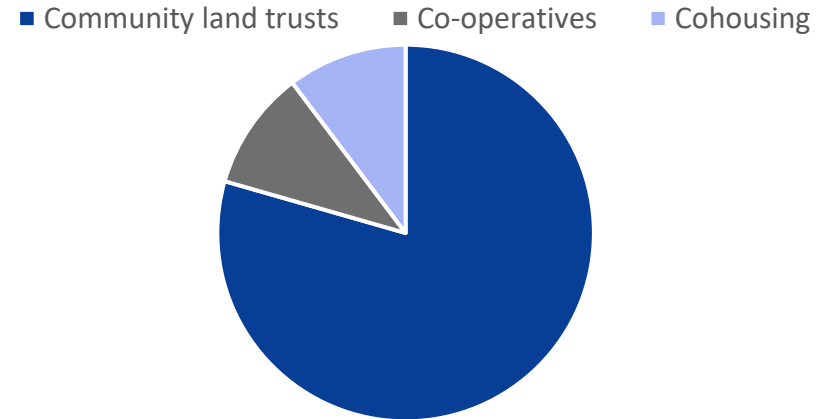
Evidence for the assessment of the value for money of community led housing has been developed from three routes. First, a review of the literature and publicly available data and data supplied by the National CLT Network and Community Led Homes. Second, interviews were conducted with ten organisations active in the sector, including those undertaking projects, providing finance to the sector, supporting the sector and representative bodies. The interviews were conducted between the 10<sup>th</sup> and 19<sup>th</sup> of August. Third, a survey of groups was carried out between 31<sup>st</sup> July and 21<sup>st</sup> August. Results from the 116 responses are analysed in this section.

Community land trusts accounted for 79 per cent of responses, with the remainder split between co-operatives and cohousing. Responses were spread across the various stages of the process, from Group through to Live. Over 60 per cent of responses were from groups in rural locations.

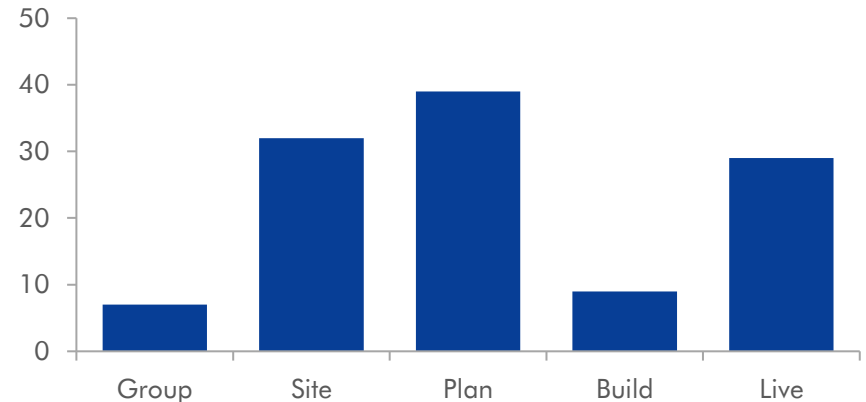
### Number of responses by urban or rural location of group



### Share of responses by type of group, per cent



### Number of responses by stage of process of group



Sources: Capital Economics



# A shortage of affordable housing is the single strongest reason for groups' projects

How important are each of the following as reasons for your group's project being undertaken? Five is 'very important' and zero is not important at all. Percentage of responses scoring 5



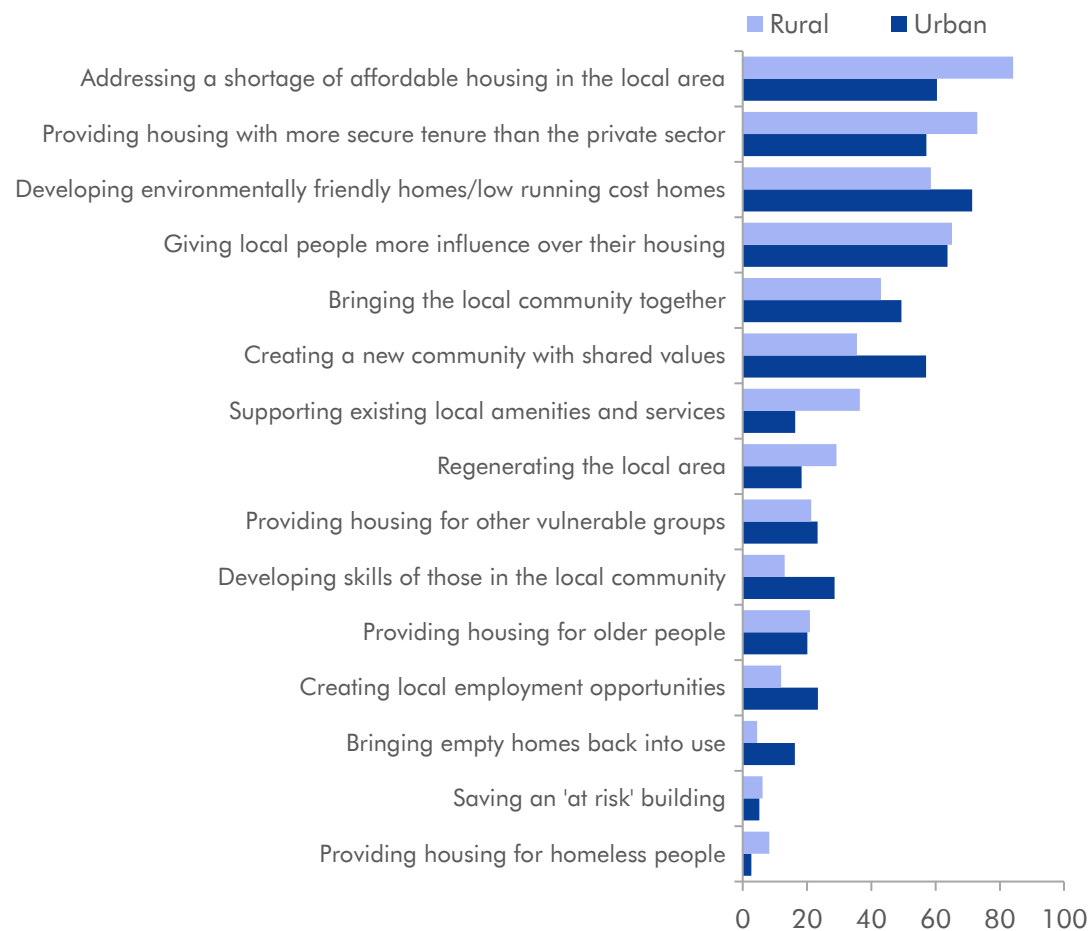
Sources: Capital Economics. Survey results weighted to account for different scheme types and urban or rural location

There are a wide range of motivating reasons for undertaking a community led housing project, but a shortage of affordable housing is the one groups typically feel most strongly about. Nearly three-quarters of groups assigned the highest score on the rating system, five, to the shortage of housing, which is a higher share than for any other reason. Around two-thirds of groups scored housing tenure security, environmental friendliness or low running costs and increasing influence over housing as five.

The sample sizes can be relatively small when split by type of groups, but there is evidence of differences in responses across different types of community led housing organisations. While community land trusts placed the greatest weight on a shortage of affordable housing, co-operatives scored tenure most highly. Cohousing groups placed the greatest weight on environmental or running cost issues, and over half also cited provision of housing for older people.

## For groups in urban areas, environmental and running cost issues and influence over housing are the strongest motivators

How important are each of the following as reasons for your group's project being undertaken? Five is 'very important' and zero is not important at all. Percentage of responses scoring five



Results also vary by rural or urban location. In rural areas, the shortage of affordable housing is key, with over 80 per cent scoring this reason as five.

In urban areas, environmental friendliness and low running costs is the single most important factor, followed by influence over housing.

The urban-rural differences largely reflect the greater proportion of community land trusts being in rural areas and a greater proportion of co-cooperatives and cohousing groups being in urban areas.

Sources: Capital Economics. Survey results weighted to account for different scheme types and urban or rural location.

# Over 80 per cent of community led housing is planned to be at below-market rent levels

## Most rent intended to be 80 per cent or less of market rents

The National CLT Network commissioned research to assess the pipeline of future community led housing projects (Archer, 2020). Reflecting the motivation of groups to provide housing appropriate to local incomes, the research found three-quarters of homes in the pipeline for which tenure has been decided are expected to be for tenures with below market rents.

Affordable Rent is defined by the government as a rent level up to 80 per cent of market rent and is a category of housing introduced in 2011. Nearly 60 per cent of homes in the community led housing pipeline are in this category.

Prior to 2011, Social Rent homes accounted for around three-quarters of new social housing delivered each year with grant funding from Homes England and the Greater London Authority. Social Rent homes are the most affordable type of social housing for renters. For example, while rent in England in the financial year 2018-19 for two bedroom Affordable Rent homes averaged £124 per week, rent for two bedroom Social Rent homes averaged £87 per week (CORE, 2020). A further 22 per cent of homes in the community led housing pipeline are for Social Rent.

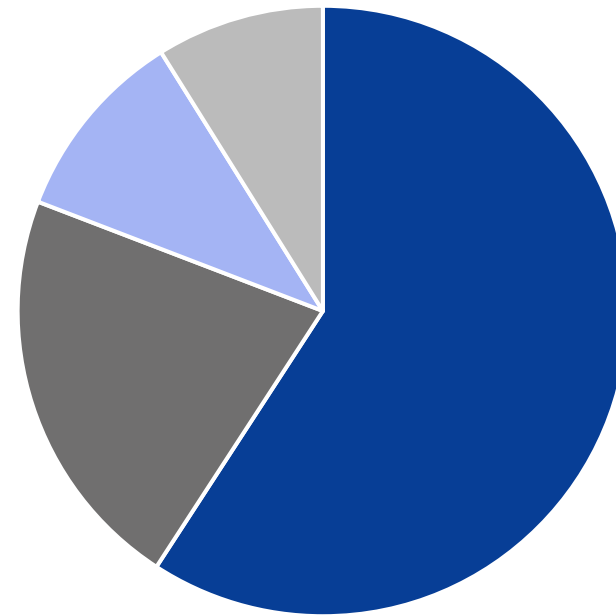
## Low cost ownership and market homes

There are several low cost ownership-type tenures of housing that allow residents to purchase part of the home, the largest of which is shared ownership. This tenure of housing comprises ten per cent of the pipeline.

A little under ten per cent of homes are expected to be for market sale or rent. These homes are developed by groups and can provide cross-subsidies for the other forms of housing.

The pipeline of community led homes by tenure, per cent

- Affordable Rent
- Social Rent
- Low cost home ownership\*
- Market sale and rent



\* Includes Rent to Buy, shared equity, shared ownership, mutual ownership and discounted market sale homes.

Sources: Capital Economics and National CLT Network

# Groups intend Social Rent homes to account for more than a fifth non-market housing

## Affordable Rents are unaffordable in large parts of the country

In parts of the country, the balance of supply and demand for housing has pushed up market rents to the extent that even Affordable Rent homes can be unaffordable relative to local incomes. This is especially the case in London, much of the South East, parts of the East and South West and in pockets of the Midlands and the North.

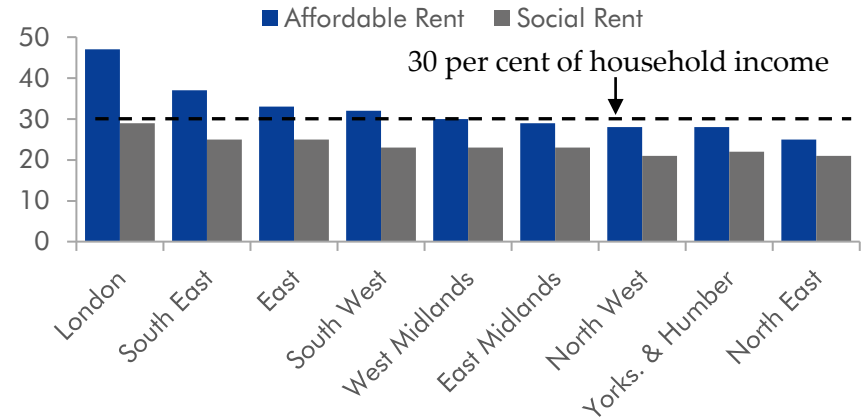
In the four years spanning 2016-17 to 2019-20, the development of 175,000 affordable homes with public grant funding started on site. Of these, four per cent were Social Rent, 55 per cent were Affordable Rent and 38 per cent were Shared Ownership and other partial ownership tenures (the tenure of three per cent of the starts was unknown). A mismatch exists between the type of new affordable homes being delivered and those most needed.

## Social Rents a larger share of intended community led housing

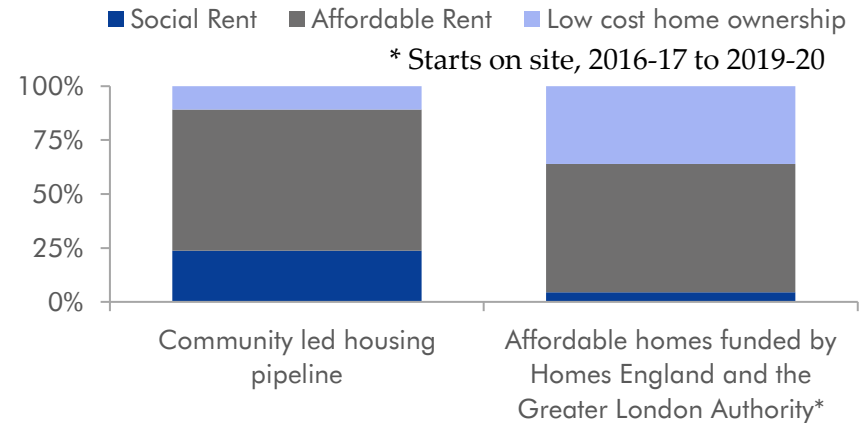
Compared to the above, there is a clear difference in the mix of homes community led housing groups aim to deliver. Some 24 per cent of non-market homes in the pipeline are for the lowest cost homes to residents, Social Rent. Within the constraints of available financing, groups are responding to the need for lower cost housing in their communities.

Private rented housing is also associated with less security of tenure. The English Housing Survey reports 28 per cent of private renters had been in their home for less than a year compared to eight per cent for tenants in social housing.

Affordable Rent and Social Rent as a share of incomes of households living in social housing, per cent



Shares of Social Rent, Affordable Rent and shared ownership tenures of homes, per cent



Sources: Capital Economics, National CLT Network, Ministry of Housing, Communities and Local Government and the House of Commons Library

# Acquiring development sites at discounted prices helps groups deliver affordable housing

## Most sites are acquired for below the market price if not for free

One way in which community led housing schemes are able to deliver affordable housing to their local communities is by accessing sites for development land at below market rates.

Our survey found over 80 per cent of sites are acquired at below market prices, while close to 40 per cent are acquired for free or for a token price. In some cases survey respondents reported sites were acquired for ‘free’ in return for a payment in kind, such as connecting services to plots retained by the landowner. In all, though, groups on average paid around 45 per cent of the market price for sites.

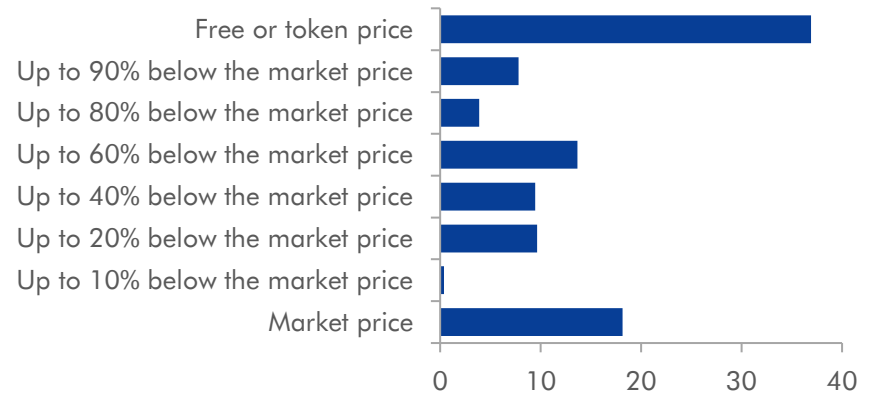
## Local councils are a key source of land in urban areas

Some local councils play an important role in supporting community led housing with the provision of sites for development. In urban and rural areas groups acquire around 70 per cent of sites and 30 per cent of sites, respectively, from local councils.

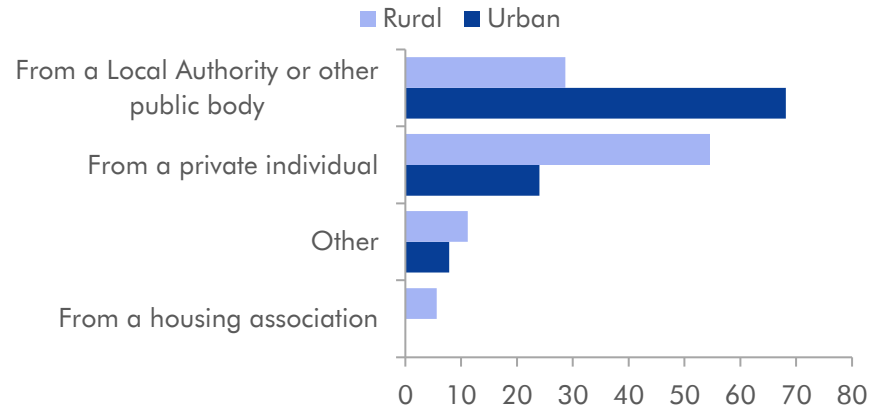
Research by the National CLT Network last year found that Bury, Gloucestershire, Hull, and Liverpool councils had been particularly active in supporting community led housing groups, between them making 51 land disposals to such groups. The same research found that just nine per cent of councils for which information was available had made any land disposals to community led housing groups. Clearly, there is potential for more local councils to support groups via the provision of sites.

For rural groups, private individuals are the source for over half of the sites acquired. The greater role of private individuals in rural areas may reflect both the commitment of individuals to support their local communities as well as the lower value of land in rural areas compared to urban areas.

Price paid for development site relative to the market price, per cent of groups in each cost band



Entity from which development site acquired, per cent of groups



Sources: Capital Economics. Survey results weighted to account for different scheme types and urban or rural location

# Community led housing groups deliver additional homes by unlocking sites for development

## Small and marginal sites are brought into use

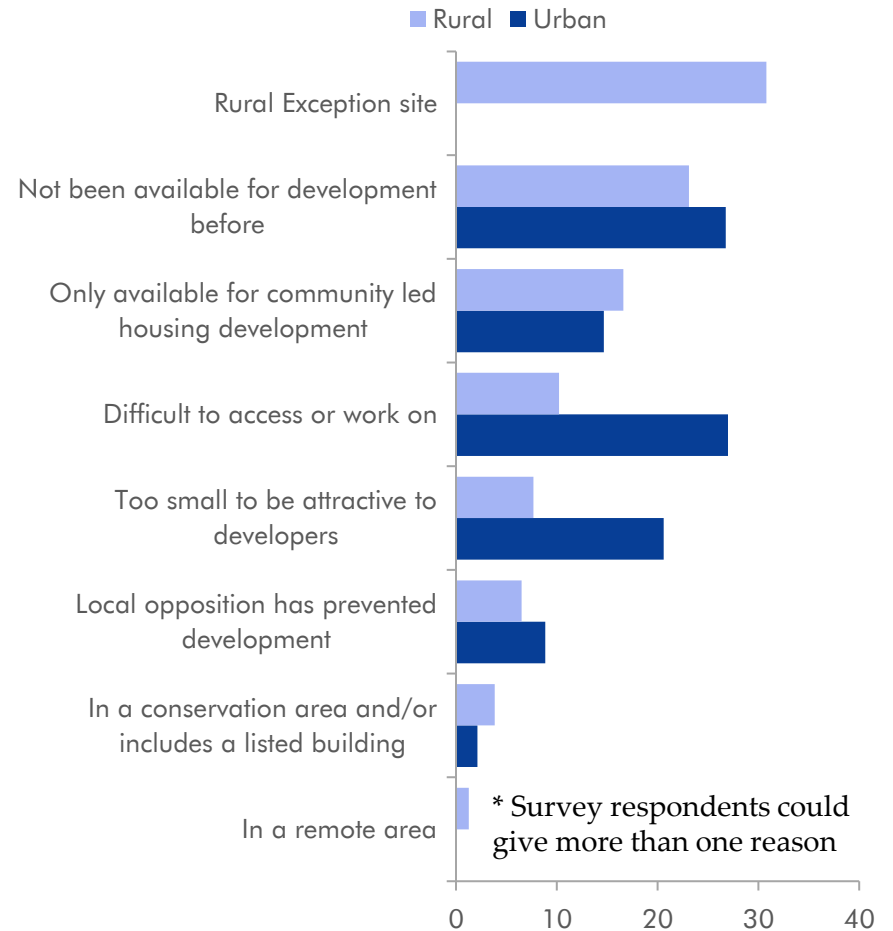
Community led housing groups not only deliver affordable homes, but they also deliver homes that in many cases would not otherwise be built. When asked why the sites for their scheme had not been developed for housing previously, the most common response for groups in rural areas was that the sites are Rural Exception sites. The National Planning Policy Framework defines Rural Exception Sites as small sites used for affordable housing in perpetuity where sites would not normally be used for housing. The size and affordability in perpetuity criterion make the sites, which account for over 30 per cent of those developed by rural groups, unattractive to commercial developers and most housing associations.

Sites in urban areas especially are also likely to be small, difficult to access or work on or some combination of the two. These features increase development costs, limiting their attractiveness to other developers. In other words, groups are often developing sites that are of little or no interest to other housing providers.

## Sites are ‘unlocked’ by community knowledge and engagement

Groups are also able to access sites that have not previously been available for development. This can include sites owned by local councils, for example, and identified by groups as suitable for their purposes as well as greenbelt sites that otherwise would not be available for housing. Local knowledge of and engagement with the community by groups can also make sites viable for development that otherwise would not be. In close to ten per cent of cases, groups have developed sites which local opposition had previously prevented. In some cases, community organisations undertake the time-consuming tasks necessary to acquire sites, design schemes that meet local needs and gain planning permission for challenging sites that would deter other developers, before partnering with housing associations once planning permission has been gained.

Reasons site not developed for housing before involvement of community led housing group, per cent of responses\*



Sources: Capital Economics. Survey results weighted to account for different scheme types and urban or rural location

# Delivery and running of projects relies on volunteers

## Volunteers are central to the delivery and running of schemes

Community led housing provides local people with more influence over their housing through the opportunity for involvement at each stage of projects, from the initial concept to design, planning and construction through to running completed schemes.

The input of volunteers from the community is central to the delivery of schemes. On average, between eight and nine people are involved regularly as volunteers in order to bring a project to fruition, according to results from our survey. By regular, we mean volunteering at least once a month.

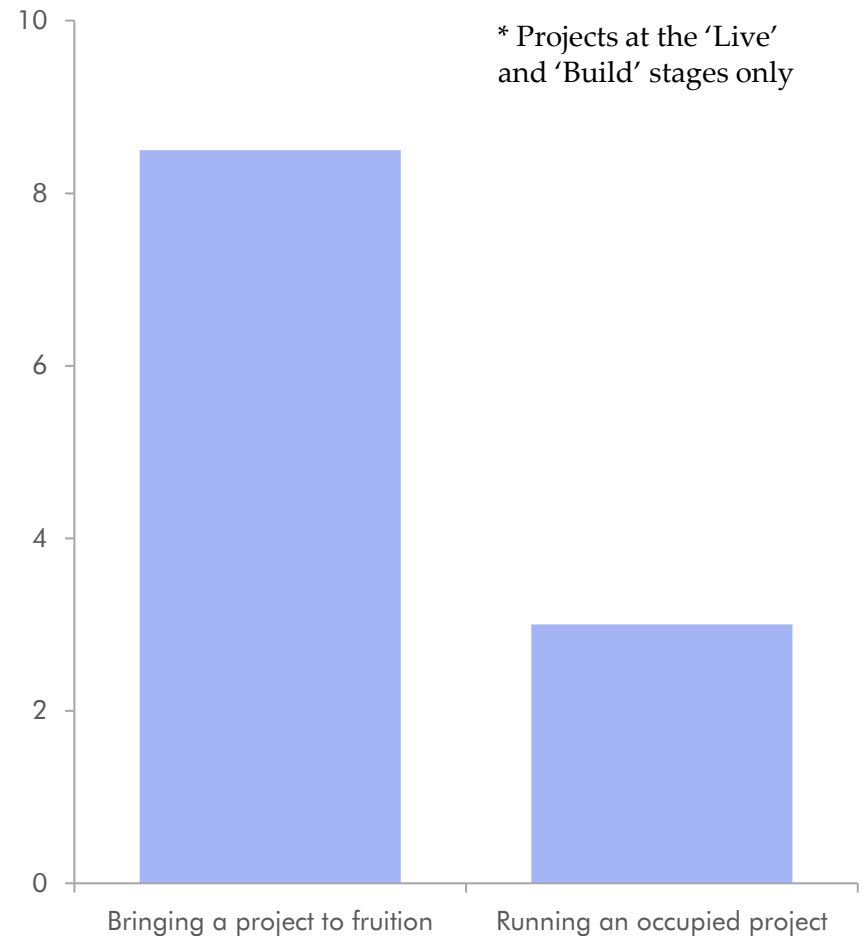
Volunteers can be involved at all stages of delivering projects, from identifying sites to engaging in construction. When schemes are completed and lived in, three regular volunteers, on average, contribute to their running.

## Regular volunteers receive a wellbeing boost

The work of volunteers can save on professional fees and construction costs, helping to keep project costs down. Volunteers have also been found to derive a range of wellbeing benefits, such as improved self-esteem and personal development (Department for Work and Pensions, 2013).

There are costs to volunteers to consider, such as the time committed and responsibilities taken on, but research by HACT (2014) found regular volunteers experience a net improvement in wellbeing equivalent to that delivered by £2,357 of extra income.

Average number of regular volunteers involved per group in bringing projects to fruition and running occupied projects\*



Sources: Capital Economics. Survey results weighted to account for different scheme types and urban or rural location



## Resident engagement with running their homes enhances wellbeing

### Involved residents have high higher satisfaction

Community led housing provides scope for residents of schemes to run or influence how their homes are managed. Indeed, this aspect is a core rationale for co-operatives and cohousing groups. Resident involvement can also deliver a better housing experience for residents. The Tenant Services Authority (2009) found 88 per cent of co-operative housing tenants were satisfied with their housing, a higher score than other forms of housing.

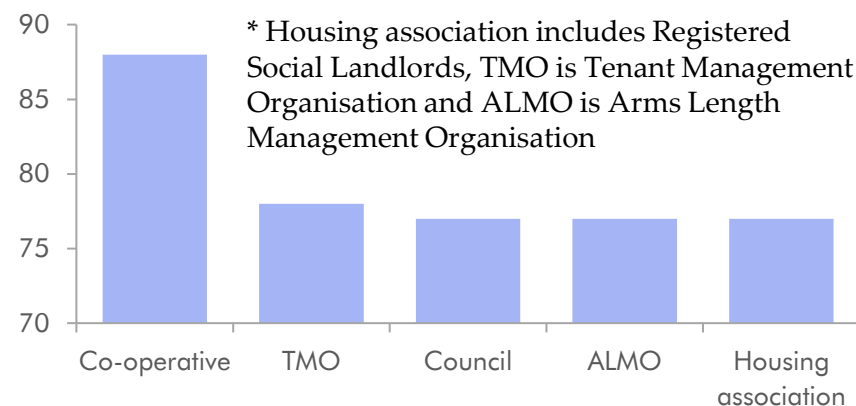
Resident involvement can lower the costs of running and maintaining homes. For one thing, there are direct savings from residents giving their time for free to manage housing. For another, greater resident involvement has also been found to reduce maintenance costs. Tenants of co-operatives have ownership and as a result are more committed to keeping their properties and neighbourhoods in a good state of repair (Rowlands, 2009). In other words, they behave more like homeowners than tenants.

### Tenant engagement increases wellbeing substantially

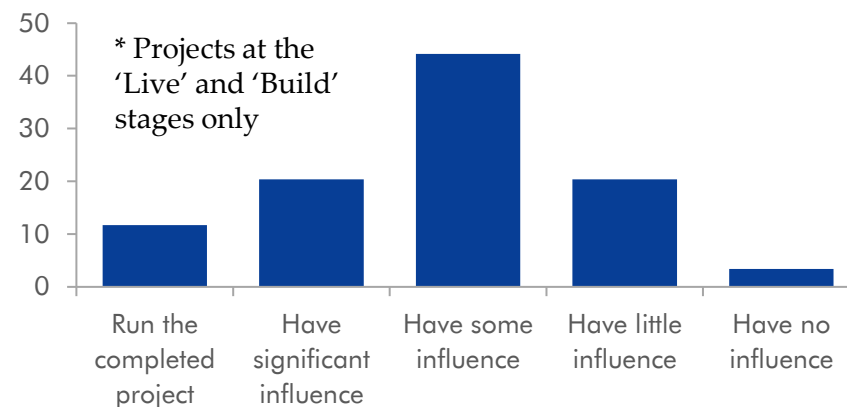
As with volunteering, resident engagement brings wellbeing benefits in addition to financial savings. HACT (2014) found people active in tenants groups experienced a benefit to their wellbeing equivalent to £8,116.

In one-third of community led housing projects residents either have significant influence over the management and maintenance of their housing or are fully responsible for it, according to our survey results. In over 40 per cent of cases, residents have some influence. All of the co-operative and cohousing respondents reported that residents run the schemes. For community land trusts, seven per cent reported that residents run the schemes and just over one-fifth that residents have significant influence.

Share of tenants satisfied with services provided by their landlord, per cent\*



How much influence do residents have, or are expected to have, in running occupied projects, per cent of responses\*



Sources: Capital Economics and Tenant Services Authority. Survey results weighted to account for different scheme types and urban or rural location



# 60 per cent of groups provide or plan to provide non-housing amenities to their communities

## Grant funding has ongoing legacy benefits

Thirteen per cent of the groups responding to our survey had completed at least one community led housing project. This finding is in line with feedback from interviews that, although the majority of groups completed one project only – often to meet a specific local need, a significant minority went on to develop further schemes.

It was also noted in interviews that members of groups that do not undertake further housing schemes provided advice to other groups seeking to deliver their first project.

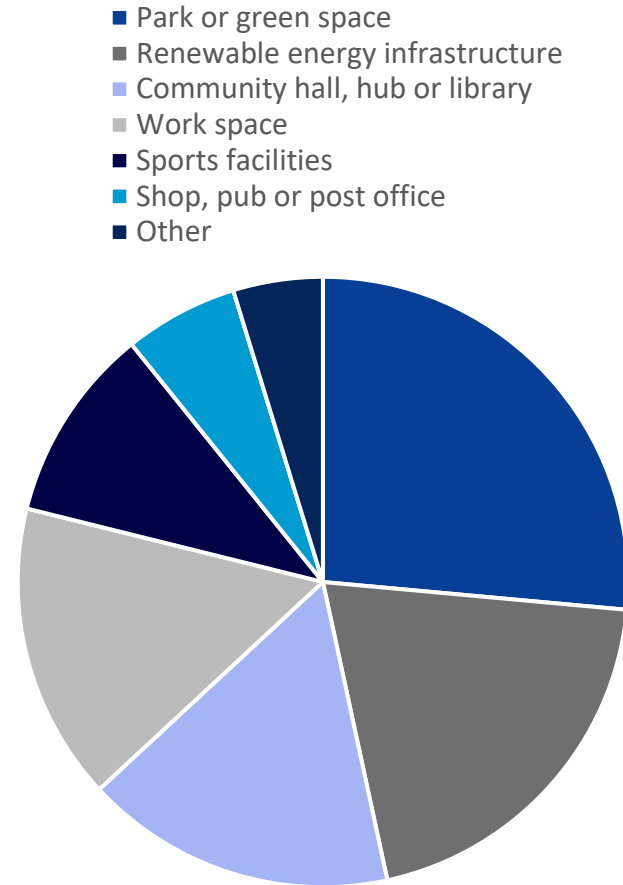
In this way, grant funding to support community led housing schemes contributes to the delivery of subsequent additional homes in future that wouldn't otherwise be delivered.

## Groups provide a wide range of amenities

Community led housing groups often contribute to their communities by providing amenities in addition to housing. Of the groups responding to our survey, 60 per cent reported providing or intending to provide non-housing amenities to their local community. Parks and green spaces, ranging from village greens to allotments and community orchards, are the most common type of amenity, accounting for a quarter of those provided, while a fifth is comprised of renewable energy.

Groups contribute to their local economies and communities through the provision of workspaces as well as shops, pubs and post offices. They also provide spaces for local communities to use, including community halls and hubs, libraries and sports facilities.

Amenities provided, or intended to be provided, in the local community by groups in addition to housing, per cent of



Sources: Capital Economics. Survey results weighted to account for different scheme types and urban or rural location

## Loans are the largest source of funding, but grants play a critical enabling role

### Loans are the largest source of finance

A range of sources of funding is relied upon by community led housing groups to deliver new homes. To gauge the relative size of the financing sources, survey results were augmented with research from the New Economics Foundation (2016) which addressed funding sources for six completed schemes across England.

The single largest source of finance is loans, which account for around 40 per cent of funding. Cash grants from public bodies including Local Authorities and Homes England is the next largest source of funds at 30 per cent. Cash grants from other sources, including Power to Change which is funded via the National Lottery, account for just under ten per cent of funds.

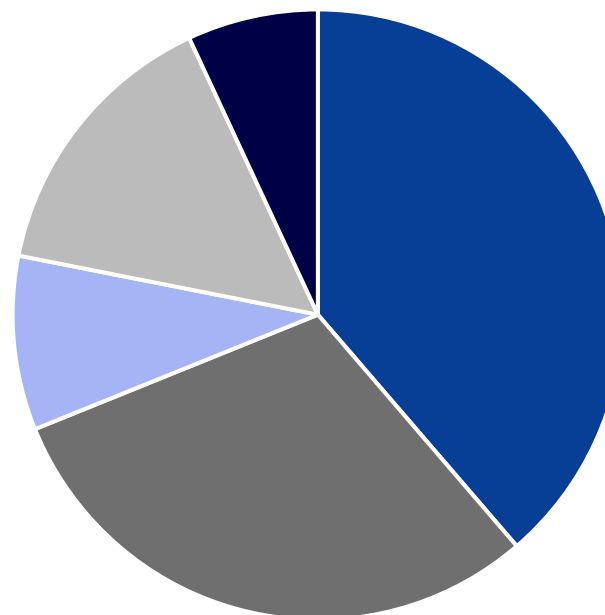
### Grant funding is critical, particularly in early stages of projects

Grant funding plays a critical role due not only to its scale but also because it can be available at relatively early stages to help groups form, acquire sites and achieve planning permission. Prior to having planning permission groups are perceived as very high risk, meaning that few commercial sources of finance are available and those that are can be prohibitively expensive. In the absence of grant funding, groups may become 'stuck' in the earlier stages of projects.

There is some evidence from the survey and New Economics Foundation research of different funding mixes between community land trusts in rural and urban areas. Cash grants from public bodies appear to be the largest source of finance for rural community land trusts, while for those in urban areas loans, cash grants and sales of assets, equity and community shares appear to be broadly equal in size. This suggests rural community land trusts are relatively more exposed to any reductions in the availability of grant funding. That said, these results are suggestive because of the relatively small sample size at this level of granularity.

Sources of monetary financing for projects at the Live and Build stages, per cent of monetary financing

- Loans
- Cash grants from public bodies
- Cash grants from other sources
- Sales of assets, equity or community shares
- Other



Sources: Capital Economics and the New Economics Foundation. Results are weighted to account for different scheme types and urban or rural location

## 4. Value for money of community led housing

# Applying a rigorous approach for assessing value for money

## HM Treasury's Green Book approach

Government departments face an array of possible areas on which to spend public funds. Over several decades HM Treasury has developed approaches to help officials evaluate spending proposals in order to inform decision making. The guidance is known as the Green Book.

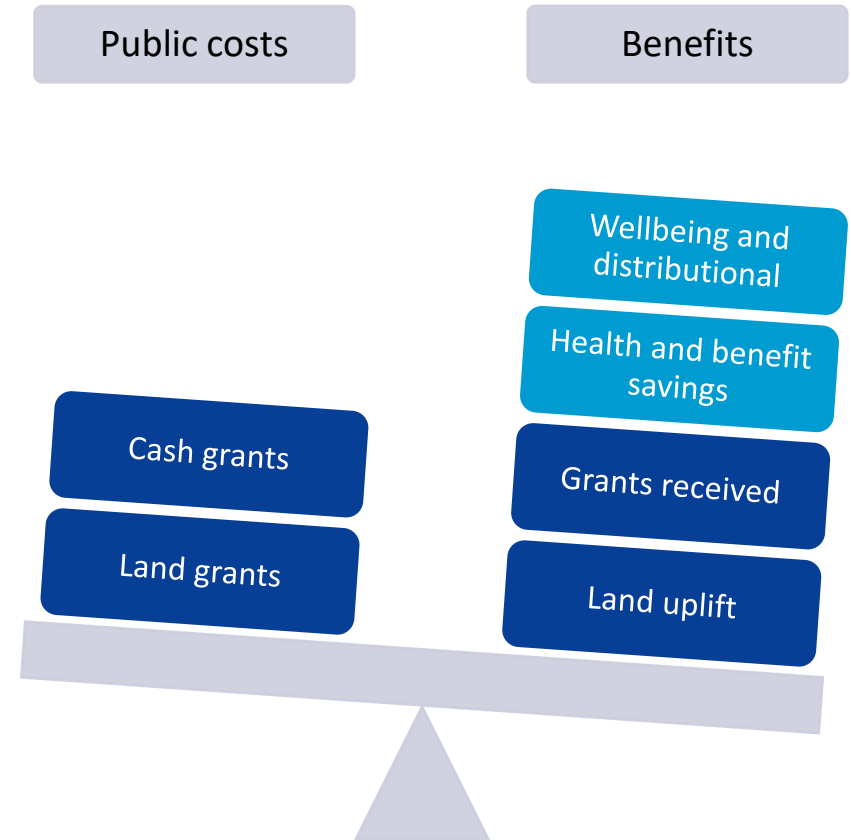
The Green Book and supporting guidance from the Ministry of Housing, Communities and Local Government has been followed in this report to assess the value for money of spending public funds in support of community led housing. Assessment of value for money takes into account the monetary benefits and public funding costs of policies as well as non-monetary benefits and public costs. Evidence to inform the quantification of benefits and costs was derived from our survey and interviews and from publicly available literature and data.

### A broad range of benefits and costs are included

While public costs in value for money analysis are fairly intuitive, some benefits are not. A core benefit is land value uplift. Land value uplift is the change in the value of an undeveloped site once it is developed, minus the costs of development. Using data on land values, developments costs, sizes of new affordable and market homes and house prices, we derive estimates of land value uplift.

Under the Green Book approach, policies that direct funding to lower income groups are seen as boosting societal welfare and allowance is made for these distributional benefits in our analysis. The approach also allows for savings that policies may generate, such as reduced health care costs, which we factor in. Wellbeing benefits are also within the scope of the Green Book and quantify those arising from volunteering and resident engagement.

## Benefits and public costs in the assessment of value for money



Sources: Capital Economics and HM Treasury

# Our model captures the diversity and regional spread of community led housing

## Regional modules reflect cost and price variation across England

We have developed a model of benefits and costs of the community led housing sector that reflects both its diversity and its regional spread. The model consists of six regional modules, one for each of London, the East and South East, the South West, the Midlands, the North West and Yorkshire, the Humber and the North East.

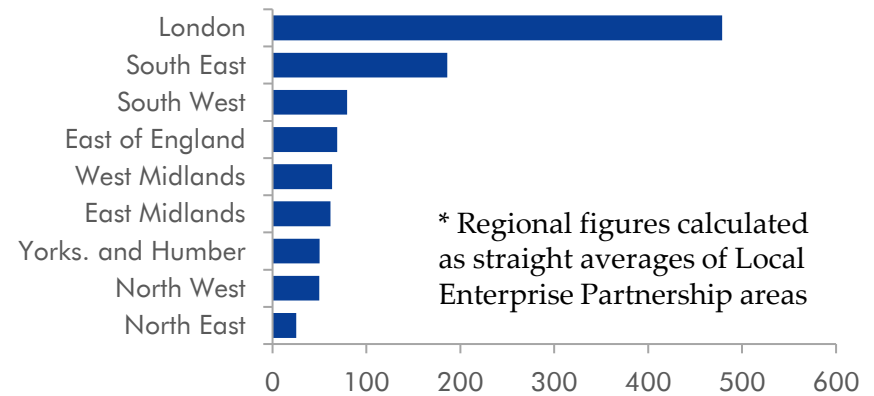
The regional modules allow the marked variation in land costs, house prices, works costs and housing benefit levels and other indicators across England to be captured. Allowance is also made for the lower average size of new build affordable and market housing in London compared to the rest of England.

Industrial land and semi-detached houses are illustrative of the divergence in prices across the country. Residential land prices in London averaged £3,683 per square metre in 2017 compared to £495 per square metre in the South East, the next highest priced region, and £104 per square metre in the North East, the lowest priced part of the country. Although the variation in regional house prices is less extreme than that for residential land, they are still marked. Semi-detached house prices in London averaged £624,000 in 2019, more than four times the level in the North East.

## The regional modules are aggregated using the pipeline mix

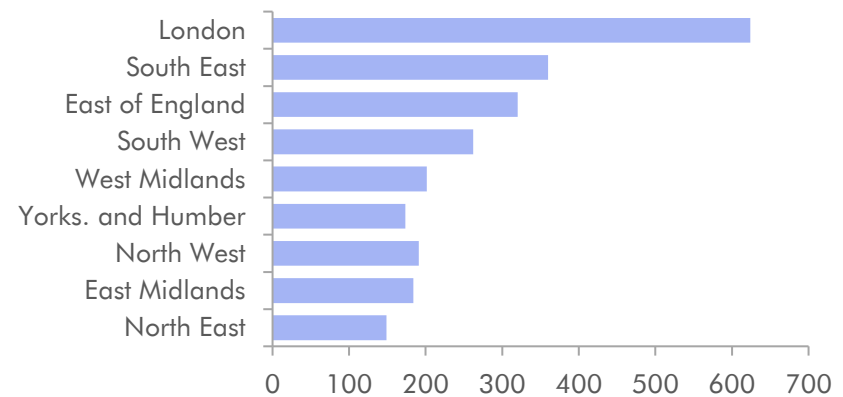
To keep the model tractable, within each region the benefits and costs of a single composite project are modelled. The composite project draws on the survey results and other sources to capture important community led housing indicators including the discount on land acquisition costs, the mix of tenures in the community led housing pipeline, typical rent levels, volunteer numbers and resident engagement in scheme management. The regional mix of homes in the community led housing pipeline is used to combine the regional modules into a total for England.

Industrial land value estimates, 2017, pounds per square metre\*



\* Regional figures calculated as straight averages of Local Enterprise Partnership areas

Average price of semi-detached houses by region, 2019, thousands of pounds



Sources: Capital Economics, Ministry of Housing Communities and Local Government and Office for National

# Small and challenging sites push up build costs of community led housing

## Build costs are high compared to other new affordable housing

By developing small and often challenging sites community led housing groups save on upfront costs at a stage in the development process when they may find fund may be particularly hard to raise. The sites come with a penalty of higher build costs later, though.

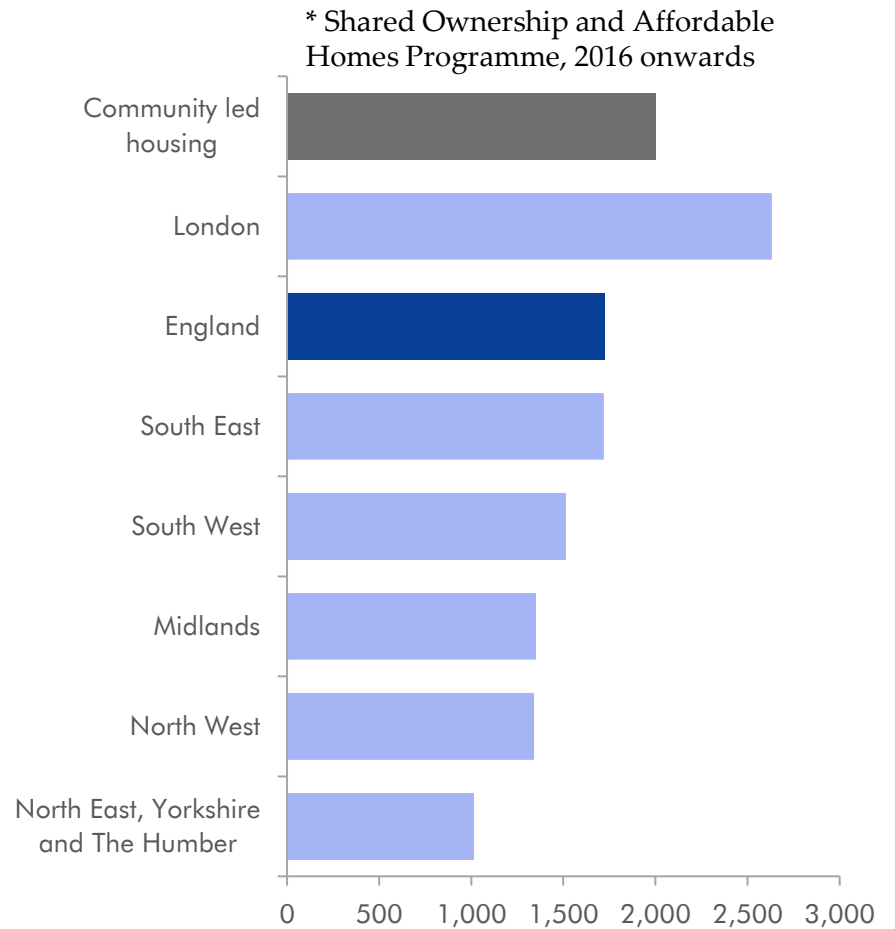
Works costs for community led housing developments average around £2,000 per square metre (Power to Change, 2018). Such costs are sixteen per cent higher than works costs in the South East of England, the highest cost region for homes being developed under Homes England’s Shared Ownership and Affordable Homes Programme (the programme does not include London).

## Land value uplift estimated at £85,000 per home over next decade

The Ministry of Housing, Communities and Local Government estimates the value of land across the country. The land is assumed to be hectare in size, regular shaped, without abnormal development costs and with planning permission. From these data, we estimate the market value of sites developed by groups will average £18,000 per plot. The discounted prices obtained by community groups lowers the cost to £8,000 per plot. Actual prices paid by groups may be lower than this because of the challenging nature of many of the sites acquired, but in the absence of evidence on what the impact on site prices is, we use the above estimate. Our estimate is consistent with research by Power to Change (2018) that community led home plots mostly cost between £5,000 and £10,000.

Build costs, professional fees and site prices will take average costs per home to £208,000. We estimate the price of new homes will average £290,000, giving an average land value uplift figure of £82,000 per home. If the value of sites acquired is lower than allowed for in the analysis, the land value uplift will be commensurately higher.

Works costs for community led housing and for homes receiving SOAHP\*, pounds per square metre



Sources: Capital Economics, Power to Change, Ministry of Housing, Communities and Local Government and Greater London Authority

## Distributional benefits are a large contributor to high value for money

### Allowance is made for benefits of redistributive policies

Community led housing schemes on average receive estimated public grant funding in cash and sites in our modelling equating to £65,000 per home. Private grants of cash and sites for schemes are estimated to be equivalent to a further £20,000 per home. Grants are a cost borne by donors but a benefit to recipients and feature in value for money analysis as both a benefit and a cost.

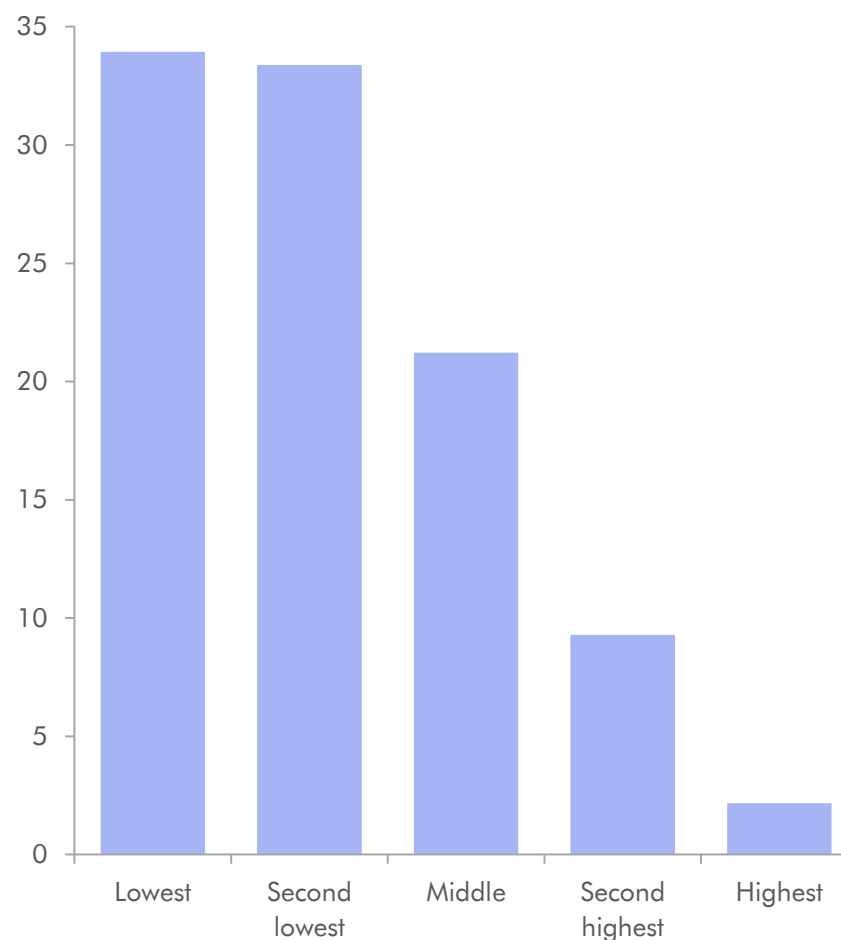
Grant funding of community led housing redistributes money and assets income from society as a whole to provide affordable housing for those on lower incomes. The Green Book framework adopts the principle that redistributive policies provide a net positive to society because those on lower incomes place a greater value on each pound of extra benefits they receive than does society overall.

### Each pound in grant delivers an estimated £1.60 in benefits

Information on the income levels of community led housing residents is not available. However, our survey shows a key motivation of community led housing for the majority of groups is providing affordable housing for those unable to afford market rents, a finding echoed in interviews. An exception is cohousing groups, for whom affordability is typically not the key driver.

To reflect the focus on the provision of affordable homes we assume that the income of households matches the profile of those in the social housing sector. Two-thirds have incomes in the bottom 40 per cent of the households, one-fifth in the middle 20 per cent and the remainder in the higher income brackets. This allows calculation of a factor to account for the distributional benefits of grant funding, which is 1.60. In other words, each pound of grant funding delivers an estimated £1.60 of benefit to society. The £85,000 of grants per home, on average, deliver benefits of £136,000.

Distribution of social housing tenants by household income quintile, per cent



Sources: Capital Economics and the Department for Work and Pensions



## Health care cost savings are estimated to be £560 per home per year

### Health savings due to reduced overcrowding and home hazards

Savings to the National Health Service due to community led housing have been estimated in line with Ministry of Housing, Communities and Local Government guidance (MHCLG, 2016). The Buildings Research Establishment calculated in 2015 the annual healthcare cost from overcrowded housing is £96 per affected home. Healthcare costs due to so-called 'Category 1 Hazards' in the home, such as damp and cold, are £407 per affected home. The Ministry of Housing, Communities and Local Government assumed in 2016 the healthcare costs of per homeless person to be £4,000 per year. Values have been updated to 2020 prices to account for inflation.

Social housing lettings data show 13.5 per cent of new lettings in 2017/18 were to those moving from overcrowded housing, (Ministry of Housing, Communities and Local Government). The same percentage is assumed to apply to those moving into community led housing. According to the English Housing Survey 14.1 per cent of private rented homes in 2018 had at least one Category 1 Hazard, as did 5.5 per cent of social rented homes. We assume 8.6 per cent of community led housing residents (i.e. 14.1 per cent minus 5.5 per cent) experience reduced exposure to Category 1 Hazards. For both overcrowding and hazards allowance is made for household formation, while one per cent of new community led housing residents are assumed to previously have been homeless (Ministry of Housing, Communities and Local Government).

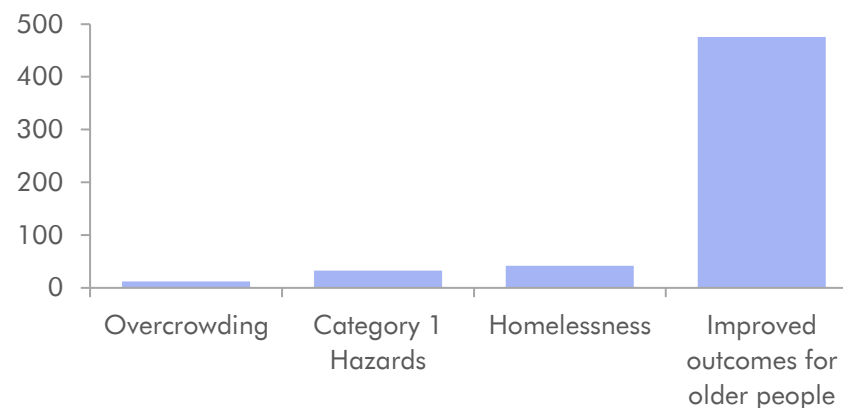
### Improved health and care outcomes for older people

Health cost savings due to improved outcomes for older residents moving into new community led homes have also been estimated. Evidence suggests features of community led housing such as stronger social ties and interaction can support healthy ageing, reducing health and social care costs (Power to Change, 2019).

A report by Housing LIN (2019) estimates the per annum health and social care cost savings of housing for older people at £2,441 per person due, for example, to lower numbers of doctors' appointments, fewer falls and reduced loneliness. We use this as a proxy of the saving for older people living in community led housing. Our survey found one in five groups scored providing housing for older people as a very important reason for undertaking their community housing project and the same proportion at the live stage report providing support for older residents. We therefore assume one-fifth of residents are older people.

The estimated health and social care cost savings from reduced overcrowding, reduced hazard risk and improved outcomes for older people equate to around £560 per home per year.

Health and social care savings by type, pounds per community led home during 2021-2030, average per year in 2020 prices



Sources: Capital Economics



# Wellbeing benefits are estimated to be at least £1,000 per home per year

## Improved wellbeing for volunteers and engaged residents

The wellbeing benefits derived by volunteers and residents have been valued by combining evidence from the survey of numbers of people involved with the magnitude of benefits to an individual estimated by HACT. The approach followed by HACT is considered to be robust enough for inclusion in the Green Book approach (HACT, 2014).

The wellbeing benefits have been calculated based on the pipeline of just over 10,000 community led homes being delivered between 2021 and 2025. Allowance has not been made for new projects joining the pipeline. The number of homes under development each year has been derived from the pipeline and the number of completions each year. Residents are assumed to occupy homes when they are completed. A vacancy rate 0.9 per cent has been factored in, which is based on the vacancy rate in the co-operative housing sector (CCMH, 2009).

## A cautious approach to quantifying wellbeing

HACT's guidance in the use of their estimates has been followed. First, it is assumed that nineteen per cent of the wellbeing benefits would have been realised elsewhere in the absence of the projects. Second, the benefit to an individual is assumed to diminish linearly each year by nineteen per cent of the initial value.

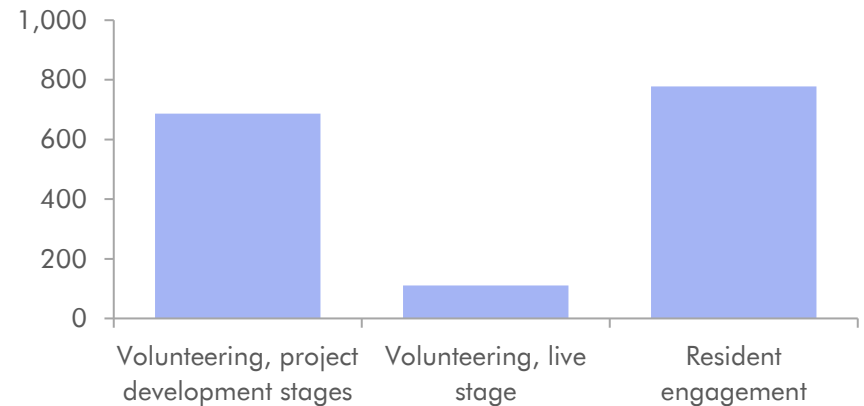
It has been assumed for simplicity that each volunteer and resident remains in place from when they become engaged to the end of the time periods considered. This will under estimate the wellbeing benefits, especially in the longer term, because for each new volunteer or resident that replaces an existing volunteer or resident the estimated benefit would start afresh. Under this cautious approach, the estimated wellbeing benefits of volunteering and

resident engagement equate to just under £1,575 per home per year, on average, over the period 2021 to 2030.

## Wellbeing likely to be boosted in other ways too

The estimated wellbeing benefits are likely to be at the bottom end of the range of wellbeing effects that could result from community led housing. For example, factors that save on health care costs should also raise the wellbeing of the individuals concerned. Likewise, access to more affordable housing and homes with greater security of tenure can also be expected to boost wellbeing, as can increased social cohesion as a result of community engagement. Further research is needed for the possible scale of these and other wellbeing benefits of community led housing to be quantified.

Wellbeing benefits by type, pounds per community led home during 2021-2030, average per year in 2020 prices



Sources: Capital Economics

# A reduced housing benefit bill and potential for environmental and economic gains

## Savings on the housing benefits bill

Public grant funding for community led housing is an upfront cost to the exchequer. However, it delivers savings on housing benefit spending into the long term by enabling households to live in lower cost homes compared to the private sector. For example, average housing benefit payments in the private rented sector so far this year have averaged £129 per week compared to £105 per week for tenants in housing associations and £92 per week for local those in authority homes, according to data from the Department for Work and Pensions.

The number of households on waiting lists for social housing standing at 1.16 million last year (Ministry of Housing, Communities and Local Government). The shortage of affordable housing suggests that additional affordable homes supplied by community housing led groups would be filled by those currently living in the private rented sector or temporary accommodation. Spending on housing benefit will be reduced as people move to the lower cost homes supplied by community led housing groups. After allowing for a vacancy rate of 0.9 per cent for affordable community led housing, over the ten years to 2030 the reduction in the housing benefit bill due to community led housing equates to an average of £1,130 per home per year.

## Community led housing may bring a range of other gains

A range of other benefits may result from an increased supply of community led housing, but have not been quantified in this analysis. As noted in section three, developing environmentally friendly and low running cost homes is one of the reasons for undertaking community led housing projects that groups feel most strongly about. These more energy efficient homes can be expected to deliver environmental benefits, such as reduced greenhouse gas emissions, due to the reduced need for fossil fuels for heating and lighting.

Travel times, costs and associated carbon dioxide emissions may also be reduced if new community led homes enable people to live closer to work, friends and family.

Improved availability of affordable housing can deliver long-term economic benefits. For example, productivity can be raised where additional housing boosts the pool of labour (Affordable Housing Commission, 2020). A shortage of housing harms productivity and restricts labour market flexibility (HM Treasury, 2015) and increased community led housing can help to alleviate these constraints. Moreover, the provision by community led housing groups of amenities such as shops and workspaces may support economic activity that would not otherwise happen.

# Community housing delivers medium to high value for money for public funds

## Discounting, additionality and optimism bias

To assess value for money of community led housing, future benefits and costs are discounted. In other words, benefits and costs occurring in future are valued less highly than those occurring today, and the further into the future they occur the less highly they are valued. All monetary values are also adjusted for future inflation.

We make allowance for the fact that some homes delivered by community led housing groups might be delivered in any case without public support, either by community led housing groups or by other developers. Given the acute shortage of affordable housing, the fact that community led homes are often built on marginal sites and that the projects are housing supply (rather than demand) focused policies, we assume that 90 per cent of the homes are additional and would not be delivered in the absence of public grants. We assume 50 per cent of the market housing would not be delivered without public grants, a medium level of additionality which is in line with official guidance for housing supply-focused policies (Ministry of Housing, Communities and Local Government guidance, 2016).

There is an observed tendency of project appraisals to be over optimistic about the scale of net benefits delivered (Green Book, 2018). We allow for this ‘optimism bias’ by reducing the size of estimated benefits by ten per cent.

## High value for money over the long term

A ratio of benefits to costs of between 1.5 and two is considered medium value for money, while a ratio between two and four represents high value for money (Department of Transport, 2016).

Using a ten-year horizon, which is common in spending appraisals, we find each pound of public support delivers 1.8 pounds of benefit, rising to 2.7 pounds when health and benefit savings, wellbeing and income distribution benefits are factored in. This places community led housing support in the medium to high value for money categories.

The long-lived nature of housing as an asset and legal clauses that ensure community led homes remain affordable in perpetuity suggest a longer timeframe for assessment is more appropriate. Over thirty years, each pound of public support delivers 3.1 pounds of benefit when health and benefit savings, wellbeing and income distribution benefits are allowed for. This places community led housing further into the high value for money category.

## Benefit Cost Ratios and value for money categories of public funding for community led housing

		10 year horizon	30 year horizon
Narrow	Benefit Cost Ratio	1.8	1.8
	Value for money category	Medium	Medium
Broad	Benefit Cost Ratio	2.7	3.1
	Value for money category	High	High

Sources: Capital Economics, HM Treasury and Department for Transport

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