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Policy | Centre



*'A great place to live
... if you can afford it'*

Housing costs and the Central South's economy

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Executive Summary

The Central South is recognised as having some of the highest housing costs outside London. This report reviews the cost of house rental and purchase in the region and quantifies those costs, showing how they have increased in recent years. It also explores the impacts of those costs on the affordability of housing, on patterns of rental and purchase, and on commuting behaviour.

At the heart of this study is an examination of how the Central South's business community believe high housing costs affect them. Drawing on survey data and interviews, it reveals a concern for their ability to recruit to professional, technical and support roles, and a fear amongst some that an inability to attract skilled staff will force them to re-examine plans for growth and investment, and perhaps even consider relocation.

The research goes on to look at how local councils and housing associations are tackling the issues our survey and interviews have highlighted. We end by suggesting what we believe are the risks high housing costs pose for the Central South's economy and set out challenges for housing providers and businesses to tackle if we are to make things better.

The purpose of this report is to promote debate. Discussion of our findings will help the Southern Policy Centre shape some final recommendations on how we can tackle the challenge of high housing costs which is, we believe, a real threat to the continued success of the Central South's economy.

Introduction

The state of the UK's housing market has been a permanent item on the agenda of successive UK Governments. They rightly recognise that good-quality housing is important for our society, for public health and, by facilitating labour mobility, for the economy. Many efforts have been made to fix what the Prime Minister called, in February 2017,¹ 'our broken housing market'.

The policy focus has been, at various times, on three key topics: the condition of our housing stock, the rate at which we build new homes, and the 'affordability' of homes. 'Affordability' has a specific meaning in public policy - 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.² For many businesses the term has a simpler meaning: can someone on average income afford to buy or rent in the area?

When it comes to the cost of purchasing a home, we see prices from two perspectives. On the one hand, there is a common media and political perception that high prices are indicative of a thriving economy, and add to home owners' sense of 'wealth' and prosperity.³ But many also recognise that those high prices exclude people from home ownership, putting pressure on the non-market affordable and private rented sectors.

The economist Kate Barker recognised in her 2004 report⁴ that a failing housing market - lack of homes for purchase or rent - can, *inter alia*, impact on the economy, saying '*A weak supply of housing contributes to macroeconomic instability and hinders labour market flexibility, constraining economic growth*'. This research report, commissioned by the Radian Group and Enterprise M3 Local Enterprise Partnership, examines the impact of housing costs (both for house purchase and rental) on the local economy in Central Southern England, and highlights issues for further discussion.

Methodology

Unless otherwise stated, data presented in this report are for the Central South of England: for this study, that is the county areas of Dorset, Hampshire and Surrey, together with the six unitary councils of Berkshire and the unitary councils of Bournemouth, Poole, Portsmouth, Southampton, Wiltshire and the Isle of Wight.

Data on earnings, prices and rents are drawn from ONS published data (see references *vi*, *vii* and *viii*), which have been analysed by SPC for the purposes of this report. Where appropriate, we have used the median data point to offer a better comparison between areas given the skewed distribution of housing costs.

Each of the graphs at Figures 4, 5 and 6 show an r^2 value. This measures the degree to which there is a correlation between the two data sets: if there were perfect correlation the value for r^2 would be 1.0. An r^2 of 0.24 for Figure 4, for example, tells us that 24% of the variability in home ownership levels can be explained by how affordable homes are, which can be regarded as explaining a significant component of variability.

The business survey reported on in Part II was conducted by We Work With Data,⁵ with links to e-questionnaires distributed by Surrey and Hampshire Chambers of Commerce, Enterprise M3 and Solent LEPs, and the South Central Federation of Small Businesses. A copy of the questionnaires completed by businesses and their employees can be found at <https://wp.me/p91v7B-k2>.

Part III reports on interviews conducted with representatives of 13 local authorities, businesses and business organisations across the Central South. Comments or quotes from those interviews, shown in italics, have not been attributed to individual participants.

Part I: Housing costs

Prices, rents and affordability

It is widely recognised that the most expensive housing areas in the UK are London and the South. Table 1 compares housing costs in our study area with costs across the wider South East region, London and England.

	Median house prices (£000s) ⁶	Median monthly private sector rents (£) ⁷
Central South	337	922
South East	310	875
London	460	1,433
England	230	675

Table 1: Median house prices and rents, 2016/17 (Source: ONS, SPC analysis)

These data confirm the high cost of ownership in the Central South. Rental costs are only slightly ahead of the rest of the South East region, but significantly higher than the rest of England outside London.

However, what matters to individuals is the share of their income which goes to meet housing costs. For those purchasing a property, that can be measured by the Affordability Index (A.I.) - the ratio of median prices to gross median income.⁸ For renters, affordability can be measured by the proportion of their gross median income spent on rent. Table 2 shows these data for the Central South compared with other geographies.

	Affordability Index (for property purchase)	Percentage of gross income spent on rent
Central South	10.6	34.6
South East	9.8	33.2
London	13.2	49.5
England	7.9	27.8

Table 2: Affordability Index and rent as a share of income 2016/17 (Source: ONS, SPC analysis)

Once again, the data illustrate the high cost of both purchase and rental in the Central South, with both A.I. and rent as a percentage of monthly income exceeding the figure for the South East, as well as the rest of England. Only London has higher housing costs.

The historic trend in housing costs across the Central South is also important. Figure 1 shows the percentage increase in median house prices between 2007 and 2017 as measured in each of the 40 unitary and district council areas across the Central South and indicates the average increase for the South East and England. Figure 2 shows the increase in median earnings over the same period.

INCREASE IN MEDIAN HOUSE PRICES, 2007-2017

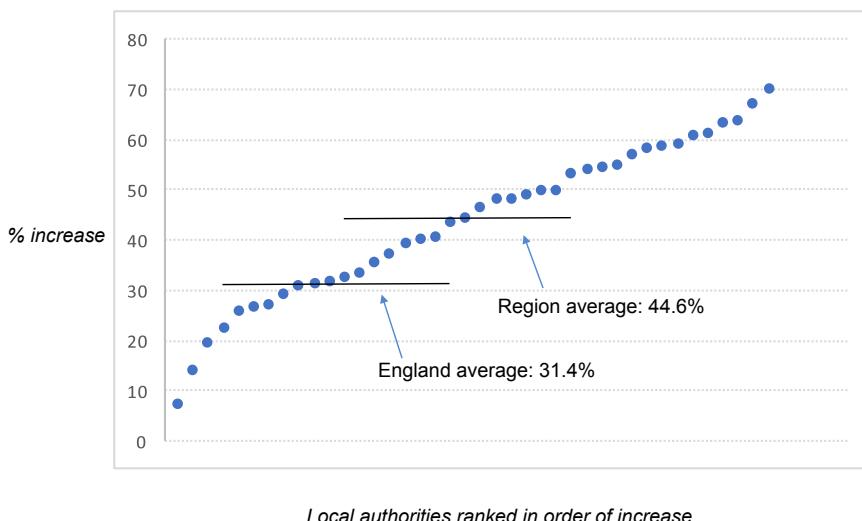


Figure 1: Increase in median house price across the Central South 2007-2017
(Source: ONS, SPC analysis)

INCREASE IN MEDIAN EARNINGS, 2007-2017

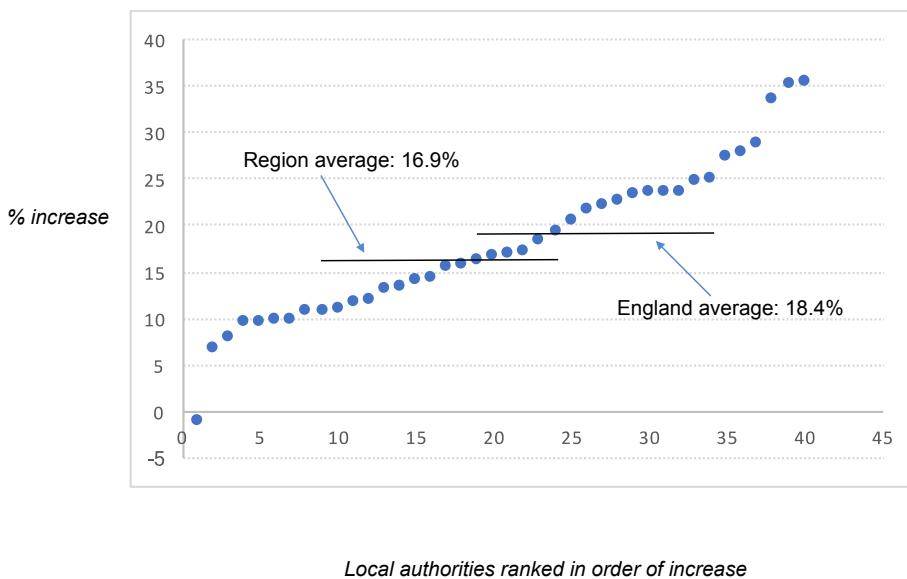
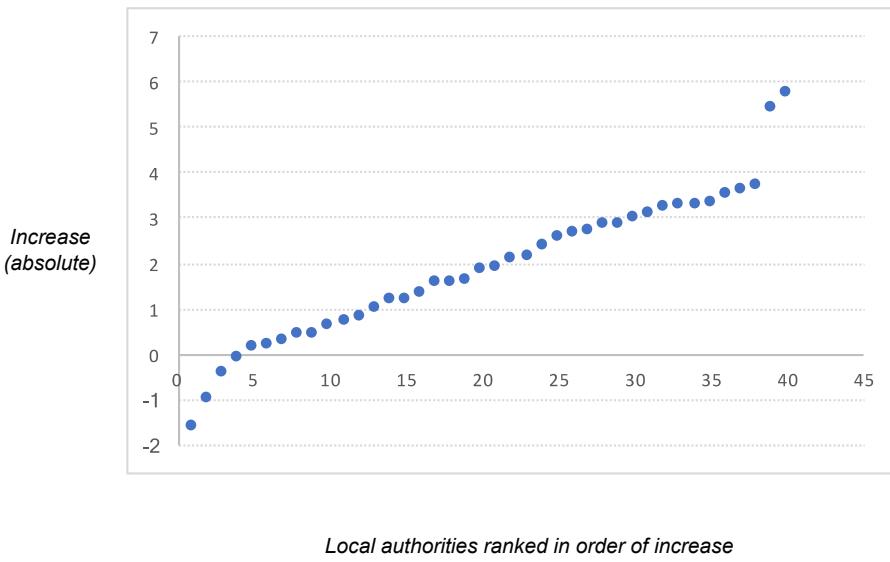


Figure 2: Increase in median earnings across the Central South 2007-2017
(Source: ONS, SPC analysis)

Taking these data sets together we can determine the increase in the A.I. for the Central South between 2007 and 2017, shown in Figure 3. Whilst there is some variation, a large majority (36 out of 40) of local authority areas in the Central South have seen an increase in their A.I.: in other words, the growth in house prices has outstripped the growth in income, and house purchase has become commensurately harder.

CHANGE IN AFFORDABILITY INDEX, 2007-2017

(Affordability Index = Median house price/Median earnings)



Local authorities ranked in order of increase

Figure 3: Change in Affordability Index across the Central South 2007-2017
(Source: ONS, SPC analysis)

The challenge of high house prices varies in its impact on different areas in the Central South. Table 3 shows the areas with the highest and lowest changes in A.I.

Highest Increase 2007-2017			Lowest Increase 2007-2017		
Local Authority	A.I. (2017)	Change from 2007	Local Authority	A.I. (2017)	Change from 2007
Elmbridge	14.5	5.7	Gosport	7.0	0.6
Mole Valley	14.5	5.4	Portsmouth	7.5	0.4
Reigate & Banstead	11.6	3.7	New Forest	10.3	0.4
Spelthorne	11.2	3.6	Bournemouth	8.8	0.3
Tandridge	12.3	3.5	Southampton	7.5	0.2
Windsor & Maidenhead	12.4	3.3	Christchurch	12.4	0.1
Slough	11.0	3.3	Isle of Wight	7.7	-0.1
Wokingham	11.5	3.3	Test Valley	8.5	-0.4
Runnymede	12.2	3.2	North Dorset	9.3	-1.0
Epsom & Ewell	13.1	3.1	Weymouth & Portland	7.9	-1.6

Table 3: Highest and lowest increases in Affordability Index from 2007-2017 in the Central South
(Source: ONS, SPC analysis)

There is a very clear pattern in these data. Authorities nearest to London have seen the greatest increases in A.I., and so become less affordable: seven of the eleven districts in Surrey are in the top 10. This suggests that the London ‘boom’ in prices over the last decade has rippled out to many of its neighbouring counties and districts.

By contrast, the lowest increases (and even modest decreases) are seen in south Hampshire and parts of Dorset which are further from the capital. However, purchases costs remain high even in these areas: only four of the lowest 10 have an A.I. below the England average.

Table 4 shows how median annual rental spend has increased by region in recent years. Annual rental costs in the Central South are higher than the regional and national average, with only London rents being greater. Interestingly, the rate of increase in our area has not been as high as others in recent years, suggesting there is a ‘rippling out’ of rent rises from the capital, with the London effect impacting increasingly further afield.

	Median annual rental costs (£s) (2017)	Percentage increase since 2014
Central South	11,069	10.3%
South East	10,500	15.1%
London	17,196	10.2%
England	8,100	13.4%

Table 4: Change in median annual rental costs 2014-2017 (Source: ONS, SPC analysis)

Rental remains a more expensive option for households. On average, those buying their home with a mortgage spent 18% of their household income on mortgage payments whereas rent payments were 28% of household income for social renters and 34% of household income for private renters. Excluding housing benefit, the average proportion of income spent on rent was 37% for social renters and 39% for private renters (England-only data⁹).

Trends in owner occupation

Housing tenure analysis undertaken by the Resolution Foundation¹⁰ based on the Labour Force Survey found that in the South East (excluding London) home ownership with a mortgage fell 11% from 39% in 2000 to 28% in 2017. The national picture saw a slightly smaller drop of 9% from 34% to 25%. However, during the same period outright home ownership in the region rose 4% from 24.5% in 2000 to 28% in 2017, against the national picture of 23% to 27%.

The same report shows that over the period from 2000 to 2017 the proportion of households renting private, council or housing association properties has increased from 19.1% to 21.2%. Over that period there has been a significant increase in the percentage renting privately from 7.3% to 12.1%, and a small fall in those renting from councils. The increase in the numbers renting has also been noted by Shelter,¹¹ who point out that a significant number of private renters is no longer simply a feature of built-up urban areas, but is now also common in market towns and rural communities.

The English Housing Survey (EHS) 2016/17, published by MHCLG,¹² which does not break down data by region, found that in 2006-07 about three quarters (72%) of those aged 35-44 were owner-occupiers. By 2016-17, this had fallen to half (52%). While owner-occupation remains the most

prevalent tenure for this age group, there has been a considerable increase in the proportion of 35-44 year olds in the private rented sector (11% to 29%). The proportion in the social rented sector did not change.

For those aged 25-34, 27% of those aged 25-34 lived in the private rented sector in 2006/07. By 2016/17 this had increased to 46%. Over the same period, the proportion of 25-34 year olds in owner-occupation decreased from 57% to 37%. The overall trend away from owner-occupation is most marked in this younger age group.

Figure 4 shows the relationship between A.I. and levels of home ownership. It suggests a slightly surprising positive correlation, with ownership increasing in more expensive areas. This may reflect a willingness by wealthier individuals to invest in properties in these areas as assets.

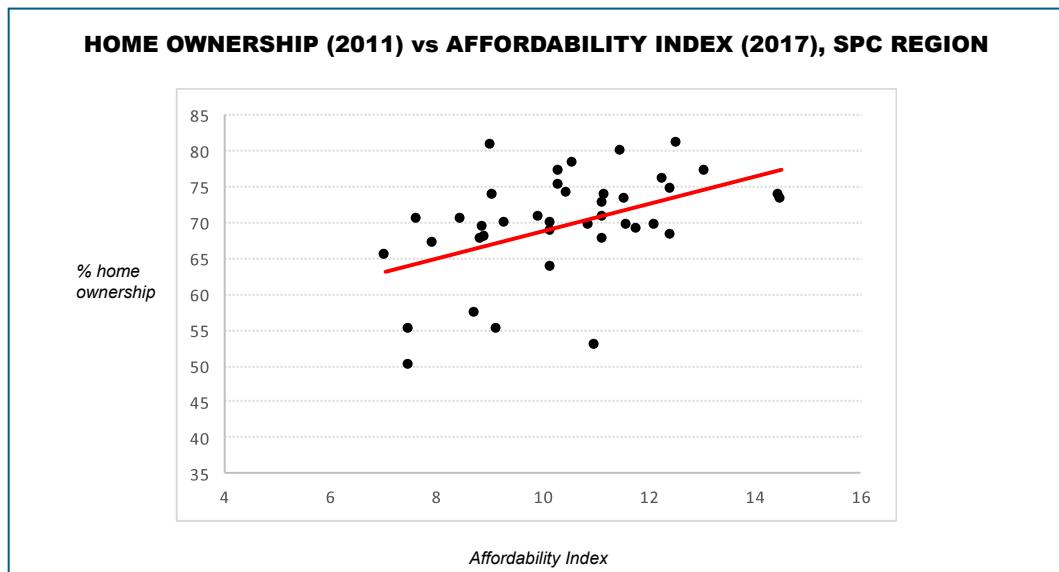


Figure 4: Relationship between Affordability Index and the level of home ownership in the Central South - $r^2 = 0.24$ (Source: ONS,¹³ SPC analysis)

Figure 5 suggests a negative correlation between A.I. and the percentage of accommodation available for rent in an area. This may be a consequence of the relationship between ownership and A.I. shown in figure 4, and indicates that it may be harder to find an opportunity to rent in areas with high prices.

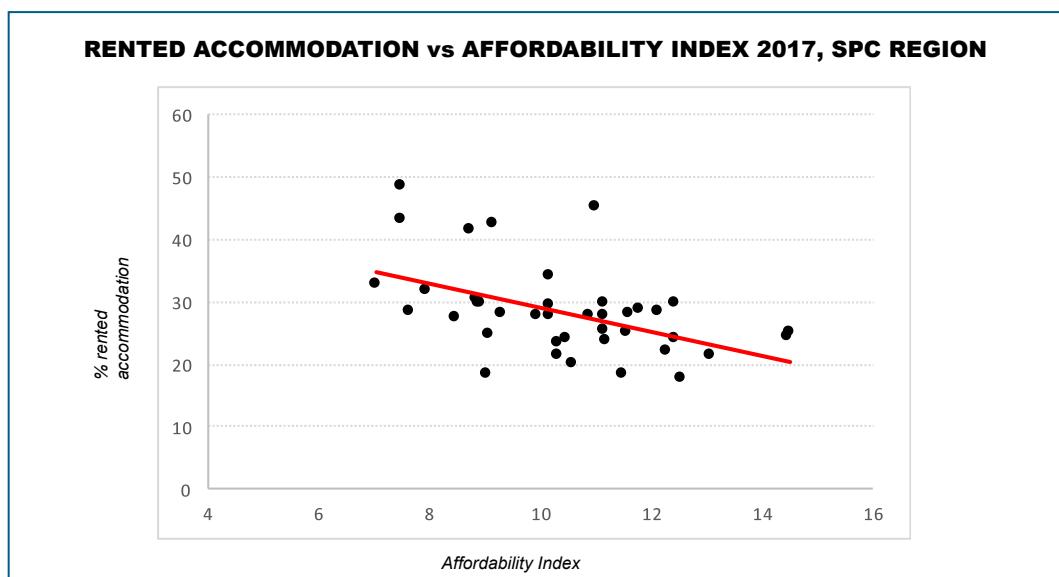


Figure 5: Relationship between Affordability Index and the availability of rented accommodation in the Central South - $r^2 = 0.23$ (Source: ONS, SPC analysis)

Key workers

A key worker is usually defined as a public sector worker providing an essential service, e.g. NHS staff, police, firefighters, and teachers. They are important economically in providing the social infrastructure which enables business to flourish. Data on key workers can also act as a proxy for others in the private sector (often providing outsourced public services) on lower wages or salaries, who will face the same challenges in managing household finances.

Key workers have been a focus in housing policy, with ministers seeking to put in place (with varying degrees of success) policies aimed at ensuring accommodation is affordable and accessible to this group. Given that their salaries, particularly for lower-grade staff, are often modest, key workers may face a particular challenge in the Central South.

Table 5 shows the A.I. for two examples of key workers - nurses and teachers - in the ten council areas in the Central South where the overall A.I. is highest. It compares those data with A.I. for those on median salary. Key worker salaries are based on those at the early stages of their careers.

	Affordability Index		
	Median salary	Nurse's salary ¹⁴	Teacher's salary ¹⁵
Elmbridge	14.5	23.0	19.2
Mole Valley	14.5	20.4	17.0
Epsom & Ewell	13.1	19.2	16.0
East Dorset	12.6	14.3	12.3
Windsor & Maidenhead	12.4	19.8	16.5
Christchurch	12.4	13.6	11.8
Tandridge	12.3	16.9	14.1
Runnymede	12.2	16.3	13.6
Guildford	11.8	17.5	14.6
Purbeck	11.6	12.2	10.6

Table 5: Affordability Index for nurses, teachers and those on median salaries in the ten council areas with highest A.I. in the Central South (Source: ONS, RCN and DfE, SPC analysis)

In each area houses are less affordable for nurses, whilst in three cases (all further from London) the teacher's salary is slightly better than the median. For these key workers, in most instances housing is less affordable, with the A.I. being highest on the London fringe. The same will be true for other key services roles in the public or private sectors, from environmental health officers to care or utilities workers.

Housing and commuting

Our survey and interviews (see Parts II and III) drew attention to a link between house prices and commuting, suggesting that higher prices had driven people to travel further between work and

areas of affordable accommodation. To test this, we looked at the relationship between changes in A.I. and commuting rates to London. A note of caution is necessary as data on A.I. relates to the period 2007-2017, whereas data on commuting related to the change between the 2001 and 2011 census. Nevertheless, the issue is worth exploring further.

Figure 6 shows a negative correlation between change in A.I. and change in commuting rate. Although the relationship is not strong, the data do suggest that new commuters have been more likely to base themselves in areas which have seen smaller increases in A.I. – and so are relatively less expensive to purchase a house in.

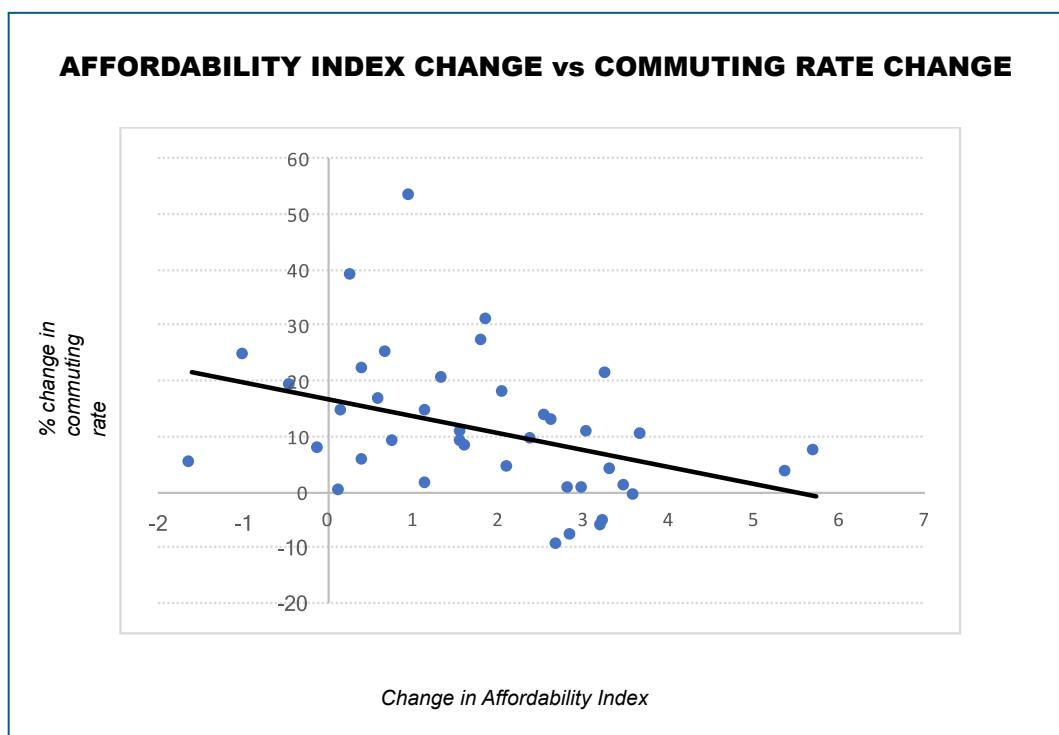


Figure 6: Relationship between change in Affordability Index and change in commuting rates for local authority areas in the Central South - $r^2 = 0.15$ (Source: ONS,¹⁶ SPC analysis)

It is reported that rail commuting rates are declining,¹⁷ driven by rising costs. Some abandoning trains may travel by other means, others will home-work when possible. It will be interesting to see if this trend is sustained, and what impact that may have on housing markets.

Housing delivery

The Government sees the delivery of new homes as a political priority, and councils are under pressure to give permission for new homes. The Government has introduced a new, more challenging mechanism for determining housing need,¹⁸ and is putting pressure on those which, in their view, fail to plan and deliver.¹⁹

Figure 7 shows the gap between estimated housing need for councils across the Central South and the numbers delivered. Data are for average delivery rate over the past five years (i.e. up to 2016/17) set against latest assessed requirement. They suggest that many have not achieved that requirement, although it can sometimes be misleading to match shorter term delivery against longer term forecasts of need, and the record of individual authorities varies. However, the historic pattern of underdelivery across much of England is generally acknowledged.²⁰

RATE OF NEW DWELLING COMPLETIONS vs REQUIREMENTS

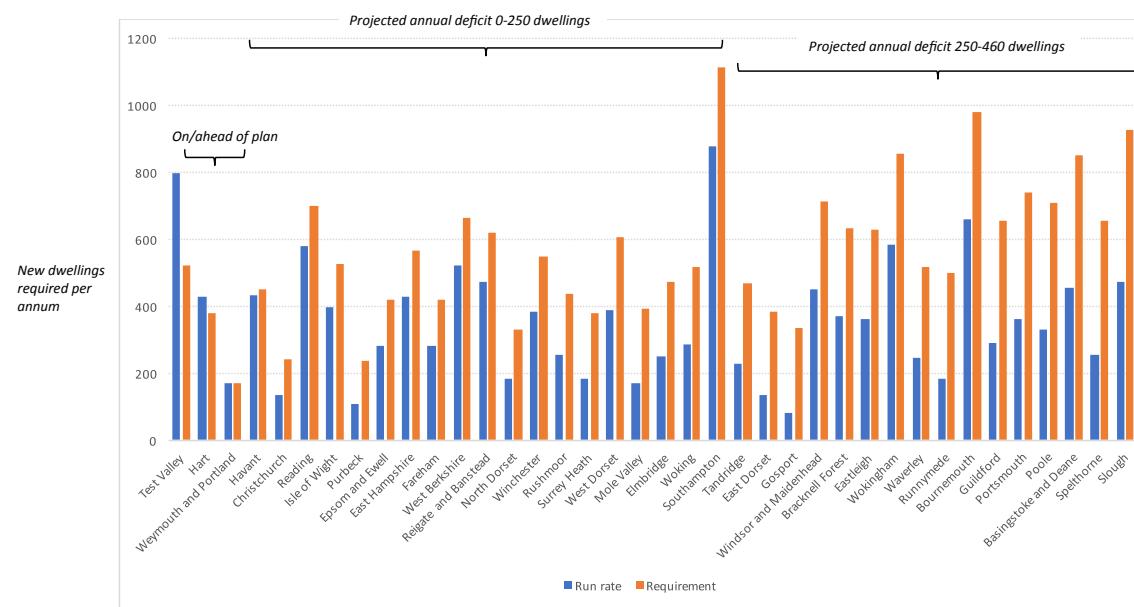


Figure 7: Number of new homes delivered in the Central South against forecast requirements, by local planning authority (Source: ONS, SPC analysis²¹)

The rate at which new affordable housing is delivered across England is also declining.²² That is likely to reflect the pressure being put on local authorities' affordable housing targets by developers who, in seeking to maintain site viability and developer profit where land values are high, frequently negotiate lower numbers on large sites. On the plus side, many councils have growing programmes for building new council houses,²³ albeit from a low base.

Market trends

Housing markets are notoriously volatile, and recent reports from property websites²⁴ suggest that the rate of growth in house prices in London and the South East is slowing, and that some areas are even seeing small month-on-month decreases. They also suggest that houses in these areas are remaining on the market for longer than the comparable period last year, with more properties on offer - a 'buyer's market'.

Should these trends continue, then they will have an impact on affordability. However, the reduction in London prices reported is only 1% from June 2017 to June 2018. At that rate, any real impact of market saturation or other changes will take some time to be seen.

Summary

Key points:

- Price increases have outstripped growth in earnings, and those increases have been greatest in the local authority areas nearest to London
- The increase in the level of housing rents has also been significant, with a suggestion that those increases are being driven by the same 'London effect'
- London is a key driver of house price growth for parts of the Central South

- Owner-occupation is decreasing, and private rental increasing, particularly amongst 25-34 year olds
- However, in the Central South, ownership is higher in high A.I. areas, reducing the amount of rental stock available
- In most parts of the Central South, key workers will find house purchase less affordable than those on median income
- Those purchasing in areas of lower A.I. appear to be prepared to commute further to work
- In many areas, house building is not keeping up with forecast need. The supply of affordable housing is also declining.

Part II: Business perceptions

The survey

To support data analysis and interviews, SPC commissioned an e-survey of businesses in the Central South to understand their perceptions of local housing costs and the impact they had on their business. The survey was commissioned from We Work With Data, in partnership with The Insight Foundation.

A request to participate in the survey, together with a link to the questionnaire was circulated to member businesses by the Hampshire and Surrey Chambers of Commerce, and the South Central FSB. Enterprise M3 and Solent LEPs also circulated a similar request to their business contacts, as did Business South. In total, we estimate that the request will have reached c. 3,000-4,000 businesses.

Each business was also invited to circulate a link to a separate questionnaire to a small number of their employees. We did not suggest what roles or at what level those individuals should be, so the sample responding will not necessarily be representative of the area's workforce; however, this aspect of the survey was simply designed to elicit views on housing costs from those working in the area.

Business responses

A total of 74 businesses responded to the survey. Whilst this is perhaps no more than 2-3% of those who were invited to respond, we are advised that many businesses do not prioritise such requests. It might be inferred that most businesses have more immediate and direct concerns - for example the cost of rent or business rates, or transport congestion - and this is discussed later in our report.

Those who did participate are likely to be the businesses who are particularly aware of and concerned about housing costs, and we should recognise this in interpreting the survey results. Whilst the surveys were not statistically representative of the target populations, nevertheless the responses provided valuable insights to the challenges of housing costs from a broad variety of distinctive types of businesses and employees in the region.

Key characteristics of those participating suggest we have captured the views of a broad cross-section of the Central South's economy:

- Businesses from across the Central South participated: 36% of participants had a Southampton postcode, 20% a Guildford code, with 12% from Reading and 11% Portsmouth. There were also responses from businesses with Bournemouth, Redhill, Kingston and Salisbury postcodes
- Most participants could be described as businesses from the Central South: 55% of those completing the survey operated from just one site, while of those with more than one site, 56% had all of those sites based within Surrey, Hampshire, Portsmouth, Southampton or the Isle of Wight
- A mix of different sized businesses participated:
 - 9% were one-person businesses
 - 48% have 1-10 employees
 - 14% have 11-20 employees
 - 9% have 21-100 employees
 - 20% have more than 100 employees

- Around half of participants (49%) described themselves as being made up of mainly professionals or staff with specialist skills
- 28% described the sector within which they work as 'professional, scientific or technical', 8% were from the 'hotel and catering' sector and 7% from the 'construction' sector, with 5% from each of 'health and social care', 'public administration', 'further/higher education' and 'manufacturing' sectors.

The survey asked about the participant's perception of housing costs, and how they impacted on their business, if at all:

- On costs, 70% thought that house prices (for purchase) within five miles of their business were higher than average prices across the South East, and 62% thought rental costs were higher than average
- 91% thought that house prices within five miles of their business location had increased in the past five years, 55% describe that increase as significant. A similarly high proportion (89%) thought that rental costs had increased, 45% significantly so
- 64% of participants thought that the cost of local housing had an impact on their business; most felt they impacted on staff recruitment and pay and reward. Of those employing one or more members of staff, 82% had increased wages or salaries to attract staff (40%), retain staff (58%) or help staff meet living costs (42%)
- 23% of participants said they would consider re-locating their business to an area where house prices and rents were lower to improve staff recruitment and retention, or reduce overall staff costs
- The car is the mode of transport most used to get to work: 91% of employers reported staff primarily commute by car. Employers estimated that 61% of staff live within 30 minutes journey time of where they work, 25% travel between 30 minutes and one hour, and 14% face a journey of over an hour. Ten employers reported that some staff travel over two hours to reach work.

Participants were also given the opportunity to comment on how housing costs affected their businesses. A selection of those comments is below:

- *"It is very hard for anyone earning average salary or indeed anything under £35K to buy a house in Hampshire, and rentals are also expensive"*
- *"Many young talented people are forced to move away because of high housing costs"*
- *"High housing costs are motivating people to look elsewhere for jobs, or to choose to move to other areas"*
- *"We struggle to employ chefs, spa therapists, bar and restaurant staff because of the cost of living in the local area"*
- *"The manual workers we employ - builders, foresters, farmers, gardeners - really struggle with house rentals in this area and cannot afford to buy"*
- *"Some professional staff, highly qualified, cannot buy a house and are seeking employment in cheaper parts of the country"*
- *"If staff cannot afford to live locally then they live in neighbouring towns and villages where house prices/rents are more affordable and commute to work"*
- *"The local economy is seeing reduced demand as many people have little spare cash after paying rent/mortgages"*

- “As the workforce becomes more mobile and transitory, the need for an owned property is changing and the demand for good quality rental stock seems to be increasing”
- “I will not continue to run a business in [Hampshire] if the housing and transport issues increase.”

Participants were also invited to comment on how their housing concerns should be addressed. Many argued for a greater mix of affordable housing, and not just social rented properties, noting that homes of all types and tenures needed to come with supporting infrastructure. A number expressed concern that there was too much focus on expensive top-end properties. They also felt that the ‘buy-to-let’ market was snapping up too many new properties and pricing first-time buyers out of the market, particularly in our University cities.

There were several calls for local councils and Government to be more pro-active in encouraging the building of what the participants saw as genuinely affordable homes, speeding up the planning process to secure approvals and resisting ‘nimby’ opposition to development.

Employee responses

We received 50 responses to the questionnaire employers forwarded to their employees. Only a relatively small number of employers chose to forward the link, so the responses are unlikely to be representative of the entire workforce – particularly as a good proportion of the responses appear to come from one employer. However, they provide some useful insights into perceptions.

- Responses came from a cross-section of skill levels, 10% self-described as ‘senior professional & managerial’, 32% as ‘professional, technical & managerial’, 30% as ‘technical, supervisory & administrative’ and 20% as ‘skilled & semi-skilled’
- Most participants lived with a partner, and 44% have children at home
- 76% lived in a home they own, with 22% in a rented property - suggesting a preponderance of owner-occupiers in comparison with the general population (see Part I)
- 64% commuted 30 minutes or less to work, 28% between 30 minutes and one hour, and 8% longer than an hour. This is broadly in line with employers’ assessments of travel patterns for their workforce as a whole
- 46% of employees reported that the proportion of their monthly income spent on housing had remained about the same in the past five years, 28% felt those costs had increased faster than salaries. A significant proportion of owners (41%) and renters (82%) felt housing costs where they live are above average
- Whilst most believe their housing costs are not too much of a burden – perhaps reflecting the fact that most responses seemed to come from more settled households – a significant minority (24%) would like to live nearer to work, and 24% would like to move to more affordable housing
- 36% of participants say that houses closer to where they work are too expensive, whilst 30% report that salaries in jobs nearer to home wouldn’t cover their housing and living costs.

Employees were also offered the opportunity to comment on housing costs:

- “As a sole occupier, buying a place is almost impossible without assistance”
- “There is next to no accommodation purely for first-time buyers”

- “I am lucky enough to have been able to afford to get on the housing ladder twenty years ago ... if I was starting out now then there is no way I could afford my first house”
- “The home I own now would be completely unaffordable to my children’s generation”
- “It [housing] is a huge chunk of my salary (about a third). Transport is another third of my salary”
- “Although there are a lot of housing developments being built near to where I work, the demand is still greater than the supply.”

Summary

Key points:

- Many businesses do not see housing costs as their most immediate concern
- However, there is a growing awareness amongst businesses of the impact of high housing costs - those businesses see the Central South as an expensive place to live
- Businesses believe those costs are impacting on recruitment and retention, across all grades and roles
- Housing costs are seen to be a growing component of family budgets
- A significant number of employees feel high housing costs compel them to live further from work than they would like
- Those on lower salaries – administrative or manual staff, for example – will struggle to afford housing costs (see also section on key workers in Part I)
- There is a growing concern that those joining the workforce over the next few years won’t want to, or will be unable to, live in the Central South – either through buying or renting
- There is notable concern about businesses’ ability to recruit young professionals, either as graduates or at an early stage of their careers
- The current generation of workers is fearful that the next will struggle with housing costs, particularly in purchasing
- Businesses note that some staff make long journeys from home to work, and longer commutes seem to be accepted as the norm by some workers
- A significant minority of businesses participating would consider relocation because of local housing costs.

Part III: Interviews

Businesses and business organisations

Notwithstanding the modest response to the survey summarised in Part II, business organisations argue that their members are concerned about the cost of housing. Their more immediate priorities are issues such as business rates or congestion, but most recognise the impact of high prices on their staff. As the interviews with representatives of individual businesses developed, they acknowledged the consequences of high prices on their staff - it is simply that they are beset by many worries and tend to focus on the more immediate pressures.

The Central South is home to many internationally-renowned companies, and to professional firms ranging from established legal practices to regionally or nationally significant engineering consultancies. These firms seem to experience fewer recruitment problems, attracting professional or technical staff by virtue of their "*global reputation, training and development programmes, and opportunities for career progression*" as the director of an international technical firm put it. Such firms also offer above-average salaries and recruitment packages.

However, the backbone of the Central South's economy is small and medium-sized enterprises, or larger companies with just one or two sites. These companies are sensitive to anything which constrains labour mobility, and are beginning to express concerns about the impact of house prices in recruiting both early-career professionals and administrative and support staff. One globally-renowned Surrey-based company which relies on skilled engineers was reported as having looked seriously at relocation to another part of the UK because they cannot recruit skilled graduates and early-career professionals.

A Hampshire-based professional services company identified a particular problem with retaining early career staff because of the "*hurdle they must jump to move from renting to buying - often a deposit of £40K-50K*". Whilst the same company also noted that there are pockets of reasonably-priced market housing across the county, they are few and far between and purchasing there can mean long commutes for some staff, which does not encourage them to remain.

All businesses we spoke to identified a particular concern around administrative and lower grade staff. These are generally drawn from a local labour pool, and so will already have housing. However, their ambitions are already constrained: one business quoted an office administrator telling him they "*had no expectation of ever owning a house*".

A business organisation pointed out that constraints on labour mobility can also hamper productivity. Improved productivity drives growth in GVA and enables higher wages, but requires new skills. As we were told, "*It's a chicken and egg situation - until you improve productivity you can't afford to pay more, so you can't attract the skilled people you need.*"

Businesses are seeing signs of an emerging recruitment problem: as one put it, "*As older workers retire, the pipeline of younger qualified individuals to replace them is constrained by housing costs.*" More than one of our business participants focused on the barrier housing costs present to the young early in their career entering the local workforce. The same concern was raised in the business survey.

There is a particular issue for rural businesses, which require skilled workers but are traditionally low-waged. As tied housing disappears, so employers often feel compelled to include housing as part

of the salary package, which adds to their costs. Labour mobility is low in this sector, and this adds to recruitment problems as young people leave the countryside for jobs in towns and cities, perhaps simply because they cannot afford to stay.

Larger businesses recognise they can address recruitment problems by offering an attractive 'package' to new staff, which includes opportunities for home- or flexible-working, staggered hours, on-site parking and help with travel costs. But that can only '*soften the blow*', as one participant put it, and is not an option for all. Nor will such flexibility be an option for some industries.

Businesses seeking to re-locate can face increasing costs if they have to offer a relocation package and perhaps higher salaries. They will need to balance those costs with their business case for re-location and, as one participant noted, the improvements in quality of life that re-location to the Central South can offer staff: "*It's a great place to live, if you can afford it.*"

Several businesses highlighted the problem of high land values, which has a number of consequences: driving up the price of employment land, encouraging low-density, high-priced housing development (which often doesn't meet needs of most workers), and encouraging the conversion of office and commercial space to housing under Permitted Development Rights (PDR). Councils we spoke to also identified the problems PDR can cause for the local economy.

Businesses and their representatives are encouraging local political leadership to tackle housing problems. They would like to see councils and housing associations working with developers to come up with '*creative solutions*' - not just in finding ways of bringing low priced homes to the market, but in building more rented stock, dealing with under-occupation, or providing low-cost loans to help meet deposit costs.

Housing providers

Local authorities and housing associations have their roots in providing low-cost rented accommodation for those not able to meet their housing needs through purchase or private rental. That obligation to serve those in housing need remains a key motivation for many in the sector, but it was suggested to us that it can also circumscribe ambitions.

However, there is a growing recognition amongst those we spoke to that their organisations have a role to play in ensuring there is '*housing for all*' - a phrase used by representatives from both a council and a housing association. That may entail direct development of a wide mix of types and tenures of home and taking a more active role in guiding the market and facilitating development.

Participants recognised the picture painted by businesses of housing costs being a potential constraint. All those we spoke to cited examples of local businesses which had faced recruitment problems linked to high housing costs, for example by having to draw from a wider catchment, or in having difficulties in securing suitably qualified applicants. Whilst businesses did not always tell the council that housing costs were a top priority - parking charges and business rates were more often mentioned - they acknowledged the problem when raised.

Councils are major employers in their area, and they identified the same challenges facing their own staff looking both to rent and purchase. Recruiting and retaining professional staff is a challenge for councils in the Central South, particularly when pay levels are traditionally below those of the private sector. This is beginning to hamper their ability to provide key public services. They also acknowledge the same trend identified by businesses for staff to undertake longer commutes as they find affordable places to live.

Most towns and cities in the Central South experience significant commuter flows, both in and out. Housing costs locally are recognised as a key driver of these commuting patterns. For councils this raises practical concerns of investment in infrastructure as well as concerns about the strength of local communities.

One participant noted the wider social concerns which arise from high housing costs, identifying the need for households to have two incomes to meet costs as having implications for children and family life. The tendency to accept longer commutes can add to those challenges. Those social pressures can be reflected in performance in the workplace.

Councils we spoke with aim to ensure they see housing in a wider social and economic context: one described it as being '*woven through the corporate strategy*'. They acknowledge that housing is an important component of the 'places' they are aiming to create in support of prosperity and the local economy.

The councils we spoke to all sought to be more 'entrepreneurial', using their own assets in creative, flexible ways to facilitate building houses for purchase, including shared equity, and for rent, shaping solutions to meet the needs of local markets (see part IV for examples). They saw joint ventures with developers as a key part of their strategy - with one saying "*the partnership piece is at the heart of it*".

One council suggested that they and others with similar ambitions would benefit from a more flexible approach to funding by Homes England and MHCLG, with a willingness to support more innovative approaches. They also expressed frustration with '*the rules set by Whitehall*' which they believe can constrain ambition and limit flexibility, for example the cap on borrowing,²⁵ or the limitations of a definition of 'affordable' based on market rents and not on income.

The housing association sector is beginning to show the same creative approach, with business models evolving which allow them to diversify into different models of rented and market properties, often (as with councils) working in partnership with developers. They are prepared to accept greater risk when there is an opportunity to both meet wider housing need and plough profits back into the core affordable rented properties.

However, some councillors are nervous of the risks a more imaginative approach can bring with it, as are some members of the boards of some housing associations. They are comfortable with a focus on the 'core business' of providing social housing to meet the highest level of need, but the case for their organisation having a wider role in housing provision needs to be made to them.

Summary

Key points from business:

- There is a growing awareness amongst businesses of the consequences for them and their staff of high housing costs, from difficulties in recruiting and retaining staff to needing to facilitate more flexible working arrangements
- House prices are constraining labour mobility in some circumstances: notably companies' ability to recruit and retain new graduates and early career professionals
- A lack of opportunities to 'step-up' and bridge the gulf between rental to ownership is constraining opportunities and may be leading to a loss of staff

- There is a noticeable increase in longer distance commuting as staff have to look further afield to purchase a home
- The Central South is seen as a good place to do business, but that reputation may be increasingly becoming undermined by high housing costs.

Key points from housing providers:

- Councils and housing associations appreciate the challenges which high housing costs pose for local businesses. They also understand their wider implications for our communities
- Housing associations and councils are developing a broader perception of their roles in providing or facilitating housing of all types and tenures designed to address local concerns
- They are also becoming more 'entrepreneurial' in finding ways of delivering a diversity of housing types and tenures, and are willing to take a more commercial perspective where that can help support social provision
- Councils feel their flexibility and ability to be creative can sometimes be constrained by government 'rules'
- The case for public organisations taking a wider role in tackling the diversity of housing need must be carefully but robustly made to those in governance roles (primarily councillors and board members).

Part IV: New models for delivering homes

Those participating in this study acknowledged the variety of challenges the cost of housing poses for business and the local economy. There were a number of calls for 'creative solutions', whether from Central or local government or other housing providers. The problems which participants wanted to see addressed range from the high cost of deposits for home purchase through to availability of simple, affordable accommodation of a decent standard for those early in their careers.

It is not the purpose of this report to explore in detail creative solutions to the various dimensions of the Central South's housing challenges. However, in undertaking our research we were told of several responses to those challenges, and it was clear there is much activity across the area to find solutions.

Our provider participants are already exploring fresh approaches, for example:

- Winchester City Council have an ambitious programme for building new council houses. They try to work as both developer and facilitator to secure a mix of tenures and types of housing, working through a range of partnerships and with private developers
- Woking Borough Council have established an arms-length company to promote development of the mix of homes the borough needs. They have introduced a scheme to allow tenants in their rented stock to 'earn their deposit' by allowing part of their rent to be set aside to fund the deposit on a first home purchase
- Mole Valley District Council work with private landlords to support the private rented sector, and are exploring housing developments on their own land
- Radian aim to broaden their product to include market and various forms of affordable housing, working alone and in partnership to meet a variety of housing needs.

These examples illustrate aspects of more comprehensive approaches these organisations seek to follow. They are not alone, others are exploring a range of options and opportunities.²⁶ This diversity of activity is welcome, but gives rise to some important questions:

- With the variety of localised solutions being developed across the Central South, are we missing the opportunity for a more strategic and co-ordinated approach to a problem which is not defined by our administrative boundaries?
- Are housing providers in the Central South working together to share ideas and pursue opportunities as effectively as possible?
- Are the Central South's housing providers in collective dialogue with developers and using their collective 'muscle' to influence market provision?
- Are funding regimes and the rules which surround house building sufficiently flexible to respond to the evolving approaches of councils and housing associations?

Part V: The risks and the challenges

This study has highlighted some of the risks and challenges high housing costs across the Central South pose for our workers, and so for our economy. This section of our report sets out those risks and challenges as a prompt for debate.

- **Risks to business:**

- **Recruitment, retention and skills:** some businesses consider that their ability to recruit the staff they need is being harmed by high housing costs. This cuts across all roles and levels of business, but seems to be a particular concern in some professional and technical disciplines
- **Recruiting younger staff:** there is a particular problem in recruiting graduates and early career professionals, and the Central South may be nearing a 'tipping point' where it can no longer replace skilled professionals when they retire from the workforce
- **Growth in commuting:** as prices rise, so those looking to purchase appear to be willing to live further from their place of work. This inevitably results in congestion, which damages business. It is also stressful for staff and may encourage those who can to move elsewhere to work.

- **Risks to economic growth:**

- **Productivity:** if skilled labour cannot be attracted to the Central South because housing costs are seen as a barrier, then it will become harder to improve productivity
- **Regional economic performance:** the combination of difficulties in recruitment, increased costs of employees, and the costs of housing and enforced commuting will provide a drag on growth and employment creation and thus lower the overall performance of the region
- **Relocation:** housing costs are becoming a barrier to labour mobility, putting at risk businesses sustainability. There are indications that a significant minority of businesses believe their only option may be to relocate to lower cost areas
- **Inward investment:** whilst the Central South is an attractive location for businesses, high housing costs and their wider implications may be a barrier to inward investment.

- **Risks to our communities:**

- **Make-up:** pressures on two-income families, coupled with more commuting, will change the nature of our communities, as will the out-migration of younger people who are priced out of the market. That in turn will affect the environment for businesses
- **Services:** key workers face a particular barrier to accessing housing in many parts of the Central South, and this has implications for the sustainability of a variety of services which underpin our communities and local economies.

These risks give rise to challenges with all of those with an interest in housing and the local economy need to address:

- **Challenges to councils and housing associations:**

- How do you respond to the lack of low-cost purchase and rental options?
- How do you support the private rented sector, and what opportunities are there for working with developers to develop new rental models?

- How can you facilitate the transition from rent to purchase for those wishing to do so?
- How can you work with private developers to ensure a mix of types and tenures which meet economic as well as social need?
- When planning the mix and tenure of new properties how do you balance labour market needs with social needs?
- Are you doing enough as a sector to learn from one another in exploring creative ways of meeting housing need?

- ***Challenges to business:***

- Do you understand the potential impact of high housing costs on your business?
- Can you do more to help staff facing housing challenges?
- Are you taking a pro-active part in the debate about the Central South's housing needs?

- ***Challenges to government and Homes England:***

- Is our relentless focus on housing numbers getting in the way of planning for housing to meet the diversity of need, including economic need?
- Are the rules and funding for councils and housing associations constraining creativity and flexibility?

- ***Challenge to us all:***

- Should we collectively take a more strategic perspective on housing need across the Central South, to shape a more co-ordinated approach to finding solutions: sharing ideas and approaches to delivering more homes, working with market developers and lobbying government?

Recent research

Since the research for this report was completed, housing costs across London and the South East have continued to attract headlines. Of particular relevance to our conclusions is a recent study by the Institute for Fiscal Studies, which highlights how rising prices are putting home ownership out of the reach of young adults.²⁷ It shows how those aged 25–34 struggle to save for a deposit, and how price rises have meant that fewer can obtain a mortgage, even if they can afford a deposit.

The finding that young adults in the South East face the biggest hurdle outside London when it comes to owning a home reinforces our conclusion that housing costs may be harming the ability of businesses in the Central South to recruit to early career roles, damaging the sustainability and growth of our economy.

Part VI: What's to be done?

The findings from the research, survey and interviews outlined in this report were considered at a round-table discussion which brought together ten individuals from housing providers, policy makers and the business community. That discussion has helped shape our final recommendations. We are also grateful for comments from the London & Wider South East Strategic Planning Network, to whom we presented our research findings.

Participants in the round-table agreed that high and rising housing costs posed a real risk to continued prosperity in the Central South. The issue needs a higher profile with businesses and local policy-makers to stimulate some more co-ordinated thinking and planning. However, there were many good examples of local responses to meeting the diversity of housing need, which should be shared more widely.

The conversation focused on four broad topics:

1. The role of business organisations

It was recognised that LEPs have an important role in raising awareness of the risks to our economy of high housing costs. Whilst they were not anticipating a formal role in planning or provision, they are a powerful voice for business, and need to be proactive, engaging with local housing and planning authorities and housing associations across their area. They should help shape Local Plans and local housing strategies.

They can also encourage local authorities to take a proactive approach to tackling housing need: one participant described this as encouraging 'bravery' in the more 'risk averse' councils (see 2 below). That could include highlighting to councils innovative ideas and best practice they saw elsewhere.

Local Chambers of Commerce and branches of the FSB, who have contributed to the research, have a similar responsibility to voice business concerns on this topic and engage with housing providers.

2. Local councils

Our discussion acknowledged the role of local councils in addressing *all* housing need. Participants recognised that whilst councils have a long-standing commitment to support those in housing need, many may have a less sophisticated understanding of the challenges businesses face. A more pro-active engagement with LEPs and others would help raise the profile of the economic impact of a lack of suitable supply, which could be factored into planning and housing policy.

There was some discussion of local authorities' ability to respond to another aspect of need. It was argued that local authorities already have a good deal of freedom and flexibility to respond to local housing need, and the best take advantage of that to develop new approaches to meeting need. There are a number of examples of good practice across the Central South which could be shared.

The discussion recognised that the best local housing authorities took ownership of the challenge of delivering housing at a pace and with the necessary mix of types and tenures to meet local need - going beyond their planning responsibilities. Reference was made to The Elphicke-House

report into the role of local authorities in housing supply, published in 2015.²⁸ This encouraged councils to take a more central role in providing new homes, and see themselves as 'Housing Delivery Enablers'.

The round-table agreed that more proactive role is an effective way of ensuring councils were able to take an holistic view of housing need across the board, including economic need. They already had the powers to take a more active role, even on occasion acting as 'disruptors' - stepping in where the housing market in their area was failing to meet any aspect of need.

For many councils the greatest challenge was a willingness to accept the risk that comes with a more proactive approach. It took time to build the organisation's confidence and a culture which took a more entrepreneurial approach to housing, and those already well advanced on this path could help others.

Participants recognised there was room for more effective co-ordination between local planning authorities: functional economic areas rarely follow council boundaries.

3. Housing associations

As with local authorities, housing associations are developing a more sophisticated approach to meeting all types of housing need. Once again, the move away from a more traditional perception of need requires a degree of bravery, and building confidence could take time.

Participants agreed that housing associations should also engage with business representatives - LEPs, Chambers etc. - as well as their more traditional partners to planning future strategy and delivery.

4. National policy

The Government's focus on housing delivery was noted, providing the context for how significant financial investment in delivery is targeted through Homes England and directly to local authorities, with a focus on larger sites and areas with poor affordability. However, there is room within these funding regimes to make the case for affordable or housing or other tenures which addressed local economic need.

Housing deals, which are under discussion in several locations, offer another vehicle for shaping delivery to respond to local need. It is for those 'on the ground' to make the case for how a deal can best meet local need, and business representatives should be involved in these discussions where they feel that housing is hampering local productivity.

5. Future-proofing

The issues raised in SPC's research report, notably the increase in commuting as a result of people living further from their place of work, stem from a particular model of the economy which assumes a single 'place of work' for the majority of employees. However, working practices are changing, and more flexible or home-based working is growing, which is itself a response to some of the issues we raise.

The typical career pattern is also changing, with younger people more regularly changing job or even career, either through choice or need. The round-table discussion recognised that the relationship between housing and the economy will change as models of employment alter, and our approach to planning for future need should reflect this.

Policy recommendations

The SPC's research report clearly identifies the emerging challenges which high housing costs pose for our economy. Both the report and the round-table discussion identify that the way of tackling these challenges is through a closer, focused dialogue between business representatives (e.g. LEPs, Chambers of Commerce, the Federation of Small Businesses) and housing providers (local authorities and housing associations). Private developers will also need to contribute to that discussion.

Business representatives have a key role in articulating the case for the local economy. Local authorities, in taking responsibility for their communities, need to ensure they respond to all aspects of housing demand and ensure they have considered the economic as well as social cases when planning to meet future need.

Perhaps the strongest message from our research is that local councils, housing associations and other providers need to be proactive and creative in addressing housing need, taking responsibility for delivery across their area and being ready to step in where the market alone doesn't meet local need.

Drawing on our research and the discussions at the September round-table, the SPC make a number of policy recommendations below. It is for business organisations and housing providers in the Central South to decide how they wish to respond to these recommendations.

- 1. Housing providers - councils and housing associations - and business representatives should work together to ensure business has a clear voice in the discussion about future housing need and how it is best met.**
- 2. LEPs should consider what role they can play in enabling the provision of housing to meet economic need within the constraints of their spending programmes.**
- 3. Central and local government must together ensure that the needs of local economies are part of the wider debate about housing need, and that that debate is not simply focused on numbers.**
- 4. Local planning authorities should ensure that their approach to planning for future housing need takes full account of the needs of the local economy alongside other pressures.**
- 5. Neighbouring local planning authorities should work in partnership to develop a coherent view of how they could secure the housing necessary to support business across functional economic geographies.**
- 6. Local authorities should adopt a pro-active approach to enabling housing delivery to meet all needs in their area, providing strategic clarity and creating opportunities for delivering new homes of all types and tenures, including through the imaginative use of public land.**
- 7. Housing providers should create opportunities to share experience, ideas and best practice in new approaches to delivering a mix of housing. This will help build confidence and promote fresh thinking.**
- 8. Housing providers and business representatives should maintain a dialogue with central government and Homes England to ensure funding programmes are sufficiently flexible to support diverse local initiatives.**

We also suggest some immediate actions which respond to our findings:

- LEP boards should plan to discuss the impact of housing costs on the local economy and consider what they might do to address challenges they identify.
- Chambers of Commerce should discuss how they might seek the views of their members on the impact of housing costs on their business, and how those businesses might contribute to local policy making.
- Housing providers and business representatives should arrange a joint event to raise awareness of the risks high housing costs pose to the local economy. It should be targeted at key local and national decision-makers, including council leaders and members of Parliament.
- Local housing providers should arrange an event to share experience of new approaches to dealing with the failure of local markets to meet need.

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The views in this report are those of the Southern Policy Centre; any errors or omissions remain our own.

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The Southern Policy Centre was established in 2014 as the only cross-party think tank for central southern England. Our focus stretches from Dorset to West Sussex, and the Isle of Wight to Oxfordshire. We aim to provide a distinctive voice for the central South on questions of public policy.

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