

Policy Briefing

The UK Government's Modern Methods of Construction (MMC) Policies and Strategies

Version 1.0

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This document relates to UK government policies; separate briefings for the devolved administrations are in preparation.

Summary: The UK government has often pointed to MMC as a way of driving innovation in the construction industry and solving the supply and affordability crises in the housing market without direct government intervention. In the early 2000s, the government made it a requirement that 25% of homes being funded by the Affordable Homes Programme be built using MMC. However, this was dropped during the recession, which saw many developers cut back their limited use of MMC to save costs. Since the late 2010s, the political appetite for MMC has grown as the same affordability and supply crises have returned and accelerated, and as the traditional construction industry now faces sharp skills shortages. Homes England have made supporting MMC a core part of their strategy through to 2022–23, and the 2021–26 Affordable Homes Programme has made large grants conditional on the use of MMC in 25% of new housing. However, despite a genuine commitment to see the sector grow, there is a hesitancy on the government's part to give its fullest support to category 1 in particular. Part of this no doubt stems from the novelty of this method of construction and the government's desire to see hard data on sustainability, performance and cost benefits. There is also a risk that the heavy weighting given to upfront build costs in the assessment for government grants will prove to be a barrier for a product which is new, currently lacks economies of scale sufficient to reduce costs, and often has a higher upfront cost but lower maintenance bill. Without more direct support and with that funding mechanism in place, it will be challenging for this industry to scale up in a way which really allows it to compete with the traditional builders. There is a risk, therefore, that despite good intentions current policies do not give the support necessary to see this sector break out of this cycle.

Background

Pre-recession policies

The UK government has a long history of strategizing for MMC. The [Egan Report](#) on the construction industry (1998) suggested it needed to improve and innovate, though did not explicitly recommend the use of MMC. Around the same time, MMC products emerged, like the Peabody Trust's Hackney project which produced the UK's first multi-storey volumetric housing development (1999), while Westbury Homes's Space4 factory opened in the West Midlands in 2001 with the capacity to produce 6,000 MMC homes annually.

In the early 2000s, the government recognised the shortfall in new housing (at 175,000 completions a year in 2003, it was the lowest since 1945) and the increasing unaffordability of housing, with prices rising sharply in real terms; the projected growth in households also suggested that 230,000 homes would be needed each year by 2016. Hence, the Housing Corporation (responsible for providing grants for social/affordable housing) offered an £80m programme to promote MMC in 2001. In late 2003, the [Barker Review of Housing Supply](#) recognised the housing shortage and affordability issues, with the government responding by outlining its commitment to MMC as a ‘step change’ which could increase the quality and quantity of housing. From 2004, the government told the Housing Corporation that 25% of new grants should be given to MMC developments. By 2006, 41% of new housing association houses were built with MMC, and in 2005 the National Audit Office produced a report suggesting that it was possible to use MMC to build up to four times as many homes with the same labour force, that build time can be cut, performance can be at least as good and that costs can be comparable to traditional buildings. But in 2008, amidst the recession, the government quietly removed its target for MMC delivery. The private sector, meanwhile, struggled as demand for housing and the ability to buy fell sharply; as the market collapsed, some MMC sites, such as Taylor Wimpey’s at Prestonpans, closed.

Post-2016: renewed attention

From 2013, the housing market recovered, leading to sharp rises in both build costs and house prices. Housing unaffordability became increasingly important politically, especially for people in the south, but the private sector consistently failed to deliver close to the number of homes needed to meet demand. The government therefore commissioned Mark Farmer’s report into the construction industry; released in 2016, [Modernise or Die](#) championed MMC as a solution to these issues. With the climate crisis increasingly entering the agenda, building low-carbon and energy efficient homes also became politically salient projects, while the construction industry’s skills and labours shortages (partly caused by Brexit) and concerns over productivity have also made MMC politically appealing. The government’s 2017 white paper, [Fixing Our Broken Housing Market](#), endorsed MMC as a means of innovating and scaling up housing delivery, while also producing homes at a lower cost. There was also much support from the House of Commons select committee on housing, local government and communities, which [reported in 2019](#) that MMC would be needed to meet the government’s target of 300,000 new homes being built a year and made various recommendations on how to increase its role.

Current policies have emerged out of this climate. The government established Homes England in 2018 as the successor to the Housing and Communities Agency. It has produced its [strategic plan for the period 2018–19 to 2022–23](#), in which it outlines its aims for MMC. Alongside this, the [Affordable Homes Programme](#) launched its next phase in 2021; for the first time since 2008, the government has included MMC requirements in the programme’s [Capital Funding Guide](#). These policies are discussed in detail below.

There are additional **areas where policy is likely to emerge** in relation to MMC housing. Since Brexit and the 2019 general election, the government has produced its ‘**levelling up agenda**’, which is broadly meant to help raise economic growth, connectivity and quality of life in the regions. This has brought further government attention to the issues of housing

and job creation, as outlined in its 2022 white paper, [Levelling Up](#), where differences in housing quality and provision were identified as key drivers of spatial inequality. Regeneration has emerged as a key term and the white paper outlined the aim to 'build more housing in England, including more genuinely affordable social housing ... [and] launch a new drive on housing quality to make sure homes are fit for the 21st century'. Its desire to create good quality jobs better spread across the country, improve productivity and drive innovation are also relevant for MMC providers.

Finally, the 2017 white paper proposed altering the **planning system** to support MMC developers as part of wider reforms which the government hoped would expand supply. A white paper on this topic, [Planning for the Future](#), was published in 2020; it stated the aim to support MMC in the planning system. However, core Conservative voters expressed unease at what was perceived as a loosening of planning laws embodied by the white paper, and the proposed changes have apparently been paused (and possibly shelved) following the Conservative Party's defeat in the 2021 Chesham and Amersham by-election, a formerly safe Tory seat; negative reaction to planning reforms among core voters was thought to be a key factor in the loss.

Current Strategies and Policies

Within the government, responsibility for housing policy lies with the Department for Levelling Up, Housing and Communities (from 2018 to 2021, this was the Ministry for Housing, Communities and Local Government). Much of the direct support it gives housebuilders comes through the public body Homes England (prior to 2018, this was the Housing and Communities Agency).

Homes England Strategies and Funds

In 2018, **Homes England published its strategy** for the period up to 2022–23. It aims to support the government to meet its target of delivering 300,000 housing completions a year; seeing itself as the 'housing accelerator', it recognises the need to 'disrupt' the housing market. It gives much rhetorical support to the use of MMC to meet these aims. It states that, among other aims, it wants to '**support Modern Methods of Construction**' (p. 7) and 'boost supply, productivity, innovation, quality, skills and the use of MMC in the housing market' (p. 8).

Homes England's strategy gives its two missions: (1) to 'intervene' in the market to build more homes in the areas of greatest need with a view to increasing affordability; and (2) to create a more sustainable, 'resilient' and 'diverse' housing market. It seeks to do this by 'unlocking' land, supporting investments projects (including in affordable housing and infrastructure), improving productivity, improving competition by supporting new builders, offering expertise, and delivering 'home ownership products'.

HE identified the potential for development on brownfield (26,000 hectares) and public land (enough for 160,000 new homes) as important, but noted that barriers included fragmented ownership, high costs, major infrastructure requirements, difficulty securing finance, and low productivity and innovation in construction. It specifically acknowledges that the low take up

of MMC is a symptom of the industry's tendency not to innovate and the limited production capacity and skills shortages in the MMC sector.

As such, HE's objectives include:

- Unlocking land
- Unlocking investment
- Increasing productivity
- Driving market resilience
- Supporting local areas
- Delivering home ownership products

On the land front, it has created a £1bn **Land Assembly Fund** to acquire challenging sites that the private sector could not develop without public support, which it will bring to the market; the aim is to have 2,000 starts on such sites by March 2023 and 23,000 completions by 2030. It has also created the **Small Sites Fund** to support public bodies to unlock small pieces of land for sale. It will also pursue the **Local Authority Accelerated Construction programme** that will encourage **MMC and SME builders** to develop publicly owned land. It also wants to 'incorporate a requirement to use MMC into our leases'.

To 'unlock investment', it will create a £4.5bn **Home Building Fund** for SME builders. In February 2022, the HE launched the HBF's [Infrastructure Loans](#); financially viable projects which would stall or progress more slowly without funding can apply for loans of up to £250m for infrastructure development.¹ Applications will be assessed according to:

- value for money for the taxpayer
- potential for early delivery
- local support
- projects that support the SME developer market, brownfield development and/or diversification and innovation in the housing market

The HE strategy also stated that it wanted to 'encourage developers to use MMC and increase the capacity of the off-site manufacturing industry' through the provision of 'development finance'.

MMC features prominently in HE's strategy to increase productivity. The document aims to:

- incorporate MMC into its building lease disposals
- encourage partners to use MMC through the provision of development finance
- encourage MMC through the **Local Authority Accelerated Construction Programme**

¹ Previous support for infrastructure development came through the [Housing Infrastructure Fund](#), which launched in 2017 and closed for bids in 2021; the strategy document gives a commitment of £5.5bn towards this programme. This funding was for local authorities delivering new infrastructure for housing and making more land available for housing in high demand areas; there were two types of funding: Marginal Viability Funding, where housing sites were 'held back' by the cost of infrastructure, so the government offered money towards the 'final' piece of investment worth up to £10m; secondly, Forward Funding provided a small number of large, high-impact schemes worth up to £250m.

- support **'pilot projects'** for testing MMC
- 'capture and disseminate best practice and knowledge of MMC'
- 'work with the Construction Leadership Council, other industry leaders and developers to improve the understanding and uptake of MMC'

To drive resilience, it will support credit availability for smaller developers through the **Housing Delivery Fund**, worth £1bn.

The Affordable Homes Programme, 2021–26

A key lever for supporting MMC is the Affordable Homes Programme, which is HE and DLUHC's grant funding for social and affordable housing. Launched in 2021, the current funding round lasts until 2026 and will provide **£7.4bn of grants** to fund **130,000 affordable homes outside of London**. About half of the funding will be for Social Rent or Affordable Rent; with most rented homes, there will be a Right to Shared Ownership. The other half of houses will be designated as 'Routes to Home Ownership', and will include Shared Ownership, Home Ownership for People with Long-Term Disabilities (HOLD), Older Persons Shared Ownership (OPSO) and Rent-to-Buy. Tenure aside, 10% of homes should be supported housing and 10% should be for rural housing; regeneration schemes, section 106 schemes and major repair projects are ineligible.

Funding is available through two routes:

- **Continuous Market Engagement Route (CME)**, which provides grants on a scheme by scheme basis; applications will be assessed against:
 - a cost minimisation basis ('the primary assessment metric is grant per home') which compares the application's costs against national, local and scheme type averages
 - deliverability
 - local housing need
 - alignment with strategic objectives (including the use of MMC)
- **Strategic Partnerships (SP)**, which provide tailored, long-term deals where organisations can deliver many projects quickly. Partners gain certainty of funding with some flexibility in terms of tenure and location. They must build at least 1,500 homes and deliver 25% of homes through MMC. Applications are assessed against:
 - Value for Money (50%) assessed using a benefit-cost ratio as in the [MHCLG Appraisal Guide 2016](#) and [HMT Green Book 2018](#)
 - Strategic Priorities (30%) assessed against the use of MMC, the National Design Guide, working with SME(s), rural housing and supported housing
 - Home Ownership (20%) assessed through how well the application increases home ownership
 - Deliverability, which will be a pass/fail score.

In return for this funding, HE and DLUHC want partners to **'help to create a more resilient and diverse housing market'**, including by **promoting 'significant use' of MMC**, as well as through using high-quality and sustainable designs and by working with SME housebuilders. The AHP wants to **increase investment in MMC**, alongside supporting the

use of the National Design Guide, improving energy efficiency and encouraging smaller developers.

The **Capital Funding Guide** (CFG) provides a detailed reference guide for applicants. Those sections which are relevant for MMC are discussed here.

Chapter 8 gives details about scheme types and requirements. If homes are produced using MMC, providers must assign one of [the seven categories](#) to the development. Strategic Partnerships must deliver at least 25% of homes using MMC; the CFG states (chapter 8, s. 3.5.5) that 'organisations can deliver the requirement using any of the categories in the framework', but that HE '**expect[s] organisations to use categories 1, 2, or with construction processes that achieve a pre-manufactured value (PMV) score of 55% or above**'. PMV is measured according to the proportion of construction activity that 'takes place away from the final worksite' (s. 3.5.6-7). It is calculated according to a method produced by [Cast Consultancy](#).

Chapter 8 also states that properties must have a **life expectancy of at least 60 years**.

There are various ways in which an event can cause the **Grant Recovery or Grant Recycling** processes, in which the grant paid for a scheme is either returned to HE or is placed in a fund to be reused within a specified amount of time. For instance, this may include the sale of a social rent property within a certain period of time after the construction. In relation to MMC, chapter 7 of the CFG outlines a specific case where the grant may need to be recovered/recycled: when the cessation of use of a property or land funded by capital grant occurs for a period of six months or more (s. 3.4.2); it states that 'this further applies to the removal of component parts of homes built using MMC'.

Chapter 6, on programme management, states that the AHP process wants to see all bids increase the level of affordable homes and home ownership, offer good value for money, have prospects for early delivery and for delivery within the programme's timescale, develop supported housing and housing in rural areas, and 'where achievable meet the wider strategic objectives of the programme, particularly the use of Modern Methods of Construction'. Other priorities include adherence to the 10 characteristics in the National Design Guide (applicants are encouraged but not required to also record their score against the Building for a Healthy Life criteria).

Finally, chapter 14 provides useful information on strategic partnerships, which makes clear how grant funding is awarded and paid, and how HE will log MMC use.

Commentary

Since the early 2000s, the UK government has pointed at various times to the possibility for MMC to speed up housing delivery and drive innovation in the construction sector. It has often been seen as a politically expedient solution to the housing supply and affordability crises. One of government's main levers has been the Affordable Homes Programme, which provides grants for the construction of social and affordable housing. From 2004 to 2008, 25% of AHP homes had to be built with MMC. However, the recession severely disrupted the sector, stunted growth and took MMC out of policy proposals. As the economy recovered, concerns about housing supply and affordability returned in the late 2010s,

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prompting the government to give its rhetorical support for MMC as a market disruptor and supply accelerator. Since 2018, Homes England has made commitments to encouraging both MMC and SME developers through its various funding programmes and its efforts to 'unlock' difficult land for development. Since 2021, the 25% MMC requirement has returned to the AHP. The government seems genuinely keen to see MMC be used far more widely; it clearly recognises its potential to help solve the supply and affordability issues – indeed, it seems to be putting a great deal of onus on MMC to do this.

Yet there is a risk that it is not doing enough to support this industry. Given that MMC developers are young and small, they really need reliable pipelines and supply chain support and to scale up operations (especially in an industry where economies of scale are very important). It is in category 1 where the greatest innovation and supply/social/environmental impact will be felt, but where the greatest costs and risks are incurred on the part of developers. In making it so that 25% of homes have to be delivered with MMC, but only with the stipulation that categories 1 or 2 or 55% PMV be used, the government has not done enough to directly support the most innovative, environmentally friendly homes which can be built the quickest.

There is a risk that this becomes a vicious cycle for category 1 developers: given that it may often be cheaper to use category 2 or lower PMV levels, then there is a chance that many developers will forgo category 1; as such, category 1 will struggle to scale up and costs will remain higher compared to other types of construction. This is a problem when government continues to assess suitability for grant using methods which seek to reduce upfront cost (its 'cost minimisation' basis for CME assessments, for instance); this is doubly problematic, because it prioritises small upfront savings without accounting for the full life-time savings in MMC homes *versus* traditionally built homes.

What developers therefore need is greater direct support for category 1. Many would like to see some advantage so that the industry, currently in its nascent phase, can be allowed to grow and compete on a more level playing field with traditional builders. A requirement to use a certain percentage of category 1 might be one way to deliver this, but the government will likely need to be convinced with hard data of the benefits that come with this method (in line with core policies) over other types of construction.