







Planning gain and affordable housing

Land allocation and some elements of funding are tightly linked through planning obligations. Section 106 of the 1990 Town and Country Planning Act (S106) sets out the mechanism for achieving affordable housing through the planning system. Research at the Universities of Cambridge and Sheffield investigated how effectively this policy is working to increase the provision of affordable housing and to meet wider objectives of creating mixed communities and redressing regional imbalance.

-  The policy is only now beginning to reach maturity, with perhaps 10 per cent of total completions being made affordable through S106 agreements and rural exceptions sites policies (about 12,000 units per year).
-  Land availability for residential development is a major constraint to the policy. Many sites are too small to reach the threshold at which S106 comes into effect.
-  Where S106 is used, developers' contributions to affordable housing can look sizeable on a site, but they may only represent a small proportion of the value of the development. Local authorities' ability to secure more is limited by site complexity, competing planning obligations requirements, inadequate negotiating capacity and processes, and lack of clarity in the policy.
-  Most housing achieved through S106 is in high cost markets in the South East, particularly London, where it is likely to be social housing for rent, commonly separated from market housing on the site. In the North and Midlands, S106 is used mainly to produce improved tenure and community mix through forms of low cost home ownership.
-  About 70 per cent of S106 sites also rely on the traditional route of affordable housing subsidy, Social Housing Grant (SHG). In high cost areas, developer contributions are often required solely to bring schemes within the Housing Corporation's cost limits. S106 is thus being used to make schemes in the South, particularly those on brownfield sites, viable.
-  The main result to date is to change the geography of new social housing provision, not to increase the total amount of affordable housing provided. On current evidence, were the S106 policy to reach its potential, it would use up all and more of the additional SHG made available for new housing. Relatively few homes secured would be additional to those already included in the SHG programme.

The research question

The research aimed to evaluate the effectiveness of the policy of achieving additional affordable housing through the planning system by:

- clarifying the numbers of additional affordable houses secured in England, and regional and other variations in these numbers;
- assessing the effectiveness of the processes by which affordable housing is secured;
- looking at the costs involved and who pays for the affordable housing provided;
- evaluating how the use of a planning obligation approach is helping to achieve affordable housing policy objectives.

Policy background

Securing affordable housing through the planning system is a form of planning gain that has been evolving since the late 1970s. It has been included in all Planning Policy Guidance on housing (PPG3) issued since 1981. Provided local planning authorities have policies in their adopted statutory development plans that assess the need for new affordable housing in their districts, they may require private developers to contribute to meeting this need. When developers agree to make contributions, these are made legally binding contracts under Section 106 of the 1990 Town & Country Planning Act (S106 agreements) as part of the process of gaining planning permission.

In rural areas, rural exceptions sites can be made available to provide affordable housing to meet local needs. These are sites where planning permission would normally have been refused but are permitted where the development consists entirely of affordable housing.

The numbers

The study estimated that around 12,000 affordable units are being secured each year through S106 sites, well below the official numbers. The majority of these are in London and the South East, the areas of highest need, with the North East and North West securing the fewest units. The tenure of affordable housing varies across the country. Authorities in the South are securing largely social rented units with some shared ownership. In the North there is more low cost home ownership, discounted open market and shared ownership units and far fewer rented properties. The Midlands is somewhere in between. Nearly all the affordable units are secured on the same site as the market housing, with a small number of commuted payments, mostly in London, where on-site provision is considered inappropriate. Rented units tend to be separated from the market element of the site, whereas other affordable tenures are more integrated into the development.

A postal survey by the project indicated that between 1992 and 2000 fewer than three per cent of total completions were affordable units. A detailed survey of three local authorities aimed to examine why some sites avoid affordable housing contributions. Only a small proportion of total units on sites above the size threshold have been affordable (see Table 1), yet on individual sites, outcomes are consistent with the locally agreed policy.

Site-specific analysis suggests that the majority of sites are small, and so fall below the threshold. In many areas, there are still large residential sites with outstanding planning permission which have little or no affordable housing requirement. In some areas, rising house prices have meant that larger discounts are needed to make the housing affordable, resulting in fewer affordable units. The abnormal development

Table 1: Affordable housing as a percentage of total completions/approvals on sites above 25 units in three 'typical' authorities

Authority	Period examined	Private dwellings on sites above threshold	Total affordable units	Affordable units as % of total units
A	1997-2000 (completions)	3530	149	4
B	1998-2002 (approvals and completions)	7805	365	5
C	1997-2000 (completions)	818	72	8

Source: Survey of three planning authorities

costs of brownfield land have also reduced the numbers provided. In some cases, the affordable homes have not been purchased within the agreed deadlines, so they revert to market dwellings. Finally, an important reason for not seeking a contribution on certain sites is the need for urban regeneration or redevelopment. In these localities, an affordable housing contribution could jeopardise the viability of the whole development.

The process

The affordable housing policy has been in place for more than a decade and, although it is continually evolving, there are still problems with the clarity of the policy framework. Many authorities are still unsure about the extent of their powers, including the ability to set site thresholds and targets and to demand specific tenures.

The quantity, tenure and location of the affordable housing are determined through negotiations. This process is often very long and can contribute to lengthening the planning process by as much as three years. The case studies suggested that the policy would be more effective if there was greater policy transparency, more effective negotiating teams, the use of financial expertise to analyse developers' site appraisals and the early involvement of Registered Social Landlords (RSL) expertise. Local authorities are becoming more experienced, but have often settled for relatively small financial contributions. The emphasis needs to be shifted from local authorities justifying their local plan target to developers justifying why they cannot meet that target. Social Housing Grant (SHG) funding is also an issue during negotiations, as availability affects both numbers and tenure. Continual re-negotiation of agreements needs to be avoided, and using standardised S106 agreements would save time and costs. Rural housing enablers were seen as improving the effectiveness of the rural exception process.

Costs and additionality

The numbers of affordable homes achieved, the Total Cost Indicator (TCI) which determines whether the Housing Corporation will help fund the project, discounts and grants are all closely interrelated. Many of the discounts are being used to enable the project to come in under TCI rather than to add to the total output of affordable housing.

The costs per affordable unit on S106 sites, including land, range from below £30,000 for a small

rural exception site used for shared ownership up to £135,000 per unit for rented flats in a central London luxury development. On half of the sites where the total unit costs could be estimated, these are below £60,000. In the majority of these cases, the land has been given free or heavily discounted. Three-quarters of these sites are small – sometimes very small – rural exception sites.

Of the thirty per cent of sites where costs are between £61,000 and £100,000 per unit, all are in the South and the majority are large. Those over £100,000 per unit are brownfield sites in the South, with a majority of output for rent.

The evidence on who pays suggests that:

- while the developer contributions may look quite large in relation to the affordable housing itself, they are usually quite small when measured across the whole development;
- even where the developer contribution is large and grants are high, the potential rents are also high;
- even with developer contributions and SHG, the RSL often has to make a contribution from internal funds;
- only in London are the developer contributions significant across the value of the whole scheme. This is partly because of the very high land values and thus the capacity to negotiate higher proportions of affordable housing. The results are still expensive.

Overall, in the South the impact of S106 agreements is more to bring particular developments within the bounds where schemes can obtain SHG than to maximise the financial contributions made by developers. In the North, S106 agreements are more likely to make land available for shared ownership and other low cost home ownership without the need for subsidy.

Meeting the needs

The findings of the project show that little additional affordable housing is being secured. Instead, where the planning system has succeeded is in finding the sites where SHG can be invested to secure affordable housing (see Table 2).

The best estimate of the annual need for affordable housing is just over 80,000 (made by Holmans in 2000). About 29,000 affordable homes are being provided with the assistance of government grant, including perhaps 8,000 which involve S106 agreements; perhaps 4,000 are coming from planning agreements without any government subsidy; and a

Table 2: **The gap between need and provision: ADP funding of Section 106 sites**

Annual need for new affordable homes (Holmans, 2000)	80,000
Less annual output of new build by RSLs, funded by ADP/LASHG on S106 sites	8,000
Less annual output of new build by RSLs, funded by ADP/LASHG but not on S106 sites	21,000
Less additional annual output from planning gain, not funded by ADP/LASHG	4,000
Less annual output of other new affordable homes	5,000
Equals annual deficit in total output against need	44,500

Note: ADP, Approved Development Programme; LASHG, Local Authority Social Housing Grant

further 5,000 are anyway affordable through other means. On this basis, less than half of what is required is being provided. If, instead of the Holmans' estimate of need, the indicative figures in the Regional Planning Guidance (RPG) for regions are used where affordable needs have been estimated, there is still a considerable shortfall. These published RPG figures suggest a national need for affordable housing of approximately 67,000 per annum, leaving a national deficit of 29,000 homes each year, once all sources of output have been taken into account.

Conclusions

The research suggests the process of obtaining affordable housing is still bedding down. Yet its maximum potential can only provide land and some financial contribution towards perhaps 15 per cent of total output. Introducing a tariff system, as proposed by the Government, may make it possible to increase developer financial contributions but will not remove the need for site by site negotiation. SHG would still be required on the majority of sites, stretching additional resources to their limits and implying that the extra output would not in the main be additional to the SHG programme.

About the project

The study aimed to evaluate the processes by which affordable housing is achieved through the planning system, to assess outputs, and to identify who is paying for the homes provided. The study was based on an analysis of Housing Investment Programme (HIP) data, a postal questionnaire to 197 planning authorities (achieving a 59 per cent response) and case study visits to 40 of those responding. Site-specific analysis was also undertaken in a sub-sample of 16 authorities, and focus groups held with key regional actors.

The study was funded by the JRF, the Countryside

Agency, the Housing Corporation, the RICS and the RTPI. The work was undertaken by Professor Tony Crook, Steven Rowley and Alastair Jackson at the University of Sheffield and by Professor Christine Whitehead, Sarah Monk, Jennie Curry and Kerry Smith at the University of Cambridge. Interim findings from the project were published in October 2001, together with a Discussion Paper, available from the Department of Land Economy, University of Cambridge.

How to get further information

The full report of the research findings, **Planning gain and affordable housing: Making it count** by Tony Crook, Jennie Currie, Alastair Jackson, Sarah Monk, Steven Rowley, Kerry Smith and Christine Whitehead, is published for the Foundation by YPS (ISBN 1 84263 111 X, price £15.95).

The following *Findings* look at related issues:

- **Perceptions of low demand for housing and the reality of housing need and demand**, Jun 99 (Ref: 699)
- **Obstacles to the release of brownfield sites for redevelopment**, May 01 (Ref: 551)
- **The effectiveness of planning policies for affordable housing**, Nov 01 (Ref: N41)