

# RETHINKING PLANNING OBLIGATIONS BALANCING HOUSING NUMBERS AND AFFORDABILITY

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## Can planning obligations deliver the affordable homes we need?

Changes to the planning system and volatile markets are restricting the ability of planning obligations to provide homes for those on lowest incomes. At a time when needs are rising, the numbers delivered have halved. Finding ways to increase provision is essential.

This report:

- provides the most up-to-date national picture of the variations in the delivery of homes through planning obligations over time and between areas;
- uses six case studies of contrasting local planning and housing market areas to explore in depth the factors affecting the operation of planning obligations and what changes could increase delivery by drawing on interviews, workshops and analysis of policy documents;
- explores how planning obligations are being supplemented in these case study areas by a range of innovative mechanisms and how localised housing strategies are evolving with the potential for wider application.

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# EXECUTIVE SUMMARY

Central to the issue of how housing policy can make a contribution towards tackling poverty is the continued supply of affordable housing. Planning obligations have emerged as one of the main ways in which new affordable homes are built but their operation varies according to local housing market conditions and has been affected by recent policy changes. This research re-examines the effectiveness of planning obligations and uses case study research to identify how the supply of affordable housing can be increased in areas where planning obligations are not meeting local needs.

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## Background

While the need to increase the *numbers* of houses provided has been recognised by government there is less focus on the *affordability* of these homes. Recent estimates suggest that there is a current shortfall of 300,000 affordable homes in England (Clarke and Burgess, 2012). This increases every year as numbers delivered continue to fall short of what is required. In addition the introduction of the Affordable Rent Model (ARM) has shifted provision away from social rented housing and cuts to the government's Affordable Homes Programme have reduced the resources to deliver affordable homes.

Planning obligations are legal contracts made under Section 106 of the Town and Country Planning Act 1990, often referred to simply as S106. They are agreements between local planning authorities (LPAs) and developers to secure financial contributions towards essential infrastructure associated with a development. They have become a major way in which the planning system contributes to the supply of affordable housing, yet questions have been asked about their effectiveness in delivering the number of homes required across a range of localised housing markets. There

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have also been significant changes to the planning system, including the importance given to the economic viability of schemes and the introduction of the Community Infrastructure Levy (CIL), which could restrict supply through S106 further.

Given these challenges, this research considered how planning obligations can be rethought and what additional mechanisms there are to increase the supply of affordable homes.

## S106 – the current picture

This study shows the following:

- S106 remains an important mechanism to deliver affordable homes but policy change and volatile markets have led to variable performance. In 2013/14, 16,193 homes were completed through S106 in England (37% of all affordable homes) compared with over 32,000 in 2006/07 (65% of all affordable homes).
- With estimated needs in the social sector of 83,000 homes a year, S106 alone cannot meet the need for affordable homes, but it is in our interests to make it work better.
- Local delivery through S106 varies due to market and policy conditions. Proportions of affordable housing delivered through S106 in 2012/13 in our case study areas ranged from 2 to 87%.
- Assessment of the contribution of S106 is not helped by the lack of consistent and robust government data over time.

Not all housing provided through S106 is accessible to those on the lowest incomes. In some years, 40% of housing provided through S106 has been for low-cost home-ownership, although data has not been collected in recent years. While S106 is delivering significantly in some areas with *high concentrations of poverty* (notably London), the ability of the housing provided through S106 to meet the needs of those on the lowest incomes is affected by local allocation policies and recently in some areas by the introduction of the ARM, which sets rents in the social sector at up to 80% of market rents.

A range of good practice was revealed in the case studies to maximise provision through S106, including:

- ensuring that local planning policies prioritise the provision of affordable housing accessible to those on the lowest incomes;
- specialised viability officers or teams in planning departments and additional training in viability to officers and members;
- review mechanisms and agreements to enable greater levels of affordable housing to be provided in later phases of schemes, should performance be above that set out in the original viability appraisal;
- the use of supplementary planning documents (SPDs) to set localised conditions and criteria for viability assessments and planning agreements;
- the use of SPDs and S106 to specify levels of rents affordable to those on the lowest incomes within developments – these often define ‘affordable’ as being one third of a household’s income as opposed to government definitions of up to 80% of the market value of a home.

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## The impact of changes to the planning system

National and case study data reveals that recent changes to the planning system have impacted on the operation of S106. These changes include the introduction in 2012 of the *National Planning Policy Framework* (NPPF; DCLG, 2012), which allows greater local flexibility in planning, and the Localism Act 2011, which promotes community-led provision. In theory, these changes could support greater localised affordable housing provision; however, other changes are arguably having a more negative impact, including:

- a change in the definition of affordability in the NPPF to housing below market value rather than in relation to what households can afford;
- greater emphasis given to the viability of schemes and the ability of developers to renegotiate agreements if they can show that they can make a scheme unworkable – interviewees reported that lack of transparency and agreed criteria in viability assessments made it more difficult to secure affordable housing in some schemes and suggested that development risk was being underwritten by reduced contributions;
- the introduction of the CIL as a flat-rate charge for all non-site-specific infrastructure apart from affordable housing – this makes S106 the only negotiable element of planning obligations and could increase its vulnerability to viability assessments depending on how CIL levels are set (at the time of the research, few authorities had started to charge CIL);
- the replacement of regional planning with a duty to co-operate between neighbouring authorities – the research revealed a variable pattern of appropriate levels of strategic co-ordination to secure affordable housing.

Since the research was completed, additional changes have been introduced, including a reduction in the threshold for the number of units on a site requiring a S106 and waiving obligations in some schemes in return for a £20,000 discount on market housing. These will further undermine the ability of planning obligations to deliver to those on the lowest incomes and suggest an orientation of planning away from social sustainability towards viability. They will also make it harder to achieve an appropriate balance between numbers and affordability in other key government initiatives such as Garden Cities.

## Supplementing S106

The study reviewed a number of international examples and reports calling for policy change in the UK to reveal the following scenarios for boosting supply:

- increasing investment through, for example, increased government grant, greater financial freedoms for local authorities and the use of non-grant funding;
- using land assembly and planning mechanisms to allocate more land through the planning system by, for example, designating Housing Zones or Garden Cities or using measures such as Community Purchase Orders (CPOs) or land taxation;
- using more effective governance and delivery mechanisms such as special purpose vehicles (SPVs), locally specific housebuilding business models and strategic co-operation and leadership;

- using more localised strategies, through both the Coalition Government's localism agenda and other proposals for greater powers and resources to be devolved to local areas.

The research aimed to explore the possibilities and limitations of these different scenarios within particular housing areas.

Many of these alternative mechanisms to deliver affordable homes are already being implemented in the case study areas in combination with S106. Throughout all areas, SPVs, often combined with the use of public sector land, were significant in delivery. These included local housing companies directly investing in council housing as well as public–private partnerships. Such partnerships enabled housebuilders and agencies to work together to develop delivery models for particular sites that could operate within particular markets and also deliver local benefits such as jobs. Often, but not always, these were regional housebuilders. In terms of finance, despite the use of many innovative sources, the significance of the government's Affordable Homes Programme and of the impact of the cuts to this cannot be underemphasised.

The use of planning mechanisms, including the designation of new settlements and urban extensions, revealed contradictory results as infrastructure costs for transport and education often took precedence over affordable housing investment. This was in some cases, but not all, mitigated by the ability to access other funding for infrastructure. This underlines the need to address affordability and not just housing numbers in proposals to boost supply. Across the case study areas, the government's localism agenda was not making a significant impact on numbers, despite delivering locally tailored schemes. In particular, local enterprise partnerships (LEPs) and City Deals are not prioritising affordable housing within investment for growth. Leadership and political commitment to delivering affordable housing (or lack of it) emerged as a strong factor in all areas. Governance and leadership arrangements to ensure the strategic co-ordination of housing and planning emerged as a key issue. We encountered a variety of arrangements, including regional government (in London only) and formal and informal sub-regional partnerships, which had varying levels of effectiveness.

A key message emerging from the case studies is that the numbers delivered through some of these alternatives can be relatively small, either because of the nature of the provision (e.g. community land trusts) or because of constraints on their operation (e.g. restrictions to Housing Revenue Account headroom). Ways of scaling up need to be explored.

## Conclusions

To better balance numbers and affordability, a dual approach is needed combining the *strengthening* of the operation of S106 with the empowering of local authorities and their partners to *supplement* S106 provision through locally driven strategies for affordable housing provision. This should be facilitated and enabled through national and local policy and investment strategies.

Key to *strengthening* the operation of S106 will be:

- promoting the good practice already identified;
- realigning definitions of affordability in planning legislation to households' ability to pay;

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- reaffirming the priority given to achieving social sustainability through the planning system;
  - reversing recent changes to national policy, which have relaxed the need for planning obligations on some schemes;
  - introducing agreed viability assessment guidelines, which ensure transparency and set parameters for building costs and land values that allow for the extraction of an appropriate amount of the uplift in value resulting from the granting of planning permission (e.g. the existing use value, not the market value, of land).

Case studies such as Cambridgeshire revealed a 'golden triangle' of land availability, finance and strategic leadership at the local level as having the greatest potential to *supplement and enable S106 provision*. Proposals to scale this up could include:

- promoting strategic leadership opportunities through an enhanced duty to co-operate and increased action by LEPs and City Deals to address housing;
- devolving increased financial capacity to the local level through the ability to access and borrow national funds
- enabling SPVs through public sector land assembly by lifting the requirement to dispose of public land at the highest price and the use of CPOs.



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# INTRODUCTION

It is now widely acknowledged that there is a pressing need to increase the supply of housing in England, including for those on the lowest incomes. Planning obligations are a major way in which the planning system contributes to the supply of affordable housing, yet numbers delivered are still insufficient to meet overall needs, vary greatly between different parts of the country and have been affected by the economic downturn and changes to the planning system. Given these challenges, this research explores what works and what doesn't in the operation of planning obligations and whether there are alternative localised ways of increasing the supply of affordable housing.

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## **More homes are needed for those on the lowest incomes: can planning obligations deliver sufficient numbers?**

With 3.1 million more people in the United Kingdom (UK) pushed into poverty in 2010/11 by their housing costs (Tunstall *et al.*, 2013), the Joseph Rowntree Foundation (JRF) is currently exploring how housing policy can make a more effective contribution towards tackling poverty. Central to this issue is the continued supply of affordable homes, explicitly including new homes at social rent levels. Planning obligations secured under Section 106 of the Town and Country Planning Act 1990 (S106) require developers and land-owners to provide community benefits, including affordable housing, from the uplift in land values created as a result of the granting of planning permission. In a time of a reduction in public sector funding, when it was introduced S106 became a significant mechanism to secure affordable housing as it brought together the securing of land for affordable housing,

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the securing of cross-subsidy for that housing and the delivery of mixed communities.

However, linking the provision of affordable housing to highly volatile housing and land markets led to great variations in delivery over time and space. Questions were also asked about the effectiveness of S106 to deliver the number, quality and types of housing needed, particularly for those on the lowest incomes. These concerns have been added to by changes in the planning system, which has introduced a new form of obligation to fund infrastructure: the Community Infrastructure Levy (CIL). Viability concerns have also been given greater weight, as it is possible for developers to argue for reduced obligations to enable a scheme to become economically feasible. It is therefore important to re-look at the ability of planning obligations to deliver to those on the lowest incomes.

In addition, there has been much focus recently on the gap between the numbers of homes being built in England against the numbers needed. A range of scenarios and policy solutions have been put forward aimed at filling this gap, including Garden Cities, Housing Zones and Neighbourhood Development Plans (NDPs). But while the need to increase the *numbers* of houses provided has been recognised by government, there is less focus on the *affordability* of these homes, particularly to those on the lowest incomes. Given that planning obligations are unlikely to ensure adequate affordable provision, this report examines how additional ways of providing affordable homes can be developed in a variety of local housing market areas.

## The aims of the research

This research aimed to identify what works where and what doesn't in the operation of planning obligations to deliver to those on the lowest incomes and what alternatives there are. In particular, the research addressed the following questions:

- Where are current planning obligations, including S106, successful in delivering affordable housing?
- Where are planning obligations successful in providing housing specifically for those experiencing poverty, i.e. those receiving less than 60% of the median income?
- How much additional market and affordable housing is actually being delivered through planning obligations?
- How is the profile of stock delivered through planning obligations changing?
- What market-based and/or publicly funded and/or hybrid alternatives can be used where planning obligations cannot deliver any or sufficient affordable housing?
- What would a framework of localised approaches to planning obligations include and what would it exclude? (And why?)
- What policy and practice options are available where local markets are not strong enough to support planning obligations and where obligations are not delivering enough affordable housing?

## Methods

The project was carried out by a team at Oxford Brookes University led by Sue Brownill and including Youngha Cho, Ramin Keivani, Ilir Nase,

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Lesley Downing, Dave Valler and Nicholas Whitehouse, with Penny Bernstock from the University of East London. It drew on secondary data including government data on S106 delivery and a literature review of the operation of planning obligations and their alternatives in the UK and internationally. Primary research included national scoping interviews and six case studies of areas chosen to represent a typology of housing market and policy characteristics (Birmingham, Cambridgeshire, Cumbria, London, Newcastle and Oxfordshire). Interviews, documentary analysis and a selection of at least three illustrative projects were used to build up a picture of the operation of S106 and emerging alternatives in each of these areas. A series of 'backcasting' workshops were held in each of the case study areas to discuss the potential of a range of different scenarios for delivering more affordable homes and a national stakeholder workshop fed back expert comments on the findings. Further details of the methodology can be found in Appendix A.

## **The structure of this report**

Chapter 1 explains what planning obligations are and how they can deliver affordable housing and looks at recent research on their operation and effectiveness. It explores changes to the planning system and draws on literature from the UK and abroad to set out alternative scenarios for delivering affordable housing.

Chapter 2 looks at the operation of planning obligations and the impact on the ground of recent changes to the planning system nationally and in the six case study areas. It also identifies good practice in maximising output under current policy.

Chapter 3 looks at how planning obligations and alternatives are combining together in the case study areas to deliver affordable housing. It considers what is working where and identifies good practice.

Chapter 4 identifies the mechanisms considered by participants to have the greatest potential in enhancing the supply of affordable housing in particular localities.

Chapter 5 draws out conclusions from the research and identifies policy implications and recommendations.

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# 1 PROVIDING AFFORDABLE HOMES THROUGH PLANNING OBLIGATIONS – OPPORTUNITIES, CHALLENGES AND ALTERNATIVES

## Introduction

The literature reveals the past significance of planning obligations to the delivery of affordable housing but also a range of factors that influence their effectiveness. Recent changes to planning and housing policy have been introduced that affect the context within which planning obligations operate. A range of alternative mechanisms exist to deliver affordable housing, which need to be considered alongside planning obligations.

## What are planning obligations?

Planning obligations are legal agreements between planning authorities and people with a particular interest in a piece of land. They are attached to a decision on a planning application and therefore are more usually called Section 106 agreements (or just S106) after the section of the 1990 planning legislation that formalised them – the Town and Country Planning Act 1990.

Planning obligations are secured through negotiation between the local planning authority (LPA) and the developer and are designed to make what would otherwise be an unacceptable development acceptable by mitigating its impacts or prescribing the nature of its development. They are also used to secure financial contributions for essential infrastructure such as affordable housing, transport and open space – in effect extracting some of the uplift in land values as a result of the granting of planning permission for community benefit. As a result, they have become a widely used tool to fund affordable housing provision.

Theoretically, the costs of providing housing or fulfilling other obligations are passed on to the land-owner, but a developer may have already bought the site in question (or an option to it) meaning obligations have to be met out of development profits and not passed on in the form of a lower land receipt. This has implications for the discussion of viability below. Although it is hoped that the developer contributions will cover the total cost of the affordable provision, in practice, grant is often secured to 'top up' the

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planning obligations to make the scheme work. Whether this makes grant work harder by enabling grant to be spread around more developments or it skews grant towards particular developments is a matter for debate.

Planning obligations operate within the context of local planning policies. For example, if an LPA has set a policy that 30% of all housing built in its area should be affordable, the S106 agreement is the mechanism by which this can be achieved (see Box 1). Planning obligations can be on-site – i.e. the affordable housing is provided within the development covered by the planning application – or off-site. Off-site gain can take the form of provision on a different site or what is called a ‘commuted sum’, whereby the cash equivalent of providing affordable homes is paid by the developer to the local authority, which then uses this to provide affordable housing elsewhere. Planning policies may also set a threshold on the size of a site or the number of units to which planning obligations apply. For example, some authorities ask for off-site gain below ten units and then seek a proportion of on-site gain on ten or more units.

### **Box 1: General S106 operation**

Anytown Council has a planning policy that 30% of new housing in its area should be affordable. As part of the process of deciding on a planning application for 300 homes, it negotiates with the developer to secure 100 affordable homes on the site through a S106 agreement. The developer has formed a partnership with a registered social landlord (RSL), which successfully bid to buy and subsequently manage the units. The RSL also secured a grant from the Homes & Communities Agency (HCA) of £10,000 per unit.

## **What is ‘affordable’ housing?**

‘Affordability’ is a word that is much used and abused, making precise definitions contentious. Definitions can be by the type of ‘product’ – e.g. low-cost home-ownership or social rented housing – or be linked to the relationship between costs and ability to pay. Academics have long acknowledged the difficulties of pinning down affordability due to both equity and the practical and conceptual problems in identifying and applying different criteria and thresholds to determine appropriate costs in relation to income (Stone, 2006; Paris, 2007). Despite this, most guidelines range between 25 and 30% of a household’s net or gross income (Paris, 2007; Stark, 2008; Shelter, 2011; Pittini, 2012). Similar levels have been adopted in practice; while ‘there is no definitive measure of affordability in this sense ... it has certainly become an industry norm in the past few years to look to limit rents to around a third of household income’ (LBL, 2014, p. 2). By contrast, the Affordable Rent Model (ARM) determines ‘affordable’ rents as being 80% of market rents. Affordable housing can therefore be:

- below market costs;
- a proportion of market costs;
- at social rent equivalent (set by a formula linked to housing costs and incomes in an area); or
- a percentage of gross incomes.

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There is also the question of who housing is affordable to. Given the current situation in England of high house price to income ratios, the inability of middle-income households to get onto the property ladder in some parts of the country is a key 'affordability' issue. However, this report is primarily concerned about affordability for those in poverty, i.e. those with less than 60% of the median income. By definition, therefore, the report is in the main focusing on housing provided at social rented or equivalent levels. As such, the report uses two terms: affordable housing refers to the general usage of the term and affordable housing at social rent or equivalent (AHSRE) refers to housing within the reach of those on the lowest incomes.

## **How and why have planning obligations become so important for the provision of affordable housing?**

The principle of extracting some of the uplift in land value arising from the granting of planning permission has a long history in planning. A variety of mechanisms have been used in the past, such as the betterment levy or the Community Land Act 1975, which proved contentious and often short lived (Cullingworth and Nadin, 2006). By contrast, planning obligations proved a generally robust system for around 20 years, partly because of the policy context at the time of the 1990 Act that introduced them. This was one of:

- local authorities being prevented from building social housing;
- a reduction of the amount of government grant for building affordable housing (as opposed to Housing Benefit); and
- the requirement for mixed funding with a limit of 50% grant per unit.

Planning obligations therefore became a very attractive way of securing affordable housing through combining the provision of two key factors: land and finance. The literature shows that, by 2007–08, S106 agreements were securing £2.6 billion in cross-subsidy for affordable housing and were responsible for over half of the affordable housing delivered in England (DCLG, 2010b). However, even these numbers were not meeting needs.

A degree of consensus, familiarity and certainty therefore emerged around the role of S106 as a major provider of affordable housing even though it was arguably never intended for this purpose and there has not always been agreement that planning obligations formed the most effective or appropriate way of delivering affordable housing. One interviewee in the present study referred to it as "one of those least-worst situations". As recently as 2011, some commentators were asserting in relation to proposed changes to the planning system impacting on S106: 'if it isn't broken, why fix it?' (Burgess and Monk, 2010).

## **What factors affect the ability of S106 to deliver affordable housing to those on the lowest incomes?**

Despite its popularity, the literature and our scoping interviews also suggest that a range of issues affects the operation of S106, including the following:

- The skills of the LPA in negotiating agreements – although skills have increased over time, entering into financial and legal discussions with commercial developers often advised by experienced consultants has

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been a challenge for some authorities, meaning that the best deals have not always been secured (Crook and Monk, 2011).

- Competing priorities for the planning obligations 'cake' between affordable housing and other infrastructure provision, particularly on large sites (DCLG, 2014b) – Bowie (2010) shows that in London between 2004 and 2009, applications called in by the Mayor of London secured lower percentages of affordable housing than the boroughs due to the emphasis of the Greater London Authority (GLA) on transport infrastructure.
- The setting of 'aspirational targets' – a number of interviewees considered that there is a tendency for some LPAs to set targets unrealistically high either as a negotiating tool or as a response to political pressures.
- The strength of the local housing market – planning obligations are inextricably linked to volatile housing and land markets, which means that their delivery varies through time and space as these markets change. Areas with persistently weaker housing markets are also less likely to secure housing through S106 (DCLG, 2014b). Developers argue that when markets dip, planning obligations can make a scheme financially unviable. The economic recession that began in 2008 also brought into stark relief the reliance on the capacity of the market enshrined in S106.

In terms of ability to deliver to those on the lowest incomes, there have also been concerns about the type of housing provided through S106. For example, the analysis in the next chapter shows that in years when the market was stronger there was a shift to the provision of low-cost home-ownership and away from social rented housing. The size of the units delivered can also be dependent on market provision e.g. two-bedroomed flats rather than the family houses that may be more appropriate to meet needs (Bowie, 2010). Interviewees repeated long-standing concerns that the social housing provided was often bunched on the least desirable parts of S106 sites. Finally, some housing associations we spoke to were unwilling to enter into bidding for S106s because competition between housing associations to secure the initial contract often increased the level of bids and, if successful, the housing association would be dependent on the timescales and delivery systems of the developers, which could tie up development capacity.

## Recent planning reforms

Recent policy reforms have brought in significant changes to the context and operation of S106. These include:

- the Localism Act 2011;
- the *National Planning Policy Framework* (NPPF) (DCLG, 2012);
- the Growth and Infrastructure Act 2013; and
- Planning Practice Guidance (DCLG 2014a).

Such changes are the latest in a number of periods of reform since the 1940s, which have swung between defining the purpose of planning as either intervening in or facilitating the market. During some periods, the predominant view was that planning is a restriction on the market and therefore, for example, the best way to boost housing supply is to make planning more flexible to enable and support market relations (Cheshire,

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2014). The resulting increase in supply will then bring down housing costs. According to this view, planning obligations can have a negative impact on the economic viability of developments, particularly if LPAs attempt to extract 'unrealistic' amounts of value.

An alternative view is that planning is needed to bring forward land, to contain urban sprawl and to ensure environmental and other standards (KPMG and Shelter, 2014; Cochrane *et al.*, undated). This is because land markets do not operate perfectly and can, through practices such as land-banking, restrict supply and housing numbers. In addition, planning is seen as having a social purpose both in extracting some of the uplift in value that accrues to sites on the granting of planning permission and in addressing issues of equity and poverty (TCPA, 2014).

A third argument is that more localised and community control over planning decisions will provide housing in line with local needs as well as making housing development more acceptable to local communities.

Since 2010, the planning system within which S106 operates has been reformed to reflect the first and third of these approaches. The challenges to the operation of S106 noted above have therefore been added to but new possibilities have arguably emerged.

Among the changes introduced by these reforms are the following:

- The NPPF introduced a simplified policy regime, which aims to support sustainable development and local flexibility (DCLG, 2012). However, changes to the *definition of affordable housing* for planning purposes in the NPPF have removed the requirement from the planning policy guidance it replaced to provide for eligible households 'at a cost low enough for them to afford'. This separates the provision of affordable housing as a 'product' (which the planning system can supply) from 'affordability', which is now seen by government as the responsibility of non-planning mechanisms, which aim to 'steer households to properties they can afford'.
- Planning Practice Guidance was introduced in 2014 to provide further clarification on how the NPPF is expected to be implemented, replacing a large number of previous guidance documents (DCLG, 2014a). Of relevance to this research are guidelines on establishing future need for housing, which set out how LPAs with a worsening affordability position (defined by the relationship between lower-quartile house prices and lower-quartile earnings) should treat this as a market signal to increase planned housing numbers and land availability. This was referred to as an 'affordability test' in the publicity (but not the guidelines themselves) and indicates how practice under the NPPF may be evolving to address particular needs. However, it should be noted that this refers largely to 'market signals' and does not replace the definition of affordability in the NPPF.
- There is increasing weight given to the *viability* of development to planning practice (although it should be recognised that viability is not a new planning issue). Paragraph 173 of the NPPF (DCLG, 2012) states that 'the sites and scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened'. Box 2 indicates how this operates. A range of models and guidance to assess viability are now in operation (RICS, 2012). The Growth and Infrastructure Act 2013 introduced the right for developers to renegotiate or appeal against



## Box 2: Viability and S106

Anytown Council has a planning policy that 30% of new housing in its area should be affordable. A developer has submitted an application for 300 homes and carries out a viability appraisal, which indicates that the scheme is viable only with a level of 15% affordable homes. A S106 is agreed in line with the assessment and 50 units are delivered via an RSL partner.

agreed S106s if they could show that obligations made the scheme unviable.

- The CIL was introduced as a flat-rate, non-negotiable charge for infrastructure provision on new development, which replaces S106 for all non-site-specific infrastructure apart from affordable housing (DCLG, 2010a). This makes an affordable housing S106 the most significant negotiable element of a scheme and thus even more sensitive to viability appraisals.
- Localism is being promoted as a way of unblocking housing supply. This includes:
  - new community rights;
  - giving greater financial freedoms to local government through e.g. the devolution of control of the Housing Revenue Account to local authorities, enabling them to borrow against income (within a cap); and
  - the establishment of local enterprise partnerships (LEPs) to promote economic growth.
- Localism is being further promoted by the abolition of Regional Spatial Strategies and their targets for housing delivery. They were replaced by a ‘duty to co-operate’ to encourage authorities to consult and work together on strategic issues. The NPPF also requires LPAs to work with neighbouring councils to prepare a robust evidence base of the need for market and affordable housing in the form of a Strategic Housing Market Assessment (SHMA). This should be accompanied by a Strategic Housing Land Availability Assessment (SHLAA), which identifies the sites to meet that need.
- Some of the ‘red-tape’ of planning has been removed in order to promote development. Change of use of many offices to residential use is now allowed for a period of three years up to 2016 without planning permission (or an S106). Proposals to exempt smaller sites below ten units from S106 were proposed in May 2014 and confirmed in November 2014 after the research was completed.

In addition to these planning policy changes, other interventions have impacted on S106 provision. The introduction of the ARM – which seeks to increase the supply of affordable housing through an increase in rental streams by setting rent levels at up to 80% of market rents – has already been referred to. This has been accompanied by a cut in the budget for the funding of affordable housing by central government, e.g. the 2010 Spending Review reduced funding by almost 60%.

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In the following chapters, findings on the impact of these reforms are set out.

Since the research was completed, further changes to the planning system have been introduced, including:

- the waiving of obligations in some schemes in return for a £20,000 discount on market housing to first-time buyers under the age of 40;
- the introduction of a vacant building credit, which will only require planning obligations on the extra floor space provided by bringing a site back into use; and
- proposals to relax affordable housing requirements for self- and custom-built provision.

These will further undermine the ability of planning obligations to deliver to those on the lowest incomes and confirm the re-orientation of planning away from considerations of social sustainability, including who will be the end-users of developments.

### **More homes are needed for those on the lowest incomes – can planning obligations deliver sufficient numbers and, if not, what alternatives are there?**

It is now widely argued that there is a pressing need to increase the supply of housing in England. Estimates suggest that around 250,000 extra homes are needed each year (KPMG and Shelter, 2014) and yet completions are around 100,000 short of this. However, it is important that in the rush to provide the *numbers* of homes to meet current need, the *affordability* of those homes, particularly to those on the lowest incomes, is not forgotten. This was underlined in 2012 by the-then Planning Minister, Nick Boles, who stated in a debate on the Growth and Infrastructure Bill:

‘We want homes built. We want them built now, and if that means fewer of them can be affordable, because more of them have to be market, because market values have decreased and the potential for cross-subsidy has therefore declined, so be it.’  
Boles (2012)

Yet estimates show that we need to be building around 83,000 homes each year in the social sector (Holmans, 2013), against data from Communities and Local Government (DCLG Live Table 1011), which shows that just 43,451 affordable homes were completed in 2013/14, the last year for which figures are available, of which our data show 16,193 (37%) were through S106. Even at its peak in 2008/09, S106 provided around 32,000 homes, making it clear that, on their own, planning obligations cannot deliver the numbers of affordable homes needed.

However, it is also important to recognise that housing needs vary across the country and while numbers may be needed in areas with strong housing and labour markets such as South East England, in other parts of the country there is a different picture. Dorling (2014) goes further to argue strongly that the focus on numbers in current English housing debates serves to mask major inequalities between different parts of the country and in access to housing by different sections of the population. The case studies in this report indicate the importance of looking at local circumstances.

Given these challenges, how can the supply of housing for those on the lowest incomes be increased in areas where it is needed and how can planning best contribute to this? Reviews of international examples (see, for example, Curran and Whitehead, 2011; Buitelaar and De Kam, 2012; Gibb *et al.*, 2013; Monk *et al.*, 2013) and a number of reports calling for policy change in the UK (Morton, 2013; TCPA, 2012; KPMG and Shelter, 2014; The Lyons Housing Review, 2014) suggest a range of areas of reform/innovation. These can be grouped into four areas, as outlined in Figure 1 and discussed further below.

### Land assembly and planning

The availability and cost of land are crucial and a number of different proposals address this, including the following:

- **Giving greater powers to local authorities and others to assemble land at existing use or agricultural value.** This could be through CPOs or other methods, including:
  - SPVs and partnerships;
  - incentivising land-owners through joint venture schemes;
  - offering fixed purchase percentages above current value; or
  - regulatory powers limiting/prioritising sale to public authorities (Monk *et al.*, 2013; KPMG and Shelter, 2014).
- **Releasing greenbelt land or swapping sites within the greenbelt.** This would require a more flexible approach to the greenbelt boundary, utilising strict monitoring of its impact to allow adjustments in the boundary at regular intervals and other instruments such as land swaps giving development permits to brownfield land situated within greenbelt areas but adding additional more suitable land to the greenbelt (Monk *et al.*, 2013).
- **Alternative land value capture mechanisms.** While S106 is in essence a form of land value capture, it becomes less effective in capturing value in market downturns as well as lacking a clear mechanism for linking it to house and land price movements. Therefore, other mechanisms – such as a Development Land Tax, as in Ireland, or taking equity stakes in schemes

**Figure 1: Alternatives to S106 and planning obligations**

<p><b>Land assembly and planning</b></p> <ul style="list-style-type: none"> <li>• Allocating more land through the planning system.</li> <li>• Incentives or measures to bring land forward for development e.g. Compulsory Purchase Orders (CPOs)</li> <li>• Greenbelt swaps/release</li> <li>• Alternative land value capture mechanisms</li> <li>• Drawing on examples from abroad e.g. the Dutch Vinex urban extension programme</li> <li>• Designating Housing Zones or Garden Cities</li> </ul>	<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>• Greater public sector investment through increased government grant and greater freedoms for local authorities</li> <li>• Non-grant funding</li> <li>• Housing banks or revolving funds</li> <li>• Securing adequate finance for infrastructure provision</li> </ul>
<p><b>Localism</b></p> <ul style="list-style-type: none"> <li>• NDPs and community land trusts (CLTs)</li> <li>• City Deals and LEPs</li> <li>• Greater powers and resources to local areas for strategically led housing and planning programmes</li> </ul>	<p><b>Governance and delivery</b></p> <ul style="list-style-type: none"> <li>• New partnerships and special purpose vehicles (SPVs), including partnerships between the public and private sectors and social enterprises</li> <li>• Alternative delivery models within the housebuilding industry</li> <li>• Skills upgrade and culture change</li> <li>• Strategic leadership and co-operation</li> </ul>

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through, for example, using public land for developing partnership schemes – may provide alternative routes for greater public gains from land value uplift (Monk *et al.*, 2013). Similarly, consideration could be given to wider use of land re-adjustment or further exploration of public/community land auctions (Connellan, 2002; Leunig, 2011; Monk *et al.*, 2013).

- **Drawing on models from abroad.** In the Netherlands, the Vinex urban extension programme (1995–2005) was based on local authorities taking the lead in providing sustainable urban extensions through land re-adjustment and government subsidies for infrastructure. In all the programme increased the Netherlands’ housing stock by over 7% over the lifetime of the scheme, with the target of 600,000 homes largely being met (Boeijsenga and Mensink, 2008; KPMG and Shelter, 2014). However, housing in Vinex areas tends to be more expensive than surrounding areas and the requirement from government was for an affordable component of only 30%. Vinex’s contribution to addressing the needs of those on the lowest incomes is largely through ‘filtering’ or the freeing up of affordable homes elsewhere. Research indicates that this is leading to greater socio-spatial polarisation, underlining the complexities of the numbers–affordability relationship (Priemus, 1998). A further complication was that as they had become major landowners local authorities were exposed to the financial downturn in 2007/08 (KPMG and Shelter, 2014). A prime example of the German model of large-scale, mixed-use (re)development of city neighbourhoods is the redevelopment of Hamburg port area utilising a sophisticated development mechanism. This involved:
  - large-scale land assembly based on principles of land pooling/re-adjustment;
  - setting up a development company – SPV;
  - drawing up a master plan governing the entire development process, including phased development and housing delivery with a controlled sale price mechanism to prevent speculation by developers (KPMG and Shelter, 2014).
- **Designating Garden Cities, Housing Zones or large-scale urban extensions.** A number of high-profile proposals to promote large-scale, sustainable housing developments have been put forward recently as potential solutions to the shortfall in housing numbers (TCPA, 2012; GLA, 2014; Shelter, 2014). These include the designation of Ebbsfleet in Kent as a ‘Garden City’ by the government and the 2014 Wolfson Economics Prize competition. It is debatable whether all these address the Garden City principles of providing large-scale, sustainable, locally planned developments that capture the uplift in land values from agricultural land for infrastructure for community benefit (TCPA, 2012). In theory, such principles allow for affordable housing but in practice this will need to be prioritised against other infrastructure demands. In this sense, the entry to the 2014 Wolfson Economics Prize competition by the charity Shelter is of interest for making affordable housing an explicit component (Shelter, 2014).
- **Planning as part of the solution, not the problem.** In the light of the debates highlighted earlier about the purposes of planning, international experience supports the view that planning can play an important role in

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intervening in and managing complex land markets (Monk *et al.*, 2013; KPMG and Shelter, 2014).

## Finance

Possible funding mechanisms that potentially can be applicable to the UK are categorised by the following four themes:

- **Increasing government non-grant funding.** For instance, revolving funds could be used, which operate by recycling the original funding for infrastructure as it is paid back through development values. Examples include the South West Regional Infrastructure Fund and the Growing Places Fund. Tax increment financing uses anticipated increases in tax revenues to finance current improvements (such as new or improved infrastructure) that are expected to generate those increased revenues. Tax increment financing can be very important for large-scale regeneration schemes and can be created specifically to fund affordable housing (Northern Ireland Assembly, 2010).
- **Empowering local authorities to invest in housing.** Recent research (BSHF, 2011; Gibb *et al.*, 2013) suggests that local authorities should be able to take greater strategic and operational leadership in providing locally tailored, affordable housing solutions. Greater freedoms given to local authorities in terms of changes to the Housing Revenue Account system have given those local authorities with sufficient headroom greater flexibility to borrow to build. In addition, many local authorities have set up local authority housing companies or are involved in partnerships to directly invest in affordable housing. Local asset-backed vehicles are owned 50:50 by public and private sector partners, with the specific purpose of carrying out large projects. In essence, local authorities invest property assets (e.g. land) into the vehicles, which are matched in cash by the private sector partners. The partnership may use these assets as collateral to raise debt financing to develop affordable housing.
- **Encouraging long-term private investment in affordable housing.** A range of mechanisms to encourage institutional investment in affordable housing are being considered. These include Real Estate Investment Trusts (REITs) that are maybe particularly suited to the private rented sector. In addition with the recovering economy and stronger asset portfolios plus on-going institutional changes (e.g., legal changes in the Finance Bill, stamp duty and the burgeoning institutional investment in the private rented sector) could incentivise private investment in affordable housing (CCHPR, 2012). An example of this can be seen in sale and leasebacks agreements between institutional investors and registered providers. The deals provide long-term secure income streams to investors while providing finance for further properties to be developed. However, they entail risk which is linked to high rents through the ARM. Overall private investment is not a long-term solution as there is a finite supply of existing registered provider stock that can be borrowed against, and could be further affected by proposals to allow Housing Association tenants the Right to Buy.
- **Collaborative models: bond financing.** Bonds raise funds for a particular purpose and offer investors low-risk, low-interest and fixed-income securities. The housing association sector has issued a number of bonds,

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raising £4 billion in 2012 alone (Hammond, 2013). However, while larger housing associations have been able to issue bonds, smaller associations lack the financial resources to raise capital at a reasonable cost.

- A JRF report (Gibb *et al.*, 2013) also identifies **several international policy examples** that have potential merit for the UK context. Among them, the Dutch housing association national surplus fund and the Irish model of private renting with a discounted long-lease rent are worth considering. The Dutch housing association national surplus fund allows creative use of surplus funds and this may be a more acceptable way voluntarily to unlock housing association, long-term 'free' reserves. The Irish model of private renting with a discounted long-lease rent addresses work incentives and increases affordable supply by binding private landlords into long leases and sub-market rents. This model has grown quickly in Ireland and may act to limit future social security expenditure.
- **Ethical/charity finance.** Ethical/charity finance is a growing source of funding for housing. At the institutional level Dutch bank Triodos agreed £100 million in loans to housing associations in the UK during 2009. The bank does not lend more than £30 million to individual housing associations, aiming to support smaller housing associations (CCHPR, 2012). Community-based finance initiatives including the issuing of community shares by charitable and co-operative organisations are also being increasingly explored to fund schemes as is shown in our Cumbria case study.

### Localism

Previous research suggests that governance at the local level may 'be better able to take decisions that meet the aspirations of local communities' (Monk *et al.*, 2013, p. 24) and promote housing development (Burgess *et al.*, 2010). In line with this, the Coalition Government, when in power, introduced a range of initiatives under its localism agenda including:

- It promoted **local flexibility through the NPPF** and abolished Regional Spatial Strategies, as outlined above. However, there are concerns over whether this new local regime will ensure strategic co-operation and enable growth where it is needed (Monk *et al.*, 2013, p. 25). Research has suggested that housing targets in Local Plans may have been reduced by up to 270,000 homes as a result of the abolition of Regional Spatial Strategy targets (Morton, 2012); although this may now be changing as more Local Plans are produced in line with the guidance on housing needs assessment.
- It introduced a range of **community rights** aimed at promoting development at the local level. For example, NDPs enable neighbourhood organisations to draw up statutory land use plans for their areas as long as these are in conformity with local and national planning policy. Accountable bodies in areas with an NDP are eligible to receive up to 25% of the CIL raised on development in the area. To date, around 1,000 neighbourhood areas have been designated. Other rights enable communities to undertake development themselves, including Community Right to Build Orders. There is also increased funding for initiatives such as CLTs, which enable local communities to acquire sites and to promote development.

- In addition to fiscal freedoms such as the relaxing of restrictions on the Housing Revenue Accounts of local authorities, the **New Homes Bonus provides a financial incentive** for local authorities to approve new homes. The New Homes Bonus is paid each year for six years and matches the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. Half the funding for the New Homes Bonus is top-sliced from the general funding for local authorities, which has raised questions about its distributive impacts.
- The **growth agenda** aims to promote economic development through the establishment of **LEPs**, which bring together public and private sector partners to draw up strategies for economic growth and infrastructure for their areas. Funding is available to LEPs through the Regional Growth Fund. A separate initiative – **City Deal** – aims to give cities greater power and responsibility to promote growth. The negotiated deal involves funding from central government to support the cities' plans. LEPs and City Deals can cover a variety of spatial scales and are prescriptive; it is up to the partnerships and cities themselves to prioritise action, which may or may not be relevant to affordable housing.

### Governance and delivery

Governance and delivery are seen as crucial to ensuring increased housing capacity.

- Many reports from the UK and abroad stress the importance of **leadership** at the national and local levels in promoting and building consensus around visions for future development and in bringing together the necessary partners to deliver this (Monk *et al.*, 2013).
- Having appropriate arrangements for the **strategic co-ordination of housing and planning policies, particularly at the regional or sub-regional level**, is also seen as key (Priemus, 1998).
- Both in the UK and abroad, the development of a range of **SPVs**, which bring together partners to deliver particular projects, is seen as an areas with much potential (Monk *et al.*, 2013; KPMG and Shelter, 2014). Such SPVs can provide access to land and finance for affordable housing and may include commercial subsidiaries of registered providers or local authorities that engage directly in development or joint ventures between public agencies (which often provide land) and private partners.
- In addition, it is being increasingly recognised that there are **a range of potential housing delivery models** that can impact on the numbers and type of housing delivered, particularly AHSRE. There has been an increased questioning of some of the models used to deliver private housing, particularly those based on land-banking and the slow release of units in order to maintain price levels (KPMG and Shelter, 2014; Cochrane *et al.* undated). Scoping interviews for this research suggested that local and regional housebuilders may be able to develop delivery models more attuned to local housing conditions. New delivery models are being developed often in SPVs involving national and regional housebuilders, which indicate that building affordable housing and AHSRE can be financially viable. For example, the Kier Kent Initiative between national housebuilders Kier Group and Kent County Council



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involves a land transfer from Kent County Council to Kier in return for the development of 150 units, including affordable housing funded by pension investment, which will be leased by a registered provider (Kier, 2013).

The literature review and scoping interviews revealed a number of recent 'models' and proposals to boost housing supply. There are, however, two aspects of these debates that this research addresses. First, there is nothing inherent in many proposals – e.g. to release more land – that will necessarily provide housing to help those on the lowest incomes. Therefore, this report explores the mechanisms needed to ensure an appropriate balance between numbers and affordability. Second, it is unlikely that one-size-fits-all policies are appropriate to all areas, given the great differences in housing market conditions and needs across the country. This research goes on to explore the initiatives emerging within particular localities to address affordable housing shortfalls and considers how localised housing delivery models can be developed within the context of national policy.



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## 2 PLANNING OBLIGATIONS AND AFFORDABLE HOUSING IN ENGLAND – THE CURRENT PICTURE

The delivery of housing through planning obligations varies greatly through time and space and a range of factors limit its effectiveness. Recent changes to the planning system have also affected the numbers of affordable homes delivered through S106.

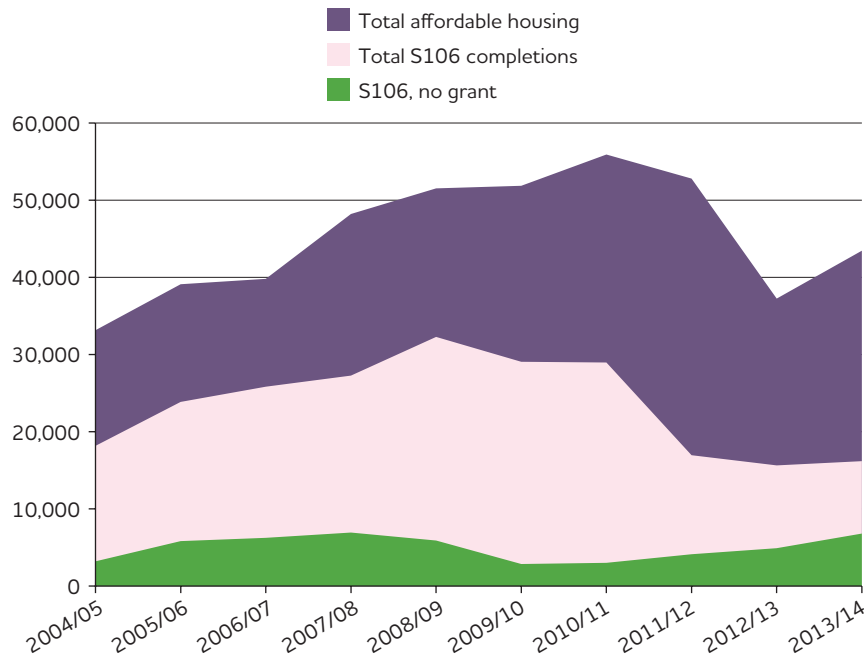
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### The national picture

Figures 2 and 3 and Table 1 show both the significance of S106 to affordable housing numbers and the variability of its performance over time. It is important to look at numbers and percentages separately as the total number of affordable homes completed changes year by year. Nationally, a total of 234,279 homes were provided through S106 between 2004 and 2014. However, this varied between a high of 32,286 in 2008/09 and a low of 15,645 in 2012/13. In terms of percentages, 53.2% of all affordable homes over the decade were delivered through S106, but Figure 3 shows that this halved from 65% in 2006/07 to 32% in 2011/12. While percentages have risen slightly since then, Table 1 shows that the numbers delivered through S106 are still below the 2011/12 total. These changes illustrate the implications of linking affordable housing provision to volatile housing and land markets and the changing policy context.

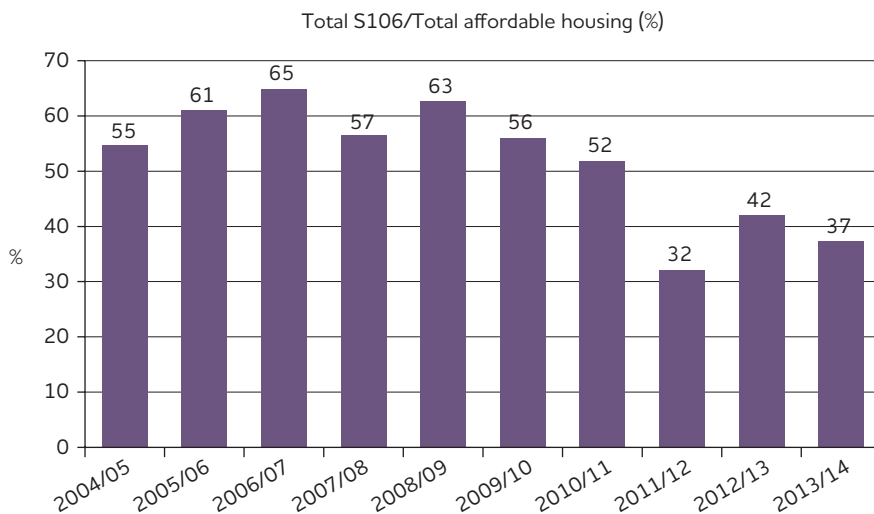
Within this, it is possible to distinguish three time periods; however, it must be noted that as these are numbers for completions (figures for

**Figure 2: Affordable housing completions, 2004/05 to 2013/14**



Source: HSSA Section N, HCA and DCLG Live table 1011 (period: April 2004–March 2014)

**Figure 3: S106 completions as % of total affordable housing in England, 2004/05 to 2013/14**



Source: HSSA Section N, HCA and DCLG Live table 1011 (period: April 2004–March 2014)

S106 starts are not recorded/available), there will be a time delay of around 18 months before some of these impacts are seen in the figures. First, there was a steady increase up to the recession in 2008. Second, between 2008 and 2011, the impact of the recession on affordable housing provision was insulated by the previous government’s programme for investment in affordable housing. During this time there was a slight decrease in S106 completions, which would also be added to by the building out of schemes started before the economic downturn (including the conversion of some private units to affordable housing through grant and other mechanisms). Third, post 2011, the continued recession plus planning reforms and reductions in the budget for affordable homes provision brought in by the

**Table 1: Affordable housing completions, 2004/05 to 2013/14**

Year	Affordable housing completions	Completed through S106	S106 completed without grant
2004/05	33,154	18,175	3,219
2005/06	39,108	23,869	5,839
2006/07	39,808	25,838	6,264
2007/08	48,208	27,273	6,947
2008/09	51,525	32,286	5,912
2009/10	51,858	29,065	2,873
2010/11	55,909	28,972	3,026
2011/12	52,790	16,963	4,138
2012/13	37,250	15,645	4,921
2013/14	43,451	16,193	6,814
Total	453,061	234,279	49,953

Source: HSSA Section N, HCA and DCLG Live table 1011 (period: April 2004–March 2014)

Coalition Government led to a dramatic decline in both affordable housing and S106 delivery. The numbers of homes delivered through S106 fell by over 12,000 (41%) between 10/11 and 11/12. It is clear that as the housing market has begun to pick up after the recession the numbers of affordable homes have not increased significantly.

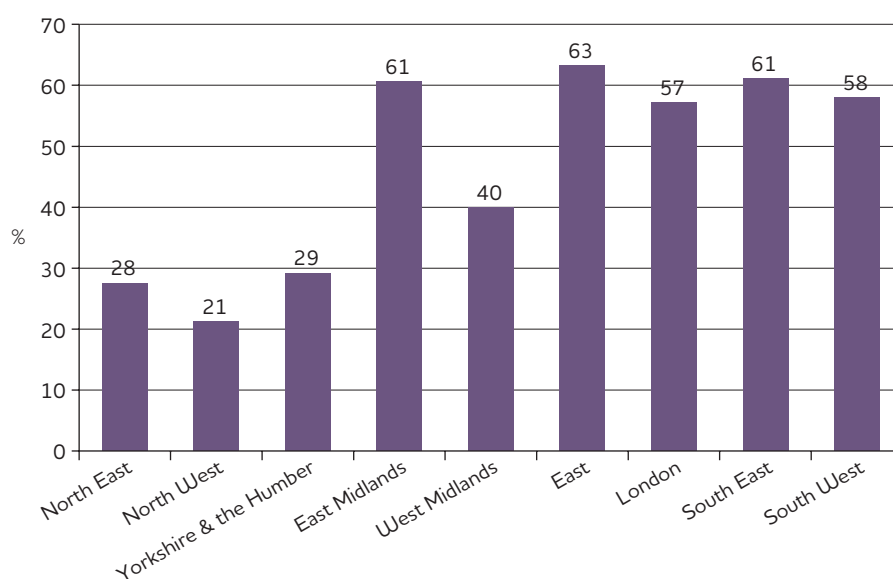
As a specific product of general housebuilding activity, analysis showed that S106 delivery is influenced by housing market conditions, planning policy changes and user demand (see Appendix A). The two most important market effects captured in the data are the 2008 global finance crisis and the 2011 government grant cuts to affordable housing provision.

During all periods, affordable housing numbers and the numbers provided through S106 were not sufficient to meet needs. According to data from the Department for Communities and Local Government (DCLG), 16,193 affordable dwellings were completed through S106 in 2013/14, the last year for which data is available. This compares with estimates of a need for around 83,000 homes per year in the social sector (Holmans, 2013) and an estimated backlog in 2014 of between 180,000 (Shelter, 2008) and 300,000 units (CCHPR, 2012). Even at the peak of around 30,000 S106 units there is a significant gap between needs and provision. Figure 2 also indicates the significance of grant to S106 provision. The area indicated in pink shows units where grant and S106 contributions were combined, suggesting that the majority of S106 units used some form of additional subsidy.

It should be noted that there are issues with the way in which completions are recorded in government statistics. Throughout the study it became clear that data on S106 provision was not consistent over time and recent figures were subject to revision. Differences between DCLG figures and those in local authority S106 Annual Monitoring Reports were also apparent. This suggests that policy is not being based on robust data, which is surprising given the significance placed on S106 by successive governments. Despite these problems, these were the only data sources to meet the study's objectives of drawing out national trends and comparing between areas.

There are also great variations in delivery through S106 between different parts of the country. Figure 4 shows affordable housing completions by region. This indicates that where housing markets are weaker, the proportion delivered through S106 is lower than in areas with stronger

**Figure 4: S106 completions (as % of total affordable housing) by region, April 2004 to March 2013**



housing markets such as London and South East England and in high growth areas such as Eastern England and the East Midlands. Given the tendency for S106 developments in the past to attract grant, this could have implications for the equitable distribution of grant between areas and schemes.

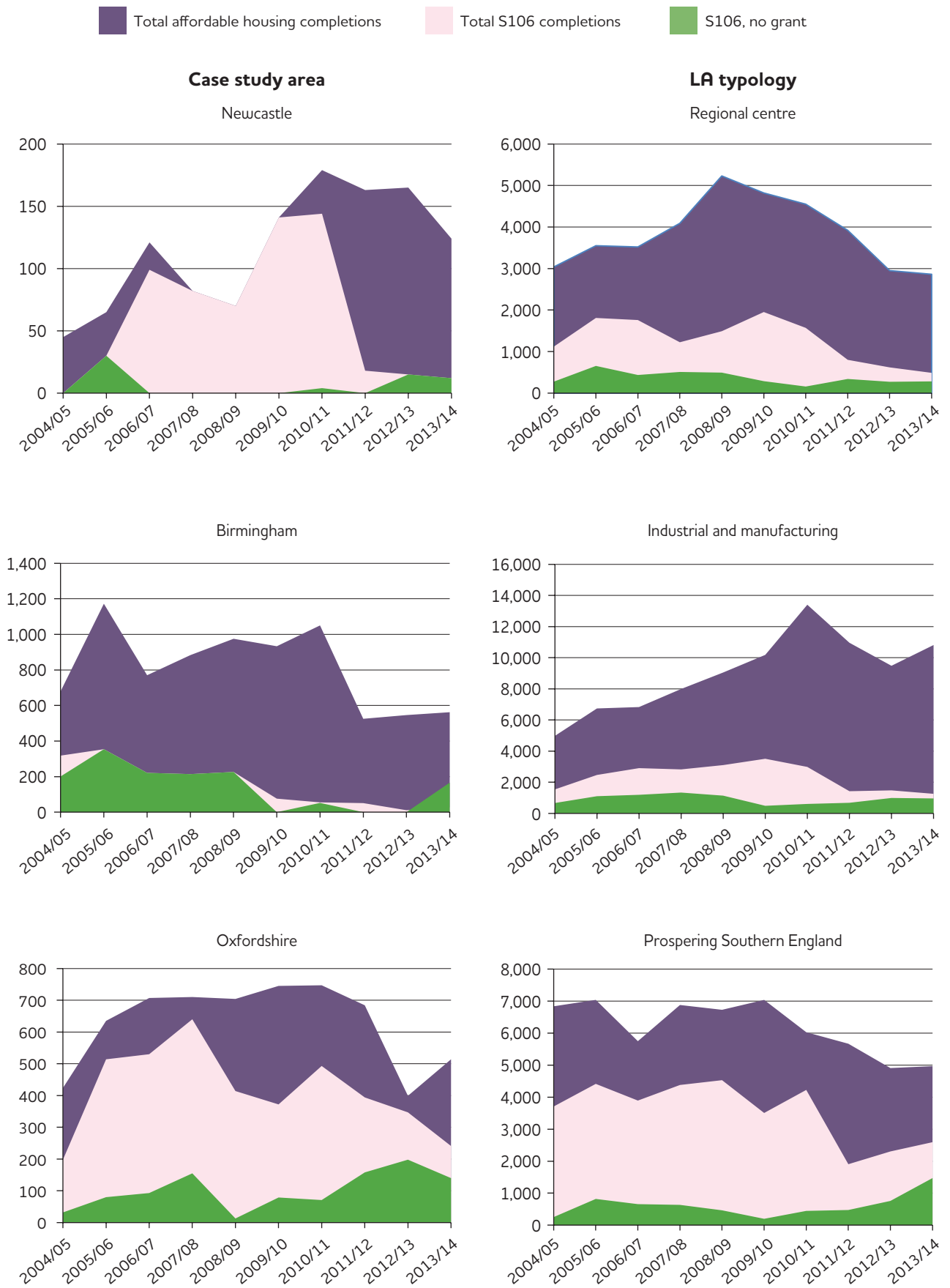
## A regional picture – the six case study areas

This regional variation is shown in more detail in our six case study areas chosen to represent differing housing market and policy typologies (see Appendix A). Based on ONS these typologies and their representative case studies are regional centres (Newcastle); industrial and manufacturing centres (Birmingham); prospering southern England (Oxfordshire); growing towns (Cambridgeshire/Peterborough); coastal and countryside (Cumbria) and London. Figure 5 draws on official statistics to show the numbers of affordable homes delivered in each area including through S106. However we would stress that the limitations in this data already referred to area also evident at the local level. The main features of affordable delivering and the factors affecting it are set out below and summarised in Table 2.

### Newcastle (regional centre)

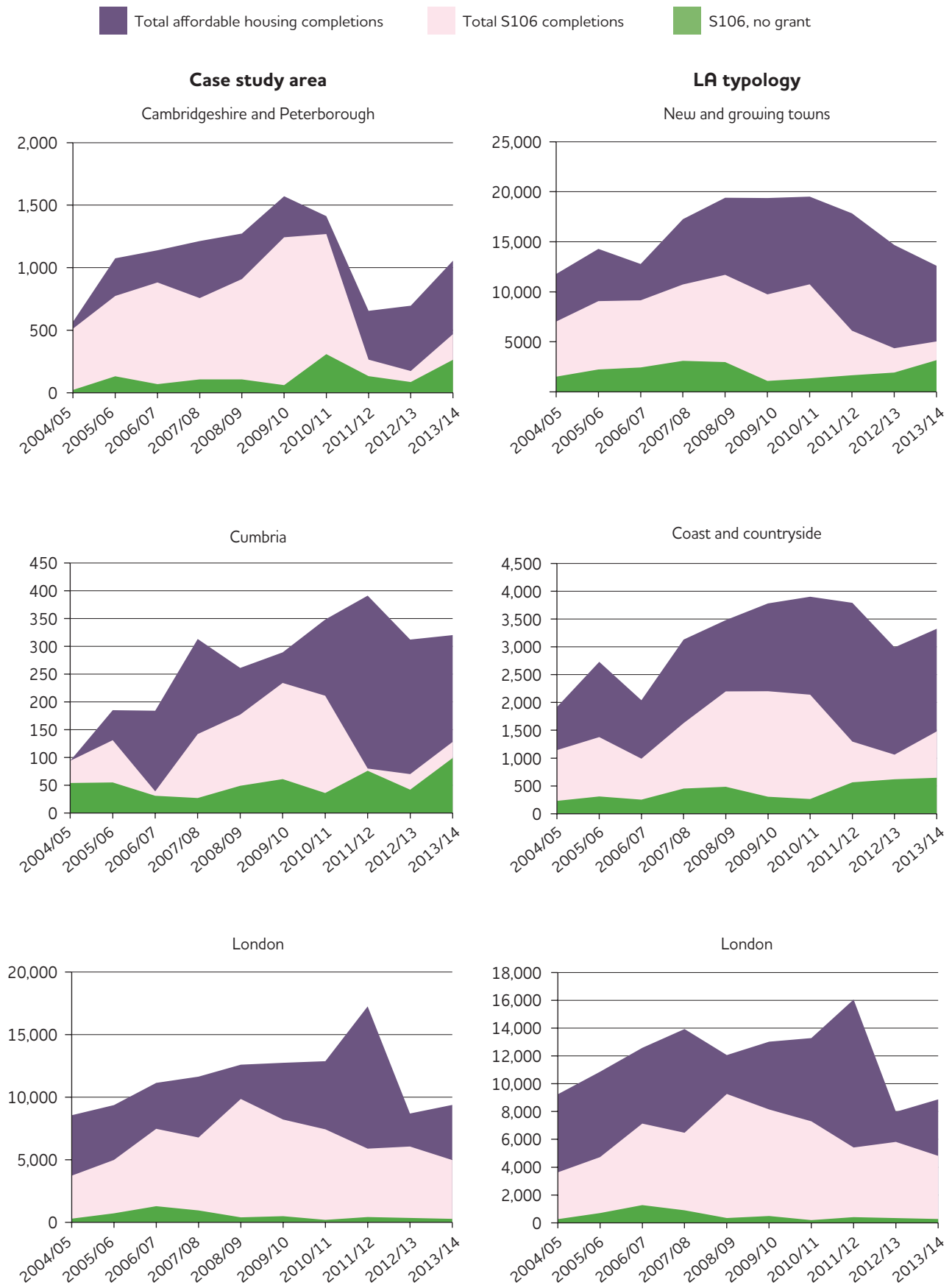
Newcastle has a weak housing market with prices significantly below the national average. Affordable housing delivery numbers are less of a concern than the regeneration of neighbourhoods, the meeting of specific needs and retaining economically active populations. The shift to the ARM has not had any significant impact on affordable housing delivery to the lowest income groups in the city, due to low market rents. The target for affordable housing in the city is 150 units per year. Due to the weak housing market and the need for large-scale regeneration, viability is a major issue and S106 has generally played a very minor role in affordable housing delivery in the area for the past four years – contributing in the region of 10%; the stated Core Strategy policy on S106 requires 15%. Newcastle has seen a dramatic decline in S106 provision from 100% of affordable homes between 2007/08 and 2009/10 to under 1% in 2013/14. The council has taken a very flexible

**Figure 5: Total affordable housing completions according to typology and case study areas, 2004/05 to 2013/14**



continued

**Figure 5: Total affordable housing completions according to typology and case study areas, 2004/05 to 2013/14 (continued)**



Source HSSA Section N, HCA and DCLG Live table 1011

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approach to viability negotiations as it aims to ensure that projects go ahead in adverse economic conditions and regenerate neighbourhoods. Interview information suggests that in some cases the council has withdrawn its requirement for S106 affordable housing delivery on the condition that the development is completed within a given time period and with lower market prices across the board. The council has a localised viability model based on consultation with different stakeholders. However, in cases of unresolved disagreement with developers, it asks consultants to undertake the viability assessment, paid by the developer. In more recent years, the authority has moved to requiring commuted sums from S106 projects rather than on- or off-site development to allow better-targeted interventions in other areas through its Future Homes Fund, which currently stands at approximately £25 million.

### Birmingham (industrial and manufacturing)

Of all our case studies, Birmingham delivers the least proportion through S106 (21% between 2004 and 2014). It has a weak housing market and key sites are often major city-centre regeneration sites requiring significant infrastructure and remediation. Birmingham's property prices have remained above the regional average, but below the national figure from the 2007 peak. Birmingham households' capacity to meet housing costs has been reduced over time. The divergence between the median and lowest quartile in Birmingham became more marked from 2009. The SHMA identified that if affordable rent in Birmingham was set at 80% of the median market rent, very few households in need could afford it without benefit, and it recommended 65% or 70% of the median market rent as affordable. The current Affordable Housing policy, adopted in 2001, seeks to secure 35% affordable housing on sites of 15 dwellings or more, rising to 50% on land owned by the City Housing Directorate and falling to 20% on city-centre sites. The affordable housing component is a mix of 25% social rented housing and/or shared ownership, and 10% intermediate tenure. Viability is a key issue. The Housing Viability Study (Entec, 2010) demonstrated that a 30% affordable housing scheme is unlikely to be viable in anywhere other than the buoyant areas before 2021. Therefore, at present, securing affordable housing through S106 is difficult except in buoyant areas, although figures for 2013/14 show an increase.

Given the polarised nature of the housing market across the city, the council adopts a flexible approach to securing affordable homes where this is justified by site-specific development costs. Planning officers report that developers are seeking to renegotiate the terms of S106 agreements, citing the issue around the viability of schemes. The council's need to balance its priorities also influences the failure to secure the desired percentage of affordable housing. Case officers deal with viability issues and there is no specialised team. Nevertheless, despite S106 levels being low, both Birmingham and Newcastle are using alternative mechanisms to deliver affordable housing, as will be discussed in the next chapter.

### Oxfordshire (prospering England)

By contrast, Oxfordshire delivered one of the highest percentages of affordable homes through S106; 66% between 2004 and 2014, with a high of 86% in 2012/13. The housing market is strong, especially in Oxford City and districts to the south (South Oxfordshire District Council and the Vale of the White Horse District Council). The county faces an affordability crisis, with lower quartile hour price income ratios in 2014 of nine to one on average in the county against a national average of 6.6:1. The ratio rises to

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10:1 in Oxford City and South Oxfordshire and Oxford is regularly reported as being the least affordable city in the country (Osbourne, 2015) The average house price in January 2014 was £253,000, which is 50% above the national average and 13% above the average for the South East region. Overall, county housing completions over the past four years have averaged 1,622 dwellings per year (compared with over 2,800 per year between 2004 and 2008). However, the SHMA indicates a need to deliver 2,370 affordable homes per year. S106 remains the primary vehicle overall for affordable housing delivery and Local Plan affordable housing targets are high, ranging from 50% in the City to 40% in the southern districts, 35–50% across West Oxfordshire District Council and 30–35% in Cherwell District Council to the north. Generally, these targets have been relatively robust and viability challenges have been limited, although South and Vale District Councils – which share an officer team – have been in the process of appointing a quantity surveyor to improve their capacity in potential viability negotiations. Affordable housing delivery is strongly oriented towards affordable rents rather than social rent levels, apart from in Oxford City. Developments on very large sites requiring significant infrastructure provision have tended to negotiate reduced targets for affordable housing. This fragility in S106 affordable provision may be exacerbated with the further implementation of CIL. Housing availability and affordability are a structural challenge. There are long-established policy and strategic differences among the Oxfordshire authorities, which limit the capacity to respond to the affordability crisis.

### Cambridgeshire and Peterborough (new and growing towns)

Cambridgeshire and Peterborough have both been targeted for growth in recent years. The Cambridge sub-region covers five district councils: Cambridge, East Cambridgeshire, Fenland, Huntingdonshire and South Cambridgeshire. The Cambridge Sub-Regional Housing Board acts in partnership to deliver new homes. The sub-region is an area of strong economic growth and related population increase. House prices in Cambridge are eight times the average income and significant housing need is widespread: 40% of households in Cambridge have an income below the level required to support affordable rent at 80%. Cambridge City Council's Affordable Housing Policy (adopted in the Cambridge Local Plan in 2006) sets the requirement of 40% affordable housing on sites of 15 dwellings or more (split 75:25 between social rent and intermediate housing). South Cambridgeshire District Council also seeks 40% or more affordable housing on all sites of two or more dwellings (split of 70:30).

S106 has been historically significant to affordable housing delivery in Cambridgeshire. On average, 80% of total affordable housing between 2004 and 2010 was delivered through S106, but the figures have dropped to 10–15% for the past four years due to market and policy changes. On large-scale sites there is great variation in S106 delivery, depending on market conditions and upfront infrastructure provision and land remediation costs. Where targets have been met this is largely because of additional funds from the HCA and government at the early phase of the development to fund infrastructure.

Unlike in Cambridge, the Peterborough housing market is weak. The average house price between 2007 and 2012 was £138,000, consistently lower than the national and regional average. According to the 2010 SHMA, 27.4% of households in Peterborough cannot afford to rent or buy market housing without subsidy. In order to address the highest levels of housing need, 38% of all new housing built in Peterborough needs to be affordable (Peterborough District Council, 2011). The Core Strategy proposed



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submission sets a target of 30% affordable housing on sites of 15 dwellings or more, with a tenure split of 70% social rented and 30% intermediate housing. S106 has been a key tool for affordable housing delivery in Peterborough: around 60% affordable housing was delivered through S106 between 2004 and 2012. However, there are comparatively more cases of reductions due to viability issues, provision of infrastructure and the prioritisation of housing for higher-income households to assist the growth agenda.

### Cumbria (coastal and countryside)

Cumbria is a rural county that contains a National Park, which has its own planning policies, including a requirement for 100% affordable homes and strict controls against development. Levels of S106 to achieve affordable homes are medium to low (48% between 2004 and 2014), reflecting market conditions, but a sub-regional Cumbrian Housing Strategy (2006–11) and Cumbria Housing Strategy and Investment Plan (2011–15) co-ordinates activity across the county. Across Cumbria there is a clear east–west divide in the strength of the housing market, with the eastern part (Carlisle, Eden and South Lakeland) and the National Park areas showing strong market features and the western, coastal local authorities (Allerdale, Barrow in Furness and Copeland) exhibiting low house prices. The Cumbria case study focuses mainly on the more rural authorities to the east. High house prices there have direct implications for affordability, particularly in the National Park. Eden is among the top 25% least affordable rural local authorities (Defra and HCA, 2010). Due to its highly rural character, Eden District Council considers all areas outside its service centres as rural exception sites, which require all new housing developments to be affordable. In preferred areas of development in the north and east of Penrith, where the council is working with large housebuilders on the delivery of large schemes to meet needs, affordable housing targets are for 30% for new developments larger than four units. Carlisle City Council's affordable housing targets are set following a zoning subdivision, whereby 30% is required in urban areas for schemes of ten units or more and between 10 and 25% in rural areas based on the scheme size. Both local authorities are aware that due to viability, negotiations might be needed to agree delivery rates below the predefined thresholds. Only half of the affordable units are delivered through S106. However, a good understanding of viability assessment from developers and local authority officers has ensured a relatively low number of S106 contestations. As a rural area, exception sites and off-site contributions on small sites have been significant in delivery, with the latter threatened by recent changes.

### London

In London, research focused on a cross-section of boroughs with differing housing contexts (Barking and Dagenham, Croydon, Islington, Southwark and Tower Hamlets) and the GLA. London is generally seen as having a housing market distinct from the rest of the country, with extreme pressures on affordability. One third of the three million households pushed into poverty in 2010/11 through their housing costs live in London (Turnstall *et al.*, 2013). In Inner London, social rent equivalent levels are often well below 50% of market rents, particularly for larger units (London Borough of Islington, 2014), making ARM rents not only unaffordable but also over the allowed levels of Housing Benefit in some areas. This means delivering AHSRE and not just affordable housing is a priority for some boroughs. In April 2014 (as the research was being conducted), land registry data showed

**Table 2: Case study summaries**

	<b>Newcastle</b>	<b>Cumbria</b>	<b>Birmingham</b>	<b>Oxfordshire</b>	<b>Cambridgeshire/Peterborough</b>	<b>London</b>
<b>Strength of housing market</b>	Weak, particularly in city centre	Variable between west (coastal) and east (rural)	Weak. More buoyant areas in suburbs	Strong, especially Oxford City and districts to the south	Strong in Cambridgeshire, weaker in Peterborough	Hyper in central London, less strong in some outer boroughs, particularly to the East
<b>% AH delivered through 106</b>	Low. Also allows commuted sums. 53% of AH delivered through S106 between 2004 and 2014, ranging from 100% in 2007/08–2009/10 to 0.96% in 2013/14	Variable: areas in National Park required to deliver 100% AH. Areas to west (coast) have weaker market and fewer S106. Use of rural exception sites important. Off-site contributions from small sites were significant but now stopped through legislative change	Low. 21% AH delivered through S106 between 2004 and 2014. Highest percentage was 47% in 2004/05, lowest 2% in 2012/13, although this rose to 30% in 2013/14	High. S106 remains the primary vehicle delivering 66% of AH between 2004 and 2014, with a high of 86% in 2012/13	High in Cambridgeshire, but variable over time and lower in Peterborough. Overall at 68% between 2004 and 2014, the highest delivery through S106 of the case studies. South Cambridgeshire schemes helped by use of Homes & Communities Agency (HCA) and other infrastructure funds on key sites. Rural exception sites significant in rural areas	Generally medium to high, 53% AH delivered through S106 between 2004 and 2014, which could be considered lower than expected given the strength of the London property market. Variable across boroughs due to market conditions and policy. Inner London boroughs secure significantly more than Outer London boroughs. Move to off-site gain to invest in local authority programmes in some central areas
<b>Delivery in relation to need</b>	Need is for regeneration of existing social housing rather than increased supply. As a result, low target for new affordable homes (C140) is met through non-S106 mechanisms	High demand particularly in centres and National Park areas but delivery remains low	Demand for social housing significantly outstrips supply. Evidence base for the Birmingham Development Plan states that there is likely to be a shortfall of affordable provision of 10,000 homes in 2011–31	Below requirements. Housing availability and affordability are a structural challenge. SHMA suggests that 2,370 affordable homes per year are needed against 241 delivered through S106 in 2013/14	Due to market conditions, demand for affordable homes is high. Numbers delivered: 7,730 affordable homes between 2006 and 2011, mostly for social rent, insufficient to meet demand	4,975 delivered in 2013/14 through S106, against need for 25,500 per year in SHMA. Numbers have declined since 2011 despite a booming property market in some parts of London
<b>Affordability: house prices</b>	Below national averages	8:1 lower-quartile house price income ratio in Eden but below national averages in the rest of the region	5:1 lower-quartile house price income ratio on average	Oxford City is the least affordable city outside London. 9:1 lower-quartile house price income ratio	Cambridge City is the second least affordable city outside London. 9:1 lower-quartile house price income ratio, 8.4:1 in South Cambridgeshire, below national averages in Fenland (7:1) and Huntingdonshire (6:1). 5:1 in Peterborough	9:1 lower-quartile house price income ratio on average, 6.6:1 in Barking, 29:1 in Kensington and Chelsea

(continued)

Table 2: Case study summaries (continued)

	Newcastle	Cumbria	Birmingham	Oxfordshire	Cambridgeshire/Peterborough	London
<b>Affordability: ARM</b>	Little impact as social and market rents are not that different	Generally little impact in Carlisle (more urban in character) and other weak markets (western local authorities) due to little differences between social and market rents. Has started to make a slight difference in Eden.	65–70% of market rent is considered affordable	80% not affordable in Oxford City (agreement with HCA that can charge 70%). Social rent required in Oxford, ARM elsewhere, which represents a significant limitation on addressing the needs of people on low incomes	80% not affordable in Cambridge City and South Cambs. 60% market rent seen as more affordable. Little impact in the rest of the region, including Peterborough	ARM at 80% not affordable in Inner London and over Housing Benefit allowance levels. 50% market rent seen as more affordable in Inner London. Across London on average, rents are 60–65% of market rents, but this hides major differences between Inner and Outer London
<b>Planning policy</b>	15% on all developments of more than 15 units but it has been variable in practice	100% on National Park and rural exception areas. Generally around 30–35% with slight variations across local authorities	35% apart from 50% on council owned land and 20% on brownfield city-centre sites	Varies by district council. 50% in Oxford City, 40% in the southern districts, 35–50% across UWest Oxfordshire District Council and 30–35% in Cherwell District Council	On average, 40% in large urban extension sites in Cambridgeshire and 30% in Peterborough. Varies by sites in rural areas	Planning policies vary, from 10–50%. Sites over 150 decided by GLA. Can lead to lower levels than boroughs and a different balance between transport and affordable housing obligations
<b>Viability approach</b>	An in-house viability model is applied. However, in practice, S106 largely not used because of low viability issues	Changes according to local authority. Those with a more rural character (stronger market) show less flexibility	Flexible, low levels sought in city-centre brownfield sites. More buoyant areas can support up to 30% affordable housing. Major renegotiations of S106s have taken place. No specialised viability team but review mechanisms in place on some schemes	Generally, targets have been relatively robust and viability challenges have been relatively limited. Renegotiations are not encouraged. However, provision of infrastructure on major sites can affect affordable housing numbers	Variable. Cambridgeshire authorities generally successful in asserting and achieving required levels if market conditions allow. Peterborough is more flexible, especially when securing competing infrastructure provision. One authority loans out specialist viability officer to neighbours	Variable. Some boroughs have specialist teams and clear viability policies. Others are more flexible. Renegotiations did take place in some areas after the 2008 market downturn
<b>Governance</b>	Unitary city council. Use of SPVs. Has collaborated with neighbouring authorities for joint planning and urban strategic development	Non-unitary. Community-led initiatives under Localism Act prevalent	Unitary city council covers large area. Municipal housing trust established	Non-unitary (5 districts and county), which has led to issues over co-operation in response to the housing crisis	Non-unitary. A range of effective sub-regional arrangements have been in place over a number of years	Regional governance; GLA has increased housing and investment powers. Boroughs remain LPAs
<b>Land availability</b>	Large areas of vacant public sector land exist, often in low market areas. Greenbelt swaps have been made in higher-value areas to promote development	Severe constraints in National Park	Significant amount of land in council ownership in inner areas	Large areas of land in greenbelt and other protected rural areas. Sites identified in growth areas around market towns but insufficient to meet needs. Inability to reach consensus between LPAs on land allocation	Large sites have been assembled through co-operation in a variety of ways, including disposal to private developers, greenbelt swaps, planning allocations and HCA investment	Constrained. Issues of assembling brownfield sites in Central London and providing infrastructure. Strategic Housing Land Availability Assessment shows not enough land to meet needs. Use of GLA powers proving significant

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that the average price for a house in London was £440,000, over double the national average and an increase of 18.5% from May 2013, although there are great variations across the capital. For example, according to the latest DCLG data, the lower-quartile house price/income ratio in Barking and Dagenham is close to the national average of 6.6:1 while in Kensington and Chelsea it is 26:1 and in London as a whole it is 9:1 (GLA, 2013). With high house prices, affordability definitions in London are 'confused' (Harrison *et al.*, 2013). Subsidised intermediate housing is available up to household incomes of £80,000 for three+ bedroomed homes.

London is the exception in the case studies in having regional governance in the form of the GLA, which administers the Affordable Homes Programme for the HCA and has its own housing powers. Sites over 150 units have their planning applications determined jointly by the GLA and the relevant borough. This arrangement is not without its tensions, as GLA requirements for affordable housing numbers are often lower than those for Inner London boroughs.

London has consistently delivered the highest number of homes through S106 in the country and was less affected by the recession than in other areas. However, the overall average of 53% of affordable housing delivered through S106 between 2004 and 2014 is lower than might be expected (and lower than some of the other case study areas) given the strength of the housing market and reflects differences in market and policy conditions across the capital. The previous London Plan had a target of 50% affordable housing; although research indicated that levels of 30–35% were more usually achieved (Bowie, 2010). The revised London Plan replaces this with numbers of homes needed: 42,000 net additional new homes per year, of which 17,000 (equating to 40%) should be affordable, with 60% of these being affordable/social rent and 40% intermediate. The SHMA indicated higher numbers of 49,000 per year, of which 52% should be affordable; 15,722 social rent or equivalent and 9,902 intermediate (GLA, 2013, executive summary). However, even these lower figures are ambitious given that only 9,377 affordable homes were completed in 2013/14 according to DCLG data (DCLG Live Table 1011), of which 4,975 were through S106, and the numbers delivered through S106 have decreased since 2010/11 (from approximately 7,500 to just under 5,000 in 2013/14) despite the booming London housing market. Stated plan targets from case study boroughs ranged from 35 to 50%. However, there was a great difference between Inner London and Outer London boroughs in the extent to which these were met with Outer London boroughs achieving significantly below target and being subject to viability pressures. Nevertheless, Inner London boroughs had significant concerns with how viability operates within the planning system. This was the only case study where the CIL had been set and charged during the study period. Developments will have to pay the mayoral CIL as well as the borough CIL. The mayoral CIL has been in operation since April 2012. By June 2014, five boroughs had set the CIL, starting with Croydon in 2013.

### In sum

While housing markets impact on S106 delivery, the case studies also reveal variations within areas with quite similar conditions, both in stated policies and in percentages achieved (e.g. London and within Oxfordshire). Interview data confirmed previous research that factors affecting S106 delivery include political priorities reflected in Local Plan policies and institutional capacity, including skills in negotiating. There is also evidence that the costs of infrastructure provision can impact on the percentages of affordable housing

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achieved. This suggests that in particular circumstances, affordable housing can be the 'soft underbelly' of planning obligations while other infrastructure – e.g. transport and education – maintains its share, echoing a recent DCLG report (DCLG, 2014b). Finally, Figure 4 also indicates that areas with stronger housing markets and rural areas had larger proportions of S106 units in receipt of grant than those with weaker housing markets, further indicating the impacts of market-linked housing subsidies on spatial justice.

## Meeting the needs of households in poverty

S106 may be delivering numbers but are these going to households on the lowest incomes? To help answer this question, correlation and regression analysis of secondary data was undertaken to investigate the interrelationships between S106 delivery and various market, socio-economic and demand factors. A detailed description, including regression model outcomes, can be found at <http://bit.ly/1GiKqHN>. The database constructed for this research comprises information on local authorities in England for the period from April 2004 (2004/05) to March 2013 (2012/13). It should be noted that this data is only at the local authority level. By and large, the quantitative analysis indicates that larger S106 numbers are being delivered to more deprived areas but based on the correlation results there is a 'London influence' to this outcome. Recent housebuilding activity in highly deprived London boroughs has had a strong influence on national figures, suggesting that only in London where need is high and the market is strong is S106 (and the grant associated with it) making a significant contribution in high-poverty areas. However, this local authority-level analysis may not capture the contribution of particular schemes to meeting the needs of low-income families especially in areas of low poverty.

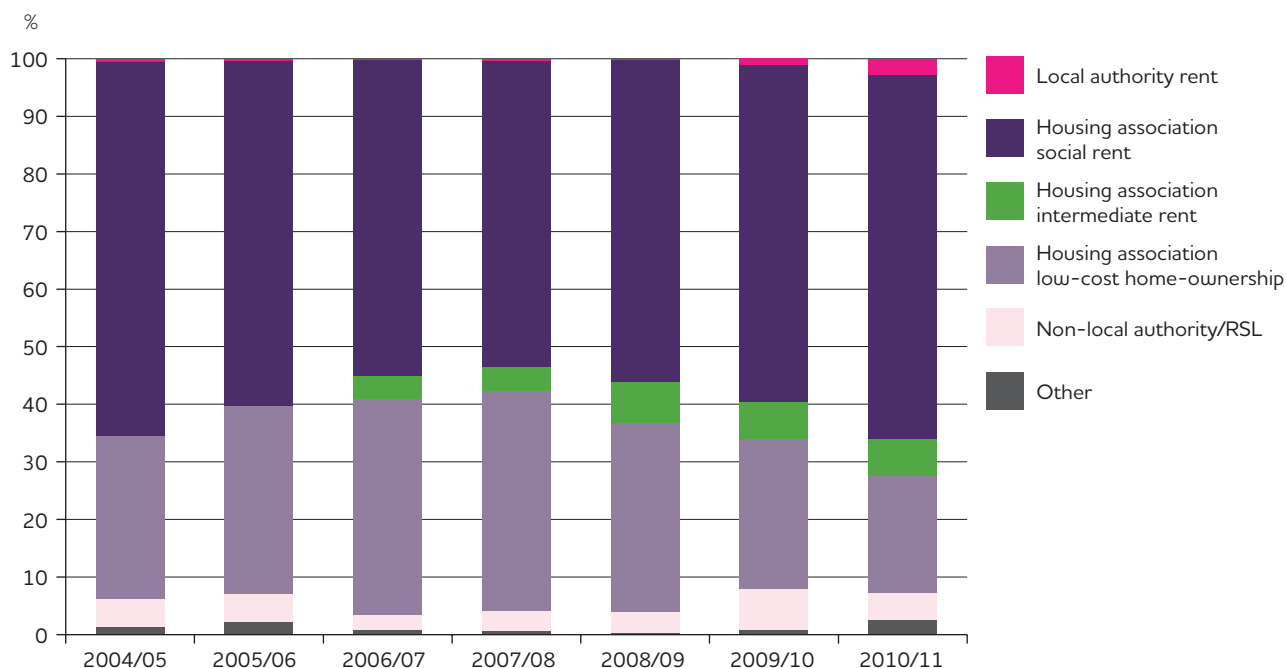
Of course there is no guarantee that a home delivered through S106 will be allocated to a low-income family, as the Dutch Vinex experience showed. For example, in some areas, housing associations had a policy to offer new-build properties to transfer applicants only; in others, local connection criteria limited who could be nominated. Nevertheless, other properties could be freed up elsewhere through S106 provision.

## Types of affordable housing provided

Figure 6 shows that the types of affordable units provided through S106 changed over time during the period for which this data series is available – 2004/05 to 2010/11. (A data gap in assessing the impacts of S106 has resulted from the fact that this data was not published by the DCLG after 2010/11.) Before the recession in 2008 there was a shift towards low-cost home-ownership and away from social rents, raising questions about whether those families on the lowest incomes were benefiting. After 2008, as levels of grant increased under the-then government's programmes, there was an increase in the proportion of social rented homes provided. Although current data is not available, with the introduction of the ARM there will inevitably have been a further reduction in social rented provision.

Interview evidence revealed similar concerns about size, appropriateness for families and cost as indicated at the national level. This has led some LPAs to set targets for percentages of affordable housing delivery expressed in habitable rooms rather than numbers of units. In addition, in some areas where market rent levels are high, particularly Inner London, whether S106

**Figure 6: S106 by type of affordable housing, 2004/05 to 2010/11**



Source: s106: HSSA (available to 2010/11 only)

housing is provided at ARM levels or social rented levels has emerged as a major issue. In response to these pressures, some LPAs have sought off-site gain or commuted sums (see Box 3). Rather than a few expensive and often small units provided – e.g. in a luxury tower block with separate ‘poor door’ access – LPAs can use commuted sums to provide more appropriate, often social rented, accommodation in areas with lower land costs. This shift to commuted sums is also evident in lower market areas such as Newcastle where it is argued that it will enable the LPA to increase its affordable housing delivery in regeneration areas. However, for both these examples there are concerns about the loss of mixed tenure developments and ensuring socio-spatial polarisation.

### Box 3: S106 off-site contributions

#### Commuted Sums

The London Borough of Southwark recently negotiated £29 million in commuted sums as part of a S106 on the One Blackfriars residential development. The development is a mixed-use scheme containing 274 private flats, including a 52-storey tower. The London Borough of Southwark considered that a commuted sum would enable more affordable units appropriate for families to be provided elsewhere in the borough. It has negotiated similar agreements, contributing £98 million in total to its Affordable Homes Programme. However, this can have negative impacts in relation to achieving mixed communities and requires land to be available.

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### **Off-site gain; linked schemes**

The London Borough of Tower Hamlets approved a joint application for City Pride and Island Point. City Pride is a 75-storey residential development providing 822 private flats close to Canary Wharf. Island Point is a site in another part of the Isle of Dogs, which will be developed through a S106 for 173 affordable units, 142 of which will be larger units for social rent. At 24%, this is below the London Borough of Tower Hamlets' policy if calculated by units but within it in terms of habitable rooms, indicating that a trade-off between affordability, appropriateness and numbers has to be made in some cases.

## **The impact of changes to the planning system**

Recent changes to the planning system were summarised in the previous chapter. This section reports on how they have been experienced in the case study areas. It is true to say that most respondents welcomed the local flexibility introduced by the NPPF and considered the changes it embodied over the consultation version and emerging practice as set out in the Planning Practice Guidance (DCLG, 2014a) as enabling this. Nevertheless, several areas of concern that negatively impacted on the operation of S106 and its ability to deliver to those on the lowest incomes emerged strongly.

### **Definitions of affordability in the planning legislation**

Box 4 indicates the implications of the changed definition of affordability in the NPPF as summarised on page 16. Through this example of revisions to the London Plan, two very different views of planning emerge. The boroughs considered that the planning system should retain the ability to deliver housing at a cost that households can afford by including housing at social rent levels in planning targets. Not being able to do so, they argued, would impact not only on delivery to those in poverty but also on the councils' abilities to negotiate with developers for the equivalent of social rented housing in S106 agreements. The Mayor of London's view as expressed to us by GLA officers is that "you shouldn't use the planning

### **Box 4: Case study: London Plan alterations**

Nine Inner London Boroughs argued that changes to the London Plan would prevent them from specifying targets for the equivalent of social rented housing in their plans, given that ARM rents were not affordable to those on the lowest incomes. The GLA argued that to be in line with the NPPF the London Plan had to be amended to refer to affordable rented i.e. up to 80% of market rent as specified in the ARM. The GLA's argument – that the Affordable Homes Programme and other initiatives could then be used to deliver housing at different costs rather than rents being set through the planning system – was accepted by the courts following a legal challenge by the boroughs (Robertson 2014). This was contrary to the planning inspector's report on the proposed amendments which had recommended references preventing the Boroughs from imposing rent caps or criteria for the definition of affordable housing in their own planning documents be omitted (Planning Inspectorate 2013)

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system to get social rented housing. The Mayor's policy is to increase the supply of affordable housing rather than heavily subsidise social rented properties". In practice, the boroughs can still provide social housing, and the GLA's Affordable Homes Programme has two levels: affordable (at up to 80% rents) and 'capped' (at around 50% of market rents). But this cannot be included explicitly in planning policies.

### Viability in planning

It is difficult to generate data on the impact of viability due to the confidentiality of viability appraisals. LPAs are also cautious about releasing information in case it influences future negotiations on other sites. The increased prominence of viability is reflected in our statistical data, which, for example, shows that between 2007/08 and 2013/14 the contribution of S106 contributions to affordable homes fell from 100% to under 1% in Newcastle and from 78% to 53% in London. While we have been unable to isolate the impact of viability statistically from other factors in terms of the impact of viability appraisals on negotiating new S106 agreements, a typical interview response was: "It's hard to say because of confidentiality but the average contribution compared to five years ago is showing 10 to 15% less." This was in an area with a relatively strong housing market no longer in recession. It could be argued that this is a realistic assessment of what is viable; however, opinions were also expressed in the interviews that the ways in which viability appraisals were being carried out meant that S106 was now no longer able to extract an appropriate and proportionate element of the uplift in value arising from planning decisions.

In particular, it was felt that the indicators being used in the various appraisal toolkits and models were based on a narrow and rigid view of viability; "the government does not understand viability from a planning perspective". Reflecting this, there is a lack of agreed guidance on viability, with a range of different 'models' existing. An example of this is the way in which land is valued in these different models. Some take market value while others argue for existing use value (plus a land-owner premium) (LBI, 2014). This means that the baseline from which uplifts in land value are calculated can vary, with market value being significantly higher. Garden Cities, for example, were originally based on the difference between agricultural and residential land values, something that may be precluded in a viability appraisal based on market values.

The guaranteeing of expected profit levels by their inclusion in viability appraisal spreadsheets is another contentious issue. Levels of between 15 and 20% are often assumed, which can mean that development risk is being underwritten through lower obligations. Other research has indicated that housebuilders' profits have increased at the same time as they have been arguing that obligations are unviable (Cochrane *et al.*, undated). Some respondents also reported that although affordable housing is often included in viability appraisals, implementing it is made difficult because of viability issues. Affordable housing numbers could be seen as a casualty of these viability practices. One planning officer in a Central London borough with a 50% affordable housing target, experiencing increases in residential sales prices up to 30% per year, said that "this should suggest that schemes are viable in theory, but with the NPPF and the RICS [Royal Institution of Chartered Surveyors] guidance every major viability assessment has come in at lower than 50%". This could go some way to explain the fact that the numbers of homes delivered through S106 has fallen in London since 2011, despite the housing market having recovered from the recession. This is



not to say that all respondents rejected the concept of viability; rather it was the way in which it was being articulated in viability appraisal practice to the detriment of a plan and policy-led approach that was the issue. Taking a benchmark land value as existing use value (plus premium) would therefore allow for the re-assertion of the plan-led principle that policy requirements are paid for out of the uplift in values resulting from the granting of planning permission.

In terms of renegotiations, freedom of information requests (Mathiason *et al.*, 2013) reveal a 30% reduction in affordable housing numbers after renegotiation between 2007 and 2013 in selected major schemes across the country. Interviews revealed a variable pattern, with areas with stronger housing markets reporting that they were able to resist renegotiations while those with weaker markets or on sites requiring major infrastructure investment (either greenfield or brownfield) were less successful (see Box 5). Interviewees also reported that there had been few appeals against existing S106 agreements as most were agreed through renegotiation.

### **Box 5: Case studies: Negotiations to modify S106 agreements**

A recent planning application to Eden District Council has asked to modify the existing S106 agreement for a proposed new development on a rural exception site from 100% to 30% affordable. The council is prepared to negotiate but believes that the site has capacity to deliver a higher percentage of affordable units. A viability test has been undertaken and a report produced by an external expert. At the time of writing it appears that the council has accepted, based on the applicant's viability assessment, that the scheme can provide 35% affordable and 65% market led.

A current development site for 1,500 homes in Hampton, Peterborough was renegotiated to 5% affordable housing, whereas 30% affordable housing was successfully secured in previous phases on the same site. The developer argued that viability was affected by the high remediation costs of the contaminated site and higher contributions to other infrastructure e.g. secondary schools, sewers and lakes.

At the Clay and Glebe farm development on the Southern Fringe of Cambridge, the developer suggested a phased viability approach: to reduce affordable housing components in the early stages and to increase it in the later stages. Cambridge City Council, which was insisting on 40% affordable housing in all phases, rejected this and won the appeal against non-determination by the developer, sending out a decisive message reinforcing the principle that providing affordable housing should not be compromised during the economic downturn (Planning Portal, 2010).

Other concerns included the way viability appraisals assume a static picture of viability – a snapshot in time – before actual costs and sales receipts are known. Some respondents called for a more dynamic view to be taken, with regular review points and mechanisms. Respondents also said that viability negotiations had the potential to impact negatively on levels of trust between developers and LPAs and suggested that greater use of pre-application agreements could be helpful here. The research revealed the need for new skills in viability to be developed in LPAs. For example, some

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authorities had viability experts (and even loaned them out to other LPAs), while in others, planning officers were having to deal with viability appraisals on their own. Concerns were also expressed that the quality of advice from consultants used by those LPAs that could afford them was not always as high as it should be or in the best interests of the LPAs as opposed to the developers. The under-resourcing of LPAs exacerbated these issues.

Finally, the lack of transparency of viability appraisals was seen as a significant issue despite the Planning Practice Guidance (DCLG, 2014a) stating that negotiations should be open book wherever possible. A recent court case in favour of greater disclosure may influence this in future (Dunton, 2014), but the existing lack of scrutiny and the failure to be able to fully assess the impact of this policy change on the numbers of affordable homes delivered (and lost) are major barriers to the delivery of affordable homes through planning.

### The introduction of the Community Infrastructure Levy

Only one case study area had introduced and started to charge CIL at the time of the research (Box 6), although a number were in the process of setting it, making it difficult to draw definite conclusions. Opinions were divided on potential impacts. For some these were considered to be serious both for S106 itself – “the jury’s out on S106 because of CIL” – and for its ability to deliver affordable housing numbers – “CIL is increasingly taking the first bite of the viability cake”. Others argued that if CIL charges are drawn up in the context of robust planning policies and set at a level to ensure that affordable housing numbers can be viably delivered, the impact should be minimal: “We don’t think it is an issue. We’ve just done our CIL examination and found it is only 3% of development costs.” This reflects the view that infrastructure costs have to be met somehow and, if approached robustly, it need not be an either/or between CIL and S106.

#### **Box 6: CIL in London**

A mayoral CIL has been charged in London by the GLA since 2012, with charges in three zones: £20/m<sup>2</sup> (largely outer east and southwest), £35 (Inner London) and £50 (central and western). These are charged on all new developments, particularly for transport.

The London Borough of Croydon has charged CIL since April 2013. Levels are £120/m<sup>2</sup> for office development and £0 for housing in central areas, with these being reversed for the rest of the borough.

All CIL charges are viability tested and subsequently examined by the planning inspectorate.

CIL was seen as an issue in case study areas with weaker markets, some of which were delaying its introduction as a result of the impact of viability and the desire to keep flexibility in developer negotiations. Similarly, in areas with large development sites, LPAs were considering exempting sites needing major infrastructure from CIL because they could operate by contributions being pooled rather than being tied to a particular site. This could impact on unlocking sites through infrastructure provision and in turn make affordable housing harder to deliver. A precedent was seen in the way the New Homes Bonus was being absorbed into general spending and not being used for housing. For these same reasons, extension sites that included areas with agreed NDPs were also

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seen as candidates for exemption because of the requirement that 25% of CIL goes to the parish council or neighbourhood forum.

All case study LPAs with CIL-charging schedules in place were exempting affordable housing from charges. This is largely based on the principle that CIL should come out of land values and not affordable housing, a point supported by an examination of the mayoral CIL in London (Planning Inspectorate, 2012). Interestingly, despite providing certainty, CIL was also viewed as adding a layer of complication to the planning system and being inflexible, including by developers. For these reasons, it was considered either CIL or S106 (or both) may be victims of future planning reforms. Further research will be needed once CIL has bedded in. However, the fundamental underlying issue is the need to properly fund the necessary infrastructure for site development.

### Other reforms

- The replacement of Regional Spatial Strategies with a duty to co-operate on strategic planning appears to have variable results, depending on local leadership and political contexts, as indicated by the contrasts between Oxfordshire and Cambridgeshire in the case studies.
- The abolition of Regional Spatial Strategies and the shift to localism has made a plan-led approach in areas without agreed local plans more difficult. At the time of the research a major complaint of developers in some regions – e.g. the North East – was that lack of approved local plans in most LPAs in those regions had created uncertainty. There were also concerns that this could lead to planning by appeal especially in areas without a five-year land supply identified, where developers are allowed to submit applications for undesignated sites.
- At the time of the research the government was proposing to increase the threshold number of units required in a development to ten before S106 can be applied. Major concerns were expressed across all the case studies about the impact that this would have on the delivery of affordable homes, particularly in areas with few large sites and in rural areas. One interviewee referred to an LPA (not one of the case studies) that could potentially lose 25% of its S106 income as a result. This was confirmed after the research was completed in November 2014.
- Also after the research was completed, a number of other changes referred to on page 18 have further impacted on the delivery of affordable homes through the planning system.

### Emerging good practice to maximise affordable housing through the current planning system

A range of examples are emerging from the case study areas that attempt to maximise the ability of the current system to deliver affordable homes. These include:

- specialised viability officers or teams in planning departments, as in Peterborough and Islington – this ensures that LPAs can understand and challenge the viability appraisals put forward by developers and therefore negotiate robustly;

- training in viability for officers and members;
- off-site gain and commuted sums – LPAs in both high and low market areas have increasingly been seeking off-site gains to maximise the ‘bang for bucks’ of S106 contributions, although this has proved controversial (see Box 3);
- the use of S106 review mechanisms, including clawback and overage (see Box 7) – this demonstrates a more dynamic view of viability, particularly for schemes developed over a long period of time, and enables obligations to be matched to conditions at all phases and not just at the outset of a scheme; it also balances the ability of developers to negotiate downwards in recession enabled by the Growth and Infrastructure Act 2013, with an ability to increase obligations should market conditions improve;
- the use of supplementary planning documents to set localised conditions and criteria for viability assessments and planning agreements – this would ensure that criteria are used that allow for planning policies to be achieved and local need to be met – e.g. by specifying the existing use value of land to be used (the London Borough of Islington is currently considering developing such an SPD);
- the use of SPDs and S106s to specify levels of affordable rents (see Box 8).

### **Box 7: Use of S106 review mechanisms**

The S106 agreement negotiated by Birmingham City Council at Icknield Port Loop includes *overage clauses*. There is therefore potential for additional affordable housing contributions (by way of financial contributions) where it is established that there is additional profit in the development over and above what has been agreed in the outline application. This may push up the affordable housing contribution to 35% over the long term. This will be tested at reserved matters stage for each housing parcel on an open book basis.

Saffron Square in Croydon was deemed a stalled site in 2009. To enable the site to go ahead, the London Borough of Croydon renegotiated the S106 agreed with the developers Berkeley Homes. This led to the lifting of requirements to deliver the agreed affordable housing in one stage of the scheme in return for an agreement that the viability assessment would be revisited with actual sales and costs, with a view that should this show that more affordable housing could have been provided, Berkeley Homes would deliver this in the next phase of the scheme. In practice this became one of Berkeley Homes’ most profitable schemes and the clawback was implemented. Clawbacks are staggered, starting at 70% of the overage going to the S106 to encourage early delivery.

Islington Council wanted to negotiate a review of the Berkeley Homes’ City Forum site at key phases as it considered the 30% affordable housing negotiated too low. This was not supported by the GLA, which called the application in for determination and included a review only if Berkeley Homes did not achieve substantial implementation in two years.

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**Box 8: Tower Hamlets Council affordable housing supplementary planning document – using S106s to specify rent levels**

In Tower Hamlets, the introduction of the ARM and Universal Credit led to concerns that, over time, families on low incomes will be unable to afford to live in the borough. POD Partnership developed an affordable rent calculator guided by the recommendation that no more than 33% of gross income should be spent on rent and combined this with data linked to 50% median income. Using this model it concluded that in Tower Hamlets a one-bedroom property would be affordable at 65% of market rent, two bedrooms at 55% and three bedrooms or more at 50%. Tower Hamlets then went on to produce more detailed research/modelling at an area level. These findings have been translated into a strategy underpinned by a commitment to what are termed Pod rents and these levels are reviewed annually. It also introduced Policy AH3, which provides supplementary guidance on setting appropriate rent levels for affordable housing and this is enforced through the planning system by these rent levels being specified in S106 agreements. As a result, a S106 may specify, for example x four-bedroom homes at social rent level and y two-bedroom homes at 55% market rent level.

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## 3 COMPLEMENTING S106 PROVISION

The research reveals that many alternative forms of affordable housing provision are already being implemented in the case study areas alongside S106, suggesting that particular combinations of mechanisms may be appropriate to particular areas. This indicates the importance of having strategies and initiatives that can be locally tailored and of ensuring that these are enabled through national policies and procedures.

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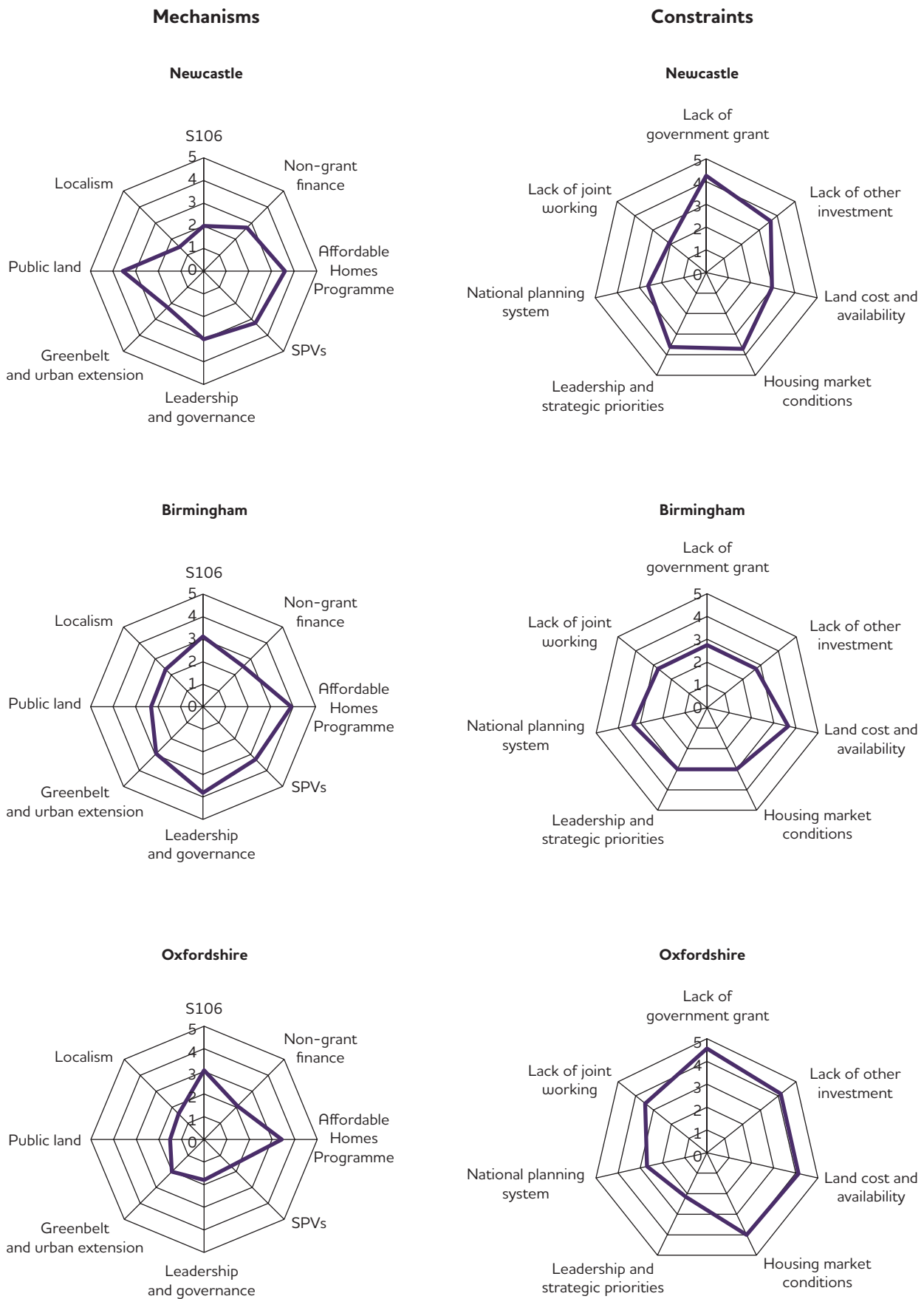
### Localised delivery

In our workshops we asked participants to indicate the significance of a range of mechanisms, including S106, to the delivery of affordable homes in their areas. Figure 7 and Table 3 reveal how these are brought together in contrasting 'models' of delivery within which they have greater or lesser importance.

This complements and confirms the messages from the previous chapter that delivery through S106 is lower in areas with weaker markets but also reveals how S106 is supplemented in a variety of ways appropriate to particular areas. The significance of government funding through the Affordable Homes Programme also emerges clearly. The workshops and more detailed case study research also provided evidence that many of the scenarios for reform outlined earlier in this report are already being implemented in some of our localities. We also asked participants to indicate the main constraints on delivery in their areas. Four main issues emerged:

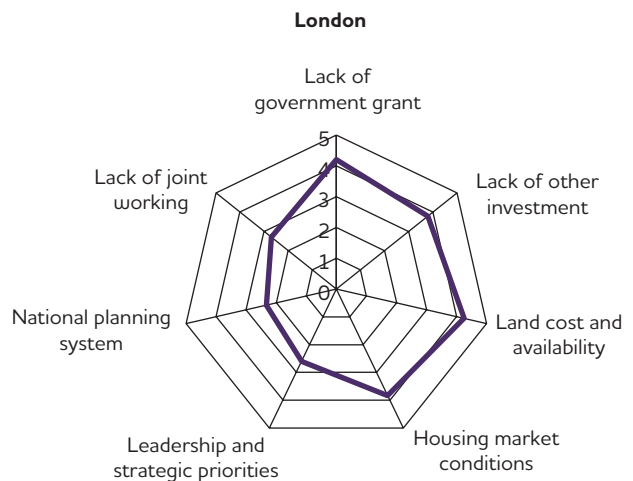
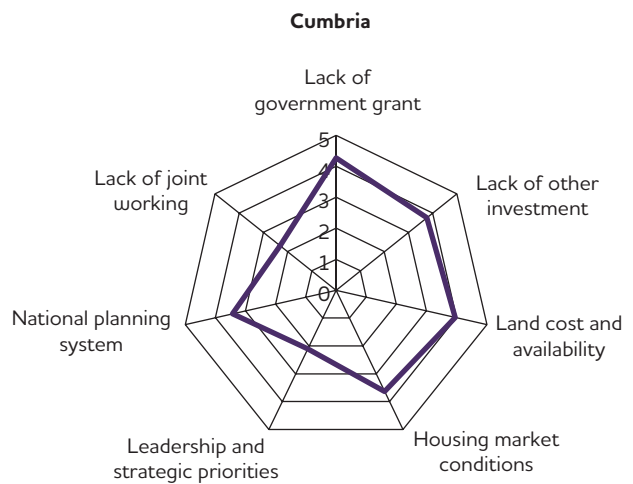
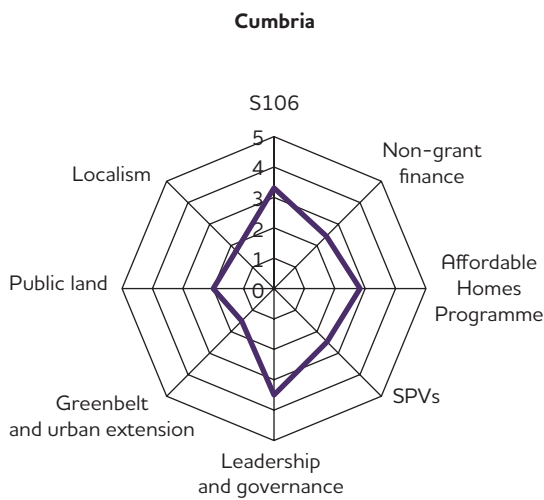
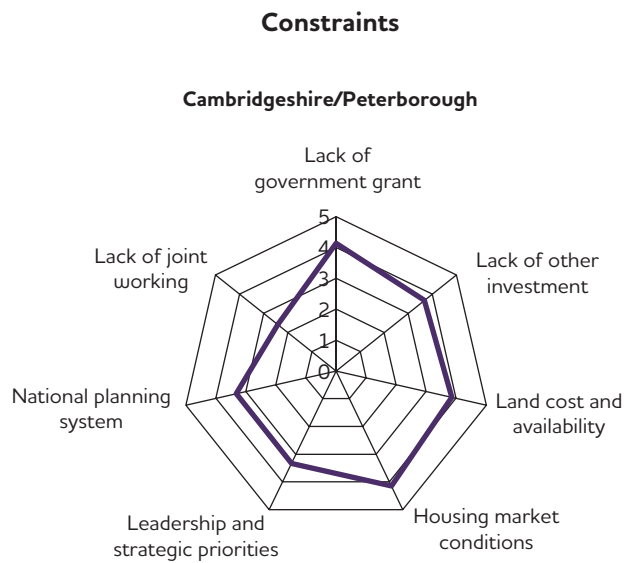
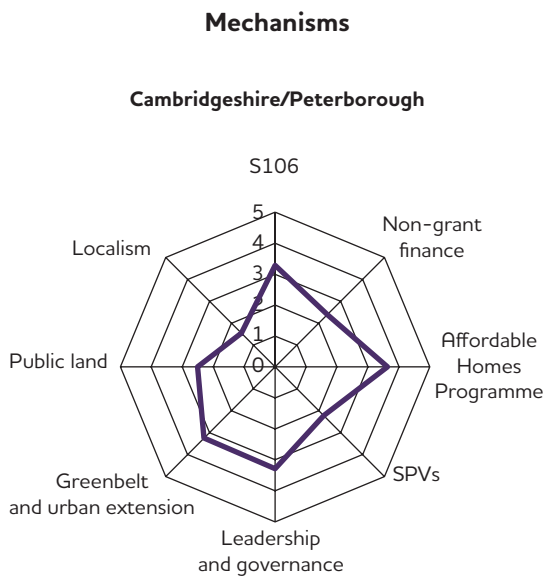
- finance;
- land and planning;
- localism;
- governance, leadership and delivery.

**Figure 7: Mechanisms and constraints in delivering affordable housing in the six case study areas**



continued

**Figure 7: Mechanisms and constraints in delivering affordable housing in the six case study areas (continued)**





**Table 3: Summary of delivery by typology**

Typology	Summary of delivery
<b>Industrial and regional centres</b>	<ul style="list-style-type: none"> <li>• Limited/little use of S106 due to market conditions</li> <li>• Significance of public sector land to development</li> <li>• Use of SPVs to develop these sites, including public–private partnerships and local authority</li> <li>• Mix of funding in absence of S106 includes local authority receipts and reserves, grant funding and other non-grant finance</li> </ul>
<b>Prosperous England</b>	<ul style="list-style-type: none"> <li>• S106 as the main delivery mechanism</li> <li>• Limited use of other mechanisms, e.g. self-build</li> <li>• Supply restricted through difficulties of building consensus around need for and location of new development</li> <li>• Some localism initiatives (NDPs) although these could also restrict supply of affordable homes</li> </ul>
<b>New and expanding towns</b>	<ul style="list-style-type: none"> <li>• S106 is a significant mechanism</li> <li>• Supplemented by large-scale land assembly</li> <li>• Significance of infrastructure funding to ensuring that affordable housing targets can be met</li> <li>• Importance of sub-regional partnerships and local leadership to delivery</li> <li>• Localism tools not extensively used</li> </ul>
<b>Coastal and rural</b>	<ul style="list-style-type: none"> <li>• S106 is a significant mechanism (particularly small site contributions)</li> <li>• Importance of rural exception sites</li> <li>• Localism initiatives (CLTs/NDPs) relatively more important but numbers small</li> </ul>
<b>London</b>	<ul style="list-style-type: none"> <li>• S106 is important but variable across the capital and there are viability and ARM constraints</li> <li>• Regional government brings powers and resources for initiatives such as the London Housing Bank and Housing Zones (but not uncontested)</li> <li>• Some local authorities developing affordable (social rent) programmes based on land holdings and funded by a variety of S106, local authority investment, grant and non-grant finance</li> <li>• Localism initiatives developing but low numbers</li> </ul>

In the rest of the chapter we outline the different delivery models (further details can be found at <http://bit.ly/1GiKqHN>) before discussing ways of supplementing S106 provision in more detail.

## Newcastle – regional centres

Regional centres are characterised by weak markets restricting the use of S106, often combined with underused public-sector-owned land. Newcastle City Council’s response has been to deliver not through S106 but through a combination of the use of public land and institutional and delivery mechanisms, making land availability less of a constraint. A Housing Delivery Partnership Framework has been established, which seeks to utilise council land in partnership with approved RSLs and developers. Two SPVs have been established. Working with private housebuilders that specialise in social housing delivery has also indicated industry development models that are set up specifically for partnership work with LPAs and RSLs that can deliver affordable/low-cost homes within the local context. Finance for affordable housing has come from a mixture of council reserves and receipts and HCA grants. In more recent years, the authority has moved to requiring commuted

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sums from S106 projects to allow better-targeted interventions in other areas through its Future Homes Fund that currently stands at approximately £25 million. Greenbelt land release is an important mechanism for land assembly for general middle- and upper-income housing delivery in Newcastle.

## **Birmingham – industrial centres**

Industrial centres face similar challenges to regional centres. The institutional and market conditions across Birmingham, noted from the case studies and regional workshop, have led to the development of the particular vehicles and approaches that may have wider application. Birmingham City Council uses its own delivery vehicle to finance and manage affordable housing locally without central control: the Birmingham Municipal Housing Trust. However, provision of affordable homes with housing associations has fallen due to reductions in the Affordable Homes Programme. In both these areas the mechanisms linked to the Localism Act are not significant in delivering affordable homes.

## **Oxfordshire – prosperous England**

Given the buoyant housing market in Oxfordshire, S106 is the major mechanism for affordable housing delivery; nevertheless, it is supplemented by a range of initiatives, although numbers are low. Non-grant finance in the form of sale and leaseback and council reserves are used, but the significance of the Affordable Homes Programme is shown in Figure 7. There are a number of NDPs either in place or being prepared in the area. Cherwell District Council has been supportive of the principle of self-build housing, creating the Build! brand, although the scale of delivery for affordable housing specifically is relatively small. Lack of joint working is seen as a major constraint.

## **Cambridgeshire/Peterborough – growing towns**

As a growth area, this sub-region has used a variety of innovative techniques in land assembly and strategic housing delivery on large sites and has accessed a range of central support to enable this. This has combined with and supported the highest proportion of delivery through S106 of the six case studies. Mechanisms include private-led, large-scale land assembly and greenbelt release. A succession of sub-regional partnerships and local councils has provided effective leadership and governance, including Cambridgeshire Horizons and The Cambridge Challenge. Long-term HCA grant funding helped to secure affordable homes and Growth Funding was also accessed for transport infrastructure, enabling 40% affordable housing to be secured on major sites. However, the tensions between providing infrastructure and affordable housing through planning obligations on major growth sites are also evident here, indicated in the decline of S106 over time and the contrast between Peterborough and Cambridgeshire.

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## Cumbria – coastal and rural

As a rural area, exception sites and off-site contributions on small sites have been significant in delivery, with the latter threatened by recent changes. Localism in the form of NDPs and CLTs and housing trusts has played a greater part here than in the other case study areas, supplemented by community finance initiatives such as community share issues but the numbers delivered are small. A sub-regional Cumbrian Housing Strategy (2006–11) and the Cumbria Housing Strategy and Investment Plan (2011–15) co-ordinates activity across the county. Within this model, S106 plays a significant role in areas with stronger housing markets.

## London

Given the extent of the affordability crisis in London, it is not surprising to find a variety of alternative mechanisms in use, although S106 remains a significant source of affordable housing delivery. The existence of regional governance in the form of the GLA also increases the scale and variety of available options (although our participants still saw strategic leadership as a constraint). The GLA also administers the Affordable Housing Programme in London. GLA schemes for increasing investment in housing include revolving loans, tax increment financing and the proposed London Housing Bank. delivery mechanisms include mayoral development corporations (MDCS) and the recently announced Housing Zones, which will be designated to boost housing delivery through planning and financial mechanisms. However, GLA priorities are for working Londoners, not necessarily those on the lowest incomes. Some boroughs have programmes for social rented housing funded through a variety of sources and a number of SPVs have been established.

Elements of good practice and indications of the possibilities and limitations of different mechanisms of provision to feed into wider discussions of policy reform are explored below.

## Finance

A range of financial mechanisms are being used in the case study areas to deliver affordable housing, including the following.

### Local authority direct investment

Local authorities in varying housing market areas, including Southwark, Islington and Newcastle, are using a range of sources of finance, including commuted S106 sums to finance their own housing programmes (Box 9). These may or may not be linked to SPVs and partnerships. They also have the capacity in high market areas to deliver AHSRE levels. However, capacity is limited. For example, in Islington, S106 will still be providing 80% of affordable homes in the borough and there are concerns that this programme is finite and the average number of homes per scheme is decreasing due to restrictions on the supply of council-owned land and financial constraints.

### **Box 9: The London Borough of Islington**

A variety of measures are being used to fund the Affordable Housing Programme, including:

- the New Homes Bonus – £18 million out of £22.8 million has been earmarked for affordable housing, including directly funding its own schemes and giving grants to registered providers e.g. Islington provided £820,000 of the New Homes Bonus to secure social rents on 14 units in a scheme at Junction Road Archway
- council capital funding, including capital receipts and Right to Buy (a further £160 million)
- council land, disposing of land at a discount to registered providers to provide affordable schemes, a Land Disposals Framework adopted in 2012
- small sites contributions Supplementary Planning Document – for sites below ten units, financial contributions rather than on-site affordable housing are sought (between January and October 2013, £2.3 million was secured) but this is now in doubt due to proposed threshold changes
- 37 schemes in progress, which should deliver 898 homes, of which 613 are expected to be for social rent – the council has a target of up to 500 homes for social rent within an overall target of 2,000 new affordable homes between 2015 and 2019.

### **HCA and GLA funding**

Figure 7 indicates the significance of a lack of grant funding as a constraint on delivery in all the case study areas, notwithstanding concerns over affordable rents. Box 10 underlines the significance of government support either as grant or revolving funds to new supply.

### **Box 10: HCA Large Site Fund – The Cambridge Challenge**

The Cambridge Challenge was created through The Housing Corporation's 2008–11 National Affordable Housing Programme. The City and South Cambs District Council worked collaboratively with the HCA and The Cambridge Challenge identified strategic sites through the East of England Housing Investment Plan 2008–11. A strategic development partner, Cambridge Partnerships Ltd (CPL), was formed. The partner was given a grant funding commitment for up to 4,000 homes for South Fringe sites. In the three sites (Clay Farm, Glebe Farm and Trumpington Meadows), 40% affordable housing has been secured by CPL. This long-term grant funding for an affordable housing programme aimed to maximise the impact of government funding programmes by securing an affordable housing development partner from site inception to completion.

The HCA operates a revolving infrastructure fund, which provides upfront infrastructure costs on large sites, which is repayable from receipts. In London, the £200m Housing Bank provides low cost loans to developers on

large sites with planning permission. The aim is to provide 3,000 homes by 2018 but the initial round will only deliver 643 (Spurr, 2015). As with other such schemes, this will not automatically guarantee that more affordable housing will be achieved on such sites, although in theory it could reduce competition for funding infrastructure through obligations. This is indicated by the Pocket Living Scheme whereby people buying small and therefore low-cost homes are given a ten-year interest-free loan under the GLA Homes for Working Londoners Programme. A related scheme saw the GLA taking an equity stake of 20–50%. Such financial arrangements are potentially risky and dependent on market-level returns to pay-back funds.

### Ethical investment/community bonds

There were a number of ethical investment companies and community finance initiatives operating in the case study sites (see Box 11). At present, such initiatives are limited in scale.

#### **Box 11: Green Pastures – ethical investment**

Green Pastures Developments is a subsidiary of Green Pastures Community Benefit Society (GPCBS) a Christian ethical company and is currently developing one scheme in London and three others across the country. Marks Gate is a scheme located in Barking and Dagenham in an area characterised by high levels of deprivation and housing need. The borough (London Borough of Barking and Dagenham – LBBDD) entered a partnership with Green Pastures and the parish council to redevelop Marks Gate. Land was provided by Chelmsford Diocese and LBBDD, with further support from the Berkeley Foundation. The scheme includes a church, community centre and 87 units of affordable housing, of which 84 units will be council accommodation with rents set at 65–80% of market rent and three units will be retained by Green Pastures for local benefit. Green Pastures prepared and submitted the planning application at an estimated cost of between £150,000 and £250,000 and then built the scheme. LBBDD purchased the 84 units at a fixed price prior to construction. GPCBS own 100% of the shares in the scheme and all profits are gifted back to them. Investors in GPCBS can choose a rate of return between 0–5%. The intention is to improve communities without extracting profit.

### Institutional investment

Some RSLs have taken decisions not to engage in S106 schemes due to issues of bidding (which can inflate the prices), developer timetables and the quality of the final product. Instead, they have sought institutional investment (in one case, sale and leaseback) to fund their own building programmes. Some RSLs also have commercial arms that acquire and build sites. There are capacity issues here due to the limited number of assets that RSLs can ‘sweat’ to raise finance on. However, as these schemes may also involve grant funding, the majority deliver affordable rents.

### Alternative land value capture mechanisms

Tax increment financing is being used in the Vauxhall Regeneration Zone in London to help fund an extension of the Northern Line to the site. It is the first use of tax increment financing in the UK. City Hall has a £1 billion treasury-backed loan, at least £660 million of which will be paid back over 25 years through business rates on development already agreed on the

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site. GLA representatives argue that this ensures that all developers will pay towards necessary infrastructure provision proportionally but admit that it is a risk should further development not come forward. The fact that only 15% of the housing on the site is affordable suggests that, once again, infrastructure requirements on large-scale sites are restricting affordable housing provision and raise questions about whether such risky financial instruments are appropriate in areas of high affordable housing need.

## Land and planning

The delivery of major new settlements and urban extensions was being achieved in a number of the case study areas, notably in Cambridgeshire where there are plans for over 10,000 new homes over the next ten years. In Cambridgeshire this was driven through a range of sub-regional partnerships and mechanisms that successfully established a consensus on growth, which set the framework for local plans and brought together partners and finance (see Box 12).

### Box 12: Cambourne

Cambourne is a new settlement located ten miles west of Cambridge and is an example of private-led, large-scale land assembly. A consortium of the three developers bought 40 hectares of former agricultural land for a new settlement of 3,300 units in the early 1990s. Outline planning permission was granted in 1994 with a S106 agreement for 30% affordable housing (52% social rented and 48% shared ownership). By 2007, just over half of the targetted affordable housing had been built but the recession caused developers to scale back. This allowed housing associations to become more actively involved in the delivery with HCA funding. Eventually, affordable housing was delivered over the target with a higher proportion of social rented housing. Outline planning permission for a further 950 homes in Upper Cambourne was granted in 2011. Market conditions at the time led to the developer arguing that high levels of affordable housing were unviable but this was strongly resisted by the council and 40% AH affordable housing was agreed.

Planning in Oxfordshire has been more contested, which has restricted housing growth and the provision of affordable housing. Nevertheless, urban extensions such as at Barton (see Box 13) have been achieved on council-owned land and have secured a substantial element of AHSRE provision.

Both these examples suggest that issues of land assembly and finance rather than restrictive planning are key factors affecting large site delivery.

Box 14 indicates that the making use of public sector land can also be effective.

## Greenbelt release

Greenbelt release has been used in Newcastle and Cambridge but with varying levels of affordable housing delivery. In Newcastle, land was released in 2000 in the Great Park area for 2,500 homes. In line with the council's aspirations for attracting skilled workers, only 6.4% affordable housing was required, despite this being previously agricultural land and therefore of low value. Nevertheless, in the latest phase, a £1 million commuted sum was

### **Box 13: Barton – joint venture**

Oxford City Council owns a 36-hectare (90-acre) site at Barton on the eastern periphery of the city, allocated as a strategic site for housing. There are significant financial and viability constraints associated with bringing forward the site, with infrastructure costs estimated at £25–£30 million. After carrying out an options appraisal, the council agreed on a joint venture vehicle with a private sector partner to provide investment, leading to the creation of Barton Oxford LLP. Outline planning consent was granted for 885 new homes, with 40% of these units proposed for social rent. The infrastructure provider will secure investment against the value of the land, while associated City Council costs for professional services have been met by the HCA. During the negotiations opportunity for training, apprenticeships and job creation were secured through the procurement process.

### **Box 14: Public land assembly**

Newcastle City Council has a large land pool due to clearances, school closures etc. In addition, the council can provide additional top-up funding through its Future Homes Fund programme, which is partly supported by commuted S106 sum payments and land receipts. Sites are brought forward through the Housing Delivery Partnership Framework, which includes registered providers, developers and the council, with preferred bidders responding to a prepared development brief.

The business model allows for negotiating the percentage of delivery of affordable housing, which is separated from the rest of the land. The developer gains upfront funding by building this for the council. The council then sells the remaining land for market housing to the developer, who pays in stages. In this way, the developer does not have to incur financing costs for buying the land and so can pay a higher residual land value to the council, ensuring a higher percentage of affordable homes.

negotiated. Further release will secure another 3,000 units in the Great Park area, with a hoped-for 15% affordable housing requirement.

In 2003 in Cambridge, the Cambridge Structure Plan identified major strategic development sites in the Southern Fringe. The boundary of the greenbelt around the city was reviewed in 2006 and the Southern Fringe Area Development Framework was published by Cambridge City Council. Greenbelt land was released to provide 1,200 houses in 2008, compensated by related greenbelt boundary extensions. Growth area funding available at the time secured investment in infrastructure – e.g. guided buses – which enabled 40% affordable housing to be delivered.

### **Housing Zones**

In June 2014, the GLA launched its prospectus for Housing Zones. It is envisaged that they could deliver 50,000 homes over ten years (GLA, 2014). In February 2015, the first nine of these, with the potential to



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deliver 28,000 homes, were announced. These zones are areas designated to accelerate housing development through a partnership between land-owners, developers, investors, the GLA and boroughs. A flexible package of measures will be used that is appropriate to each zone, combining planning and financial measures. These can include the use of GLA powers through CPOs or Local Development Orders and providing infrastructure investment through the London Housing Bank or Affordable Housing Programme. In return, boroughs are expected to accelerate planning requirements and agree a delivery framework. Unlike MDCs, Housing Zones do not transfer planning powers from LPAs, although the GLA has the option of imposing an MDC should a Housing Zone not come forward on a key site. It is expected that Housing Zones will be in areas of low land values (e.g. The Upper Lea Valley), enabling the uplift in value to secure infrastructure. In many senses, Housing Zones therefore adopt some of the principles of Garden Cities, but within an urban context. Affordable housing is given some prominence in the prospectus but it remains to be seen what numbers will be delivered, particularly at social rent or equivalent levels. The government has committed to designate 10 Housing Zones outside London.

These examples suggest that issues of governance, land assembly and finance rather than restrictive planning are key factors affecting large site delivery. Further, while planning mechanisms can be used to designate large sites with lower land values for housing, affordable housing is not guaranteed. To deliver to those on the lowest incomes, political commitment is needed (as in Oxford) as well as appropriate financing (particularly for infrastructure).

## Localism

A variety of initiatives under the localism agenda are evident in the case study areas. These include the following.

### NDPs

There is a mixed experience of NDPs delivering numbers and affordability. The first NDP to be approved in England – the Upper Eden NDP in Cumbria – contains innovative policies that enable housing on isolated rural sites precluded by national policy. However, it also has a delivery plan across all sites, which will ensure that only low numbers are developed each year. In Oxfordshire, where local plans are in place with clear housing targets (e.g. Thame), NDPs have to be in conformity with existing plans. However, some plans are seeking to include a strengthened local connectivity policy for new and affordable homes, which could exclude those in greatest need. Where local plans are not in place (e.g. Vale of White Horse) there is more evidence of NDPs being used to restrict development.

### Community land trusts (CLTs)

Experience of CLTs in the case study areas indicates that while they can provide much-needed homes suited to local needs, numbers are small and the time taken to deliver schemes is often extended.

The Keswick Community Housing Trust in Cumbria was set up in 2008 in response to the need for local affordable housing. Land was bought from the local church at a discounted price of £10,000 per plot. The trust raised £60,000 towards the site via a community share issue and got additional grants from the CLT network, the local authority, the Quakers and, after recognition as a registered provider, the HCA (at £28,000 per unit). The 11 units completed in 2013 consist of one market unit for local occupancy (sold



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to provide initial capital), five shared-ownership units at 50% market value with no rent on top of the mortgage and five affordable rent units.

The St Clements Hospital Site in Tower Hamlets is being developed by the East London CLT (ELCLT) in partnership with a housing association and developer. The scheme is mixed tenure comprising 252 units – 178 for private sale, 51 social rent units delivered by a housing association and 23 units of intermediate/shared-ownership housing developed by the ELCLT. The scheme is not dependent on grant funding; the ELCLT will purchase the units from the developer at the point of occupation (turnkey). The price of the ELCLT units will be set at 50% of the median income in Tower Hamlets. The overall cost will be calculated on the basis of a standard 25-year mortgage at an average interest of 5.5% and a 10% deposit. It is estimated that one-bedroom properties will cost around £150,000 (£200,000 below the average market price of a one-bedroom property in Bow) and three-bedroom properties less than £250,000 (Howard, 2014). The housing will remain affordable and residents who want to move out will have to sell them on to someone else who is eligible for affordable housing. Although these homes will be for shared ownership and therefore not for those on the lowest incomes, the formula used suggests ways in which affordability can be linked to incomes and not market prices.

### LEPs and City Deals

The case study areas reveal that, to date, LEPs have tended to prioritise economic development and support for strategic infrastructure over housing, apart from some references to market housing to attract key workers. This is the same for City Deals in place in Cambridge, Newcastle and Oxfordshire. However, the potential for LEPs and City Deals to act in combination with housing strategies to deliver infrastructure, thereby freeing up planning obligations for affordable housing, is being recognised and may lead to change in the future. In some instances, LEPs can also exert some political leverage in terms of scrutinising Local Plan housing targets and levels of delivery.

### New Homes Bonus

Only one of the case study areas was directly investing all proceeds from the New Homes Bonus into affordable housing, but it should also be said that this reflected the need to supplement local authority general spending in the light of cuts. Case studies with weaker housing markets also considered that the top-slicing element of New Homes Bonus funding resulted in a redistribution towards already buoyant areas. Recent research has also questioned the effectiveness of the New Homes Bonus in achieving its objectives of boosting housing supply (NAO, 2013).

Overall, the localism agenda does not yet appear to be having the impact on housing growth that the government hoped for. The community rights agenda is delivering low numbers and the challenge is to scale these up. NDPs can be used to either promote or block housing development. Further, the LEP and City Deal agendas have not yet addressed affordable housing to any significant degree, although this does appear to be moving in the right direction.

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## Governance, leadership and delivery

### SPVs

SPVs – either wholly or partly owned council subsidiaries, independent charities or partnerships – are increasingly playing an important role in affordable housing delivery, particularly where there is scope for utilising public land resources to develop partnerships (see Box 15). Joint-venture SPVs enable councils to take equity stakes in developments, a process indicated by some contributors as a possible alternative to entering into S106s. SPVs can also be constituted as partnerships with private developers (see Box 16). The advantages of SPVs are that they can:

- provide councils with access to a wider range of funding;
- work with developers familiar with the local housing market to develop appropriate delivery models; and
- bring underutilised public land into development.

The disadvantages are that:

- they can bring risk as well as opportunities; and
- as with all schemes, the securing of affordable housing depends on available funding and the agreements with developers.

There is also a possibility that the types of funding associated with SPVs will make the delivery of AHSRE more difficult, although this is not the case in every scheme.

#### Box 15: SPVs – housing trusts

Leazes Homes was set up in 2009 to specifically deliver affordable housing. Initially wholly owned by Your Homes Newcastle, a Newcastle City Council arm's length management organisation, it is now a part-owned, independent, charitable, registered provider in order to qualify directly for the 2011–15 HCA programme. As a result, any debts incurred by the entity are not reflected in the council's balance sheet, which helps to reduce the amount of public debt and help raise funding on the capital market. This SPV provides 25–30% of all affordable housing delivery in the city, including purpose-built housing for special groups, particularly older people and disabled people.

Since the abolition of the Housing Revenue Account Subsidy System (HRASS), Birmingham City Council uses its own delivery vehicle: the Birmingham Municipal Housing Trust (BMHT). This will deliver approximately 200 new affordable homes per year from 2013–14, rising to 300 in 2018 when the borrowing threshold rises. Birmingham's first-round Local Authority New Build (LANB) bid secured £6.7 million of HCA investment in September 2009. In 2010, in round two of the LANB programme, an additional £5.4 million was allocated to schemes in five areas of the city – one of the largest allocations to any local authority in the country. BMHT works with 12 local contractors through an agreed Contractors Framework to both boost the local economy and skill levels and develop appropriate delivery models. Contractors have to build to the BMHT External Work Guide and as such cannot distinguish between housing built for sale or rent on mixed-tenure sites. The BMHT operates a 'Build Now Pay Later' model, which enabled builders to provide homes for outright sale despite the economic downturn.

### Box 16: SPVs – public–private partnerships

The New Tyne West Development Company (NTWDC) has been formed to regenerate a rundown area in Scotswood in Newcastle, with 1,800 units in seven phases and over a 15-year period. There is 15% on-site affordable housing delivery in each phase. The SPV comprises a developer consortium (Barratt-Keepmoat), Newcastle City Council, an RSL (Thirteen Group) and the SPV (NTWDC), which manages all the processes and interactions between the different parties. The council ensures the delivery of clean title land and the funding and profits are shared equally. The SPV also holds a super profit clause over a certain (low) threshold, giving priority to the council to cover its land costs. Land assembly and preparation has taken 13 years to complete, with initial investment of about £54 million by the Bridging Gateshead Newcastle Pathfinder programme and an additional £10 million by the HCA to enable demolition, land acquisition, remediation and drainage prior to the formation of the SPV. In order to prevent land banking by developers, the land is allocated in phases and 70% of each phase has to be completed and sold before land for other phases is released. Priority letting policy for affordable housing here is for people in employment in order to attract back economically viable people.

The Localism Bill enabled the setting up of MDCs with extensive land acquisition, planning (including negotiating S106s) and other powers. Decision-making is devolved to an MDC board. In London, an MDC exists for the Olympic Park and one has been proposed for the Old Oak Common and Park Royal areas with the potential of providing up to 24,000 homes. MDCs can be established in any city with a mayor but to date exist only in London and Liverpool. Like new town development corporations and urban development corporations before them, the extensive powers open to MDCs have the potential to deliver large housing numbers but the operation of these powers could prove controversial and the delivery of affordable housing may or may not be a priority. Experience of the Olympic Park MDC is that the proportion of affordable housing secured has declined considerably over time, from 50% achieved at the Athletes Village to commitments for 35% on later phases, the first of which has only secured 28% (Donovan, 2014).

### Regional and sub-regional governance

The case study experiences suggest that strategic co-ordination between a range of partners is significant to affordable housing delivery (see Box 17). Differing models exist, from formal regional government in London, to collaborative partnerships in Cambridgeshire to a strained duty to (not) co-operate in Oxfordshire. The overall prospects for affordable housing provision in Oxfordshire are complicated by:

- a contested planning context for future housing allocations;
- uncertainty regarding future negotiations over the likely spillover from the city;
- a possible greenbelt review following the SHMA; and
- a general lack of agreement over the growth and physical expansion of the city *per se*.

This contrasts with the situation in Cambridgeshire where successive sub-regional arrangements have enabled continued supply at high levels (Box 17).

### **Box 17: Sub-regional partnerships – Cambridgeshire Horizons**

Cambridgeshire Horizons, which was disbanded in 2010, was a collaborative form of sub-regional governance and delivery model. Cambridgeshire Horizons' key focus was on the delivery of the development strategy for the Cambridge area and it assisted the local authorities to ensure prompt and efficient delivery of major developments. It played a key role in helping to draw together the identified requirements of the major developments as work on planning applications progressed and in facilitating discussions on planning obligation agreements. This independent input assisted partnership working between the local authority and the land-owners/developers, and ensured a realistic approach to negotiation. The large settlements such as Cambourne, Orchard Park and Trumpington Meadows in the Cambridge sub-region are the exemplar sites of the successful involvement of Cambridgeshire Horizons.

## **Conclusions**

The case studies reveal the following:

- A range of different delivery models for AHSRE and affordable housing have emerged, appropriate to the case study areas and typologies. S106 assumes greater or lesser significance within these different models, depending on a range of factors including:
  - housing markets;
  - land availability;
  - public sector land-ownership;
  - access to finance; and
  - governance.
- Many of the alternatives to S106 in delivering affordable housing reviewed in Chapter 1 are already being implemented on the ground. However, in most cases the numbers provided are small and the significance of grant finance, particularly from the Affordable Homes Programme, cannot be underestimated.
- The planning system is capable of allocating large sites and extensions. However, their delivery depends on finance and strategic co-operation. Affordability rather than just numbers can be prioritised through political commitment and appropriate investment. Infrastructure costs, particularly if they take a substantial slice of the planning obligations 'cake', can be a barrier to affordable housing delivery.
- The localism agenda does not yet appear to be having the impact that the government hoped for on housing numbers.
- Strategic co-ordination of housing and planning policy, particularly at the sub-regional level, is key. However, there is great variation in the extent to which this is achievable, which does not seem to be determined by the type of governance arrangements (unitary, informal, partnerships etc). Strategic co-ordination at the regional level is potentially more effective if formal governance arrangements are in place (as in London).

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- SPVs are being extensively used in a variety of forms and appear to be offering substantial opportunities for affordable housing and AHSRE development. SPVs, including private housebuilders, are adopting delivery models capable of delivering affordable housing and AHSRE, suggesting that a more widespread use of these business models within the industry could deliver more affordable housing.

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## 4 HOW DO WE GET FROM WHERE WE ARE NOW TO WHERE WE NEED TO BE?

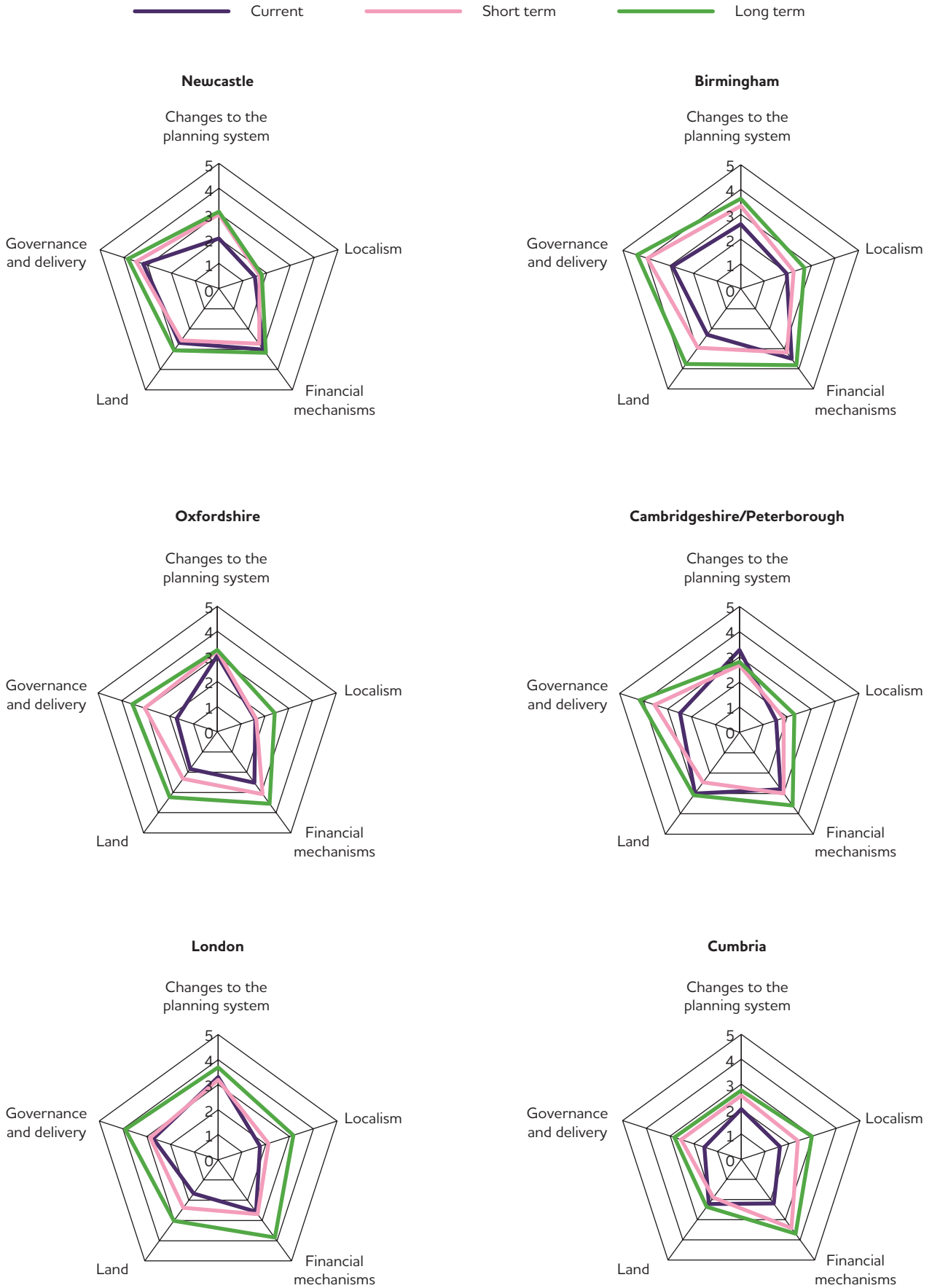
This chapter presents the results from a series of backcasting workshops held in each case study area to consider which of the four scenarios discussed in Chapter 1 – land assembly and planning, finance, localism and governance and delivery – have the greatest potential to deliver more affordable homes in the future. A full list of the specific initiatives discussed under each heading can be found at <http://bit.ly/1GiKqHN>. Despite differences in local conditions, there was a consensus in all the workshops that a ‘golden triangle’ of initiatives in land and planning, finance and strategic local leadership would be most likely to be effective.

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### Future scenarios

The radar diagrams in Figure 8 indicate regional workshop participants’ views on the alternative mechanisms; given the focus of the research we separated the land and planning initiatives for the purposes of the discussion. Inevitably, these results are heavily influenced by the views of the participants and are not totally representative of the area although a range of interests were represented at each workshop. The diagrams contrast the current situation (in purple) with what changes participants’ considered were needed in the short term (pink) and the longer term (green). In the following sections,

**Figure 8: Workshop participant evaluation of current and alternative mechanisms (short and long term)**



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evidence from the workshop discussions, the case studies and discussions in the national stakeholder workshop is used to explain these findings in more detail.

### Financial mechanisms

There was an overall consensus both in the workshops and across the range of people we interviewed on the need for more investment in affordable housing both in the short and long term and from the public and private sectors. The previous chapter has shown the increasing contribution that a range of sources of finance are making to affordable housing provision but also the constraints on the ability to provide housing to those on the lowest incomes through these. There was consensus that delivering AHSRE required subsidy including from government programmes, and a shift from Housing Benefit subsidy to bricks and mortar figured prominently as a priority in some workshops. However, given the great diversity of current affordable 'products', a delivery model for social housing – drawing on a range of financial sources – was seen as much needed but not impossible. Further work on what this would mean in different areas is needed.

The case studies revealed the innovations possible through increased local financial autonomy and this was seen as an area that needed to be expanded. It was also considered that registered providers in particular have been effective in 'sweating' their assets to lever in further private funding. However, there are potential limits to this in the future, which raised further implications for the need for continued public investment.

Alternative land value capture mechanisms were seen as having some potential, but there was little enthusiasm for a Development Land Tax. Other alternatives such as local authorities taking an equity stake in developments instead of a S106 requirement were seen as having greater potential and deserved further exploration.

### Strategic leadership and delivery

Governance, leadership and delivery featured equally as a key requirement for affordable housing delivery. There were many comments in our workshops that one of the key issues in delivering more affordable housing was political will and leadership (or lack of it) at both the national and local levels. For many, the mechanisms are there; what is needed is to prioritise and build a consensus around the delivery of affordable housing. Enabling local authorities and their partners to be able to do this was a necessary next step.

Having the appropriate delivery vehicles was also prioritised and the range of SPVs and other mechanisms currently in operation was seen as having significant potential. The differences between the case study areas in achieving effective strategic co-operation raised questions about the appropriate form and level of governance to achieve affordable housing. Undoubtedly, the powers of the GLA enabled a range of initiatives to be delivered in London at the regional level, which were not repeated in other case study areas, but this brought tensions between differing needs and priorities across the city.

### Land assembly and planning

Given that there have been two major changes in the planning system in the last ten years, understandably there was little appetite for major planning reforms in the short term. The flexibility in the NPPF was welcomed but equally the contradictions between greater local flexibility and continuing top-down changes, such as the S106 threshold changes, were referred to.



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There were calls in some areas, particularly London, for changes to enable the current system to work better in its ability to deliver affordable housing, linked to concerns about the operation of viability and the restrictions on planning to deliver AHSRE. These are reflected in the recommendations in the next chapter.

Some participants questioned whether either CIL or S106 would or should both remain in the long term. Some were of the opinion that the evolution of planning obligations as a major way of funding affordable homes was distorting its role and that expanding alternatives could reassert planning's positive role in strategically shaping development. However, there was an equal awareness that removing planning obligations would require other mechanisms for land value capture and social housing funding to be put in place. Given the current policy climate, this was considered unlikely, suggesting that the further erosion of S106 should be resisted. Views were expressed among some participants that the pendulum between plan-led and market-led development had swung too far to the market and a move in the other direction would positively impact on planning obligations.

Land assembly was seen as another key area for future provision. However, opinions differed on the significance of Garden City type development. In London, they were labelled a 'distraction' by one participant, partly because of the lack of greenfield sites but also because they drew attention away from lower key mechanisms – such as S106 – which may ultimately have more impact. This is underlined by the fact that the experience in the case study areas is that achieving affordable housing numbers on large sites requiring significant infrastructure is not easy and most of the agreements have been below the targets set in Local Plans.

Other proposals included the greater use of public-owned land, which could be encouraged through having a robust public land register and relaxing the requirements for public agencies to achieve best value on sites. Concerns were expressed by local authorities on using large-scale CPOs for reasons of cost and also to avoid conflict. More co-operative forms of assembly or the use of CPO powers by sub-regional or national organisations was considered more appropriate.

### Localism

Discussions on localism confirmed the conclusions from the previous chapter concerning the limited capacity of initiatives to deliver homes and infrastructure in the short and medium term. There were some local differences, with workshops in Cumbria, London and Oxfordshire seeing more potential in the longer term. There were also suggestions that the local flexibility that was seen as a key positive aspect of the NPPF should be built on to enable a more 'genuine' localism that allows local planning authorities and partner agencies to implement a strategy appropriate to local needs. In particular a closer alignment of housing, planning and investment strategies, as in London, could emerge through this. The 'Devo Manc' arrangement through which the Greater Manchester area was given greater powers and resources was agreed after the fieldwork for the study but suggests that greater localism is possible. The role of housing within such deals needs to be prioritised.

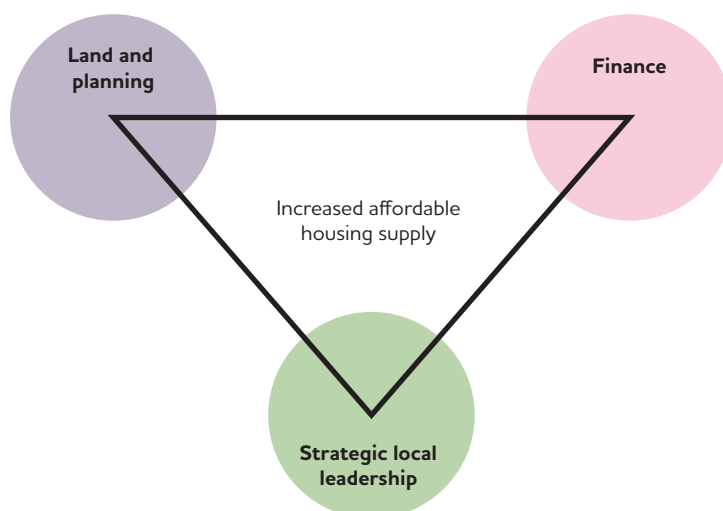
## Conclusion

In summary, the clear message coming through from the workshops was that no one scenario is likely to deliver the affordable homes needed. Instead, a combination of factors as expressed in Figure 9 was called for.

This combination of finance, land and planning and governance are in effect elements currently combined within S106, underlining why it has persisted and become so significant. Given the limits to S106 indicated in this research, there is nevertheless a need to learn from how these are being combined in different ways in different localities. The case studies indicate a range of localised approaches that combine these factors, of which three are summarised below:

- Newcastle integrates public sector land assembly with a combination of public and private finance through the clear leadership of the council and a range of delivery vehicles. Despite challenging market conditions and low levels of S106, affordable housing is being delivered albeit in small numbers.
- Cambridgeshire has benefited from a succession of effective sub-regional governance arrangements and strong leadership, which has built a consensus for growth, enabling strategic development sites to be brought forward. Infrastructure funding has enabled significant proportions of affordable housing, including high percentages of social rented housing, to be delivered.
- London presents a contradictory picture. A strong regional body with substantial powers and resources has drawn together an innovative range of initiatives aimed at delivering housing numbers, but the affordability focus has been questioned. At the same time, a similar localised response from boroughs with very high market rents has been restricted by London-wide policies. This suggests that the issue of balancing numbers and affordability is a local and not just a national policy issue.

**Figure 9: The ‘golden triangle’ of mechanisms for increasing the future affordable housing supply**



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# 5 CONCLUSIONS AND RECOMMENDATIONS

A number of recommendations emerge from the report to increase the number of affordable homes provided through current planning mechanisms, including S106, and to further support alternative forms of provision.

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## Conclusions

It could be argued that planning obligations evolved to be a major provider of affordable housing by default rather than by design. As such, it is clear from this research that although S106 is an important mechanism to deliver affordable homes in particular places at particular times, it cannot, nor should it be expected to, deliver enough homes to meet needs in all local housing markets. This was reflected in the localised delivery 'models' for affordable housing identified in the case studies within which S106 played a greater or lesser role, depending on a range of factors. The case study research revealed that there are many innovative approaches currently being implemented as locally appropriate additions (rather than alternatives) to S106, which have the potential to deliver greater numbers in the future. Nevertheless, S106 delivered over half of all affordable homes in the ten-year period covered by our data, making it a crucial mechanism in the housing of those with the lowest incomes and a significant mechanism in spreading the benefits from development. It is also clear that as its role has reduced over recent years, the additional measures, although welcome, are not making up the shortfall. This means that a range of measures to both strengthen and supplement S106 are needed.

A major focus of this research was on the links between housing and poverty. S106's already constrained ability to deliver appropriate homes to those on the lowest incomes is being increasingly challenged by changes to the planning system and a range of other policy and economic factors. The issue is not just one of numbers but also of how affordable 'affordable' housing is and how affordability within the planning system is defined. Shifting this definition to housing below market prices as opposed to

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housing at a cost within reach of low-income families makes it harder to deliver housing to those in poverty. Broad definitions of affordability also have the effect of making the needs of those on the lowest incomes less visible among the very large percentage of the population for whom market housing is no longer 'affordable'. This is very evident in the current emphasis on delivering housing numbers through the planning system and why this report has argued strongly that delivery at the social rent or equivalent level should be an important element of such schemes (Shelter, 2014).

The research has shown that a number of factors influence the effectiveness of S106 in delivering affordable homes, including:

- institutional capacity;
- political commitment; and
- governance.

In addition, the data suggests that changes to the planning system, particularly the greater weight given to viability in planning practice, have led to a significant decrease in the capacity of S106 to deliver, although a lack of open information makes this hard to confirm. Despite this, a range of good practice to maximise contributions is emerging. In addition, planning reforms have introduced more opportunities for locally determined planning policies to address housing needs but this can be undermined by centrally imposed regulations, such as the reductions in S106 thresholds.

In turn, this raises some wider considerations about the purposes and priorities of planning in relation to issues such as poverty and social inclusion. Many of our participants felt that the pendulum has swung too far towards planning as a facilitator of markets; the impact of the way in which viability is currently operationalised in S106 housing delivery is an illustration of this. 'Rebalancing' planning, for example by extending the presumption in favour of sustainable development to address social sustainability as a key planning principle, could significantly alter the context within which S106 operates (TCPA, 2014).

Looking to the future, more time and further research are needed to gain a clearer picture of how the interaction between the CIL and S106 will impact on affordable housing delivery. Indications are that many LPAs have managed the CIL process to protect the possibility to deliver affordable housing and the greater threat is from other changes to planning. While freeing up planning from negotiating for affordable housing was not an unattractive prospect to some of the research participants, the danger is that should S106 be phased out or reduced further, no adequate alternatives to provide commensurate affordable housing, or to capture land value uptake, will be put in its place.

Three points emerge in relation to different scenarios for promoting housing supply in addition to S106:

- In practice, many are already being implemented, albeit on a small scale; the challenge is how to scale these up.
- Not all these mechanisms prioritise delivery to those on the lowest incomes.
- According to the research participants, a combination of land and planning, finance, and strategic leadership at the local level, had the greatest potential to secure more affordable housing delivery.

It is clear therefore that there is no silver bullet when it comes to increasing the supply of homes to those on the lowest incomes or to increasing the

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numbers of homes full stop. A pluralistic approach to policy, which reflects local circumstances and contexts as already indicated by the good practice emerging in the case studies, rather than a one-size-fits-all solution, is required. This should be facilitated and enabled through national and local policy and investment strategies and issues of affordability should not be sacrificed to housing numbers.

## Recommendations

A number of recommendations therefore emerge from this research relating to two main areas:

- strengthening the operation of S106 to enable more affordable homes to be provided through the planning system; and
- developing and enhancing additional mechanisms, in particular through a combination of land availability, finance and strategic leadership.

These recommendations are listed below and Table 4 indicates achievability and prioritisation.

### Changes to strengthen S106 to provide more affordable homes include the following:

- 1** Share good practice in maximising delivery through S106 and in dealing with viability issues in planning to maintain affordable housing provision.
- 2** Revise the definition of affordability in the National Planning Policy Framework (NPPF) to strengthen the ability of local planning authorities (LPAs) to deliver housing within the reach of people in housing need in their areas. This could include reinstating the Planning Policy Statement 3 (PPS3) definition.
- 3** Enable local plans and S106 agreements to set and secure levels of affordability that reflect local circumstances. This may be set at a percentage of gross incomes.
- 4** Enable LPAs to separately specify the proportion of social rent, affordable rent and low-cost home-ownership units in their plans and S106 agreements where levels of need are demonstrated by appropriate evidence.
- 5** The operation of viability within the planning context should be reconsidered to ensure enhanced value capture for affordable housing, including:
  - revisiting the parameters for viability assessment from a planning perspective –essential to this is enabling a plan-led approach through requiring existing use value (plus), not market value, to be used in viability appraisals; LPAs should also be able to set their own parameters for viability assessment based on their local knowledge, policies and experience, which could be by Supplementary Planning Guidance;
  - including affordable housing delivery in benchmark land valuation;
  - more training of planners and local councillors in viability assessments;
  - open book accounting and greater scrutiny of viability assessments;
  - moving towards a dynamic conception of viability, which would require the use of review, cascade and clawback mechanisms to enable better land value capture for LPAs in upward market conditions.

**Table 4: Priority, impact and achievability of recommendations**

	Priority	Impact	Achievability	Action by
<i>RECOMMENDATIONS TO REBALANCE NUMBERS AND AFFORDABILITY</i>				
Share and implement good practice in the operation of S106, the adoption of the CIL and developing localised schemes appropriate to particular areas (1, 5, 6, 8, 16)	1	1	1	CIH, DCLG, HBF, JRF, LGA, LPAs, PINS, POS, RTPI, planning schools
<i>RECOMMENDATIONS TO STRENGTHEN THE OPERATION OF S106</i>				
Re-define affordability in planning legislation and reverse the recent exemptions of specific types of developments from planning obligations (2, 5)	1	1	2	The new Conservative Government elected in May 2015
Produce clear guidelines for viability assessments including taking use value+ as the measure for land values and ensuring greater transparency (5)	1	1	2	DCLG, RICS, RTPI
Enable and encourage LPAs to specify proportions of social rent, affordable rent etc. and low-cost home-ownership and set levels of affordability that reflect local circumstances in local plans, S106s and other documents (3, 4)	2	2	2	The new Conservative Government elected in May 2015, LPAs
<i>RECOMMENDATIONS TO ENHANCE THE ADDITIONAL SUPPLY OF AFFORDABLE HOMES; the golden triangle</i>				
Ensure affordability for all in major new schemes such as Garden Cities by setting affordability at the same or higher levels than in Local Plans (12)	1	1	2	Central government, LPAs, developers
Include affordable housing delivery as criteria for determining best value on public sector land disposals (13, 14)	1	2	3	Central government
Increase flexibility and powers for local authorities and partners to invest in local affordable housing delivery vehicles (10)	1	1	3	Central government
Increase government funding for investment in affordable homes (10)	1	1	3	Central government
Encourage strategic leadership through requiring LEPs and City Deals to promote affordable housing as a priority for strategy and infrastructure investment (11, 20)	1	1	2	Central and local government,
Replace the duty to co-operate with more robust strategic leadership arrangements where affordable homes are not being delivered (17)	1	2	2	Central government
<i>GENERAL RECOMMENDATIONS</i>				
Introduce more robust systems to collect data on and monitor the operation of S106, the impact of the CIL and other policy (7, 8, 9)	1	2	2	DCLG, LGA, LPAs
Reaffirm the role of planning in promoting social sustainability and inclusivity	2	2	1	DCLG, LPAs, RTPI
Work to develop a delivery model for social rented housing (18)	2	2	3	DCLG, HBF, JRF
Make a political commitment to affordable housing for those on the lowest incomes (15)	1	1	2	Central and local government, political parties
Implement a genuine localism with powers and resources to enable local actors to develop appropriate strategies for maximising local affordable housing delivery (19, 20, 21)	2	2	2	All

**Notes:**

Priority: 1 – urgent, 2 – less urgent. Impact: 1 – high, 2 – medium, 3 – low. Achievability: 1 – easy, 2 – moderate, 3 – difficult.

CIH = Chartered Institute of Housing, DCLG = Department for Communities and Local Government, GLA = Greater London Authority, HBF = Home Builders Federation, JRF = Joseph Rowntree Foundation, PINS = Planning Inspectorate, POS = Planning Officers Society, RICS = Royal Institute of Chartered Surveyors, RTPI = Royal Town Planning Institute.

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- 6** The proposal to impose a threshold of ten units in relation to planning obligations should be reversed.
  - 7** The emerging impact of the CIL on the ability to negotiate S106 agreements needs to be monitored.
  - 8** The CIL should not be charged on affordable housing.
  - 9** More robust systems need to be put in place to collect reliable data on S106 delivery.

Measures to increase alternative mechanisms need to be enhanced, in particular a combination of finance, land availability and strategic leadership.

#### *Finance*

- 10** Greater investment through a variety of sources in affordable and socially rented housing is needed, including:
  - higher levels of government grant (including a shift from Housing Benefit to bricks and mortar);
  - increasing the capacity of local authorities to invest e.g. increasing Housing Revenue Account headroom;
  - enabling/promoting non-grant funding, including asset-based borrowing, institutional and pension fund investment and ethical funds;
  - working on the potential of a non-grant financial model for social/target rented housing;
  - ring-fencing the New Home Bonus for affordable housing.
- 11** Large sites need more funding for infrastructure to free up S106 to deliver affordable homes.

#### *Land/planning*

- 12** More land needs to be made available for housing through the planning system. However, this needs to be accompanied by robust planning policies and appropriate finance mechanisms to ensure affordability as well as numbers.
  - Affordability should be a key requirement of initiatives such as Garden Cities (as in the Shelter Wolfson submission) and Housing Zones. Percentages of affordable housing in such schemes should be the same if not more than those in local plans.
- 13** A range of measures to increase the capacity of public sector land to address the need for affordable homes could be implemented, including:
  - a transparent register of public land;
  - changing requirements for best value on land disposals such as including affordable housing delivery in their criteria;
  - equity sharing arrangements between public land-owners and development partners.
- 14** Further work on the potential of alternative land value capture mechanisms, such as tax increment financing or land re-adjustment, is needed.

#### *Governance and delivery*

- 15** Political commitment at national and local levels to the need for affordable housing for those on the lowest incomes is needed.
- 16** Mechanisms to transfer good practice in the use of SPVs and to increase the capacity of these to deliver should be explored.
- 17** Appropriate governance arrangements to ensure strategic co-ordination of cross-boundary housing and planning policy with a long-term vision

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need to be put in place. The duty to co-operate should be revisited and, where it shown to be not working, alternatives should be put in place.

- 18** Work should be undertaken with the housebuilding industry to develop new delivery models for social rented/affordable housing. This could include contracts weighted towards local developers and suppliers.

### Localism

- 19** Further work on how to scale up the contribution of initiatives such as CLTs and NDPs should be carried out.
- 20** LEPs and City Deals need to address issues of affordable housing and prioritise it as a key part of the infrastructure of growth. LEPs could prioritise the release of land and infrastructure provision for affordable housing as well as commercial development.
- 21** Powers and resources should be devolved to the local level to enable the implementation of localised housing strategies.

These recommendations will not only ensure a greater supply of affordable housing but will also promote a re-prioritisation of planning towards issues of social sustainability and inclusion and promote a form of localism more able to genuinely address local priorities and needs.



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# NOTE

- 1 The Lyons Housing Review (2014), the most wide ranging review of recent evidence on increasing the supply of housing, concluded that the extent to which the taking out of options on land affected the ability to reflect planning obligations in the land price was unclear. Therefore, greater transparency over the role of options is required.

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# ABBREVIATIONS

AHSRE	Affordable housing at social rent or equivalent
ARM	Affordable Rent Model
BMHT	Birmingham Municipal Housing Trust
CIL	Community Infrastructure Levy
CLG	Communities and Local Government
CLT	Community land trust
CPO	Compulsory Purchase Order
DCLG	Department for Communities and Local Government
EDI	Economic Deprivation Index
GLA	Greater London Authority
GPCBS	Green Pastures Community Benefit Society
HCA	Homes & Communities Agency
HSSA	Housing Strategy Statistical Appendix
JRF	Joseph Rowntree Foundation
LAHS	Local Authority Housing Statistics
LANB	Local Authority New Build
LBBB	London Borough of Barking and Dagenham
LEP	Local enterprise partnership
LPA	Local planning authority
MDC	Mayoral development corporation
NDP	Neighbourhood Development Plan
NPPF	National Planning Policy Framework
NTWDC	New Tyne West Development Company
ONS	Office for National Statistics
PPS3	Planning Policy Statement 3
RSL	Registered social landlord
SHLAA	Strategic Housing Land Availability Assessment
SHMA	Strategic Housing Market Assessment
SPD	Supplementary planning document
SPV	Special purpose vehicle
UK	United Kingdom

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# GLOSSARY

**Affordable housing at social rent or equivalent (AHSRE)** refers to housing at social rent levels that since 2001 have been set based on a formula set by government. The formula creates a 'formula rent' for each property, which is calculated based on the relative value of the property, relative local income levels and the size of the property. Landlords are expected to move the actual rent of a property to this formula rent, over time. An aim of this formula-based approach is to ensure that similar rents are paid for similar social rent properties (DCLG, 2013, *Guidance on rents for social housing: Draft for consultation*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254282/13-10-29\\_Draft\\_Local\\_Authority\\_Rent\\_Guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254282/13-10-29_Draft_Local_Authority_Rent_Guidance.pdf)).

**Affordable Rent Model (ARM)** was first introduced in the Treasury Spending Review in October 2010. It enables social landlords to offer shorter-term tenancies at a rent higher than social rent, to be set at a maximum of 80% of local market rents.

**City Deal** is part of the localism agenda and refers to a government initiative that aims to give cities greater power and responsibility to promote growth. The negotiated deal involves funding from central government to support the city's plans.

**Community Infrastructure Levy (CIL)** refers to a new land value capture mechanism that was introduced in the UK by the Planning Act 2008 and implemented through the 2012 CIL regulations. Local authorities in England and Wales can choose to charge the CIL on new developments in their area. The money raised from the CIL can be used to support development by funding infrastructure that the council, local community and neighbourhoods want. It is charged as a fixed rate per square metre and would be collected in advance of a development. Social housing and charitable use are exempt from the levy. Local authorities also have the power to apply exceptional relief where the levy would have an unacceptable impact on the economic viability of a development. (DCLG, 2010, *The Community Infrastructure Levy: Summary*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/7607/1772927.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/7607/1772927.pdf) and Monk et al., 2013).

**Community land trust (CLT)** is defined as a corporate body, which is established for the express purpose of furthering the social, economic and environmental interests of a local community by acquiring and managing land. Assets are normally held in community ownership and can only be sold or developed according to the views trust members on benefits to the community. Profits from their activities can only be used to the benefit of

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the local community. Individuals who live or work in a specified location have the opportunity to become members and the trust is controlled by members (National CLT Network, 2014, [www.communitylandtrusts.org.uk/step-by-step-guide/forming/definition](http://www.communitylandtrusts.org.uk/step-by-step-guide/forming/definition)).

**Community/Public Land Auction** refers to a 2011 proposal by the Centre Forum that is primarily based on a change of land value from agricultural and other uses to residential use. Accordingly, local authorities would call for sealed offers from land-owners to state the price for some or all of their land for development and any conditions that they wish to apply. The local authorities would then buy suitable parcels of land that are good value at the offered price. They would then grant planning permission and re-auction the land in the open market but keep the difference in value. A variation of this proposal has been piloted in the redevelopment of Catterick Garrison in Yorkshire, with advance involvement of the local authority to remove all risks and fast track planning permission prior to auctioning the site and sharing the uplift in value.

**Compulsory Purchase Order (CPO)** refers to legal powers that enable local authorities to compulsorily purchase land to carry out a function that is deemed to be in the public interest where a land or property owner does not want to sell. Anyone who has land acquired is generally entitled to compensation. However, the local authority must demonstrate that the taking of the land is necessary and there is a 'compelling case in the public interest'. Owners or occupiers can challenge this, and their objection will be heard by an independent inspector.

**Garden Cities** refers to a new initiative by the former Coalition Government to encourage local authorities to develop 'locally led' Garden Cities that provide the full range of commercial, retail, educational and community facilities that people need, in such a way that they facilitate interaction between people. They are expected to be at or above the 15,000-homes level, delivered more quickly than is typical through the existing planning system and have good access to either existing or planned transport infrastructure to provide connectivity to the rest of the country. (DCLG, 2014, *Locally-led Garden Cities*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/303324/20140414\\_Locally-led\\_Garden\\_Cities\\_final\\_signed.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/303324/20140414_Locally-led_Garden_Cities_final_signed.pdf)).

**Greenbelt land swaps** refers to initiatives where development permits are given to brownfield land situated within greenbelt areas but additional more suitable land is added to the greenbelt.

**Housing Revenue Account** refers to the account for recording income and expenditure in relation to a local authority's own direct provision of housing. Income includes rents received from local authority tenants, charges for services and facilities, housing subsidy/grant payments and income from investments and sales. Charges include management costs, maintenance costs, capital costs (due to borrowing in the past), major repairs and contribution to capital projects.

**Housing Zones** refers to the initiative introduced in the Mayor of London's draft Housing Strategy in 2014. It aims to accelerate housing delivery in areas with high development potential. Accordingly, London boroughs are invited to bid to a £400 million programme, jointly funded by the mayor and

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national government, to create 20 Housing Zones across London, delivering 50,000 new homes (<https://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/housing-zones>).

**Intermediate housing** refers to housing provided by social landlords at affordable rent levels, i.e. set at a maximum of 80% of market levels.

**Land re-adjustment** is defined as a technique whereby a group of contiguous land parcels in an urban fringe or in an inner-city neighbourhood are voluntarily brought together or shared for unified planning, servicing and re-allocated with project costs and benefits equitably shared between and among land-owners. Where the local authorities act as the main coordinating agency, the costs are deducted from the existing project, usually by allocation of a specified parcel of land, and the remainder is re-allocated to the previous owners based on the share of their original contribution.

**Land value capture** refers to a variety of planning, legal and fiscal mechanisms that enable local authorities or the wider community to benefit from the uplift in the value of land as a result of development and/or public investment.

**Local asset-backed vehicle** refers to a funding model where a public sector body will create a corporate entity with a private sector partner. The public body transfers real estate to this entity, and the private sector partner matches the value of those assets with cash.

**Local enterprise partnerships (LEPs)** were initiated in 2010 and are part of the localism agenda. They replace regional development agencies. They are partnerships between councils and businesses that decide on what the priorities should be for investment in roads, buildings and facilities in the area. In 2011, the government invited LEPs to apply for establishing Enterprise Zones to take advantage of tax incentives and simplified planning. So far, 39 LEPs have been created and 24 Enterprise Zones have been awarded.

**Localism** refers to the planning changes brought about as a result of the Localism Act 2011. These include a range of measures, including:

- the promotion of local flexibility through the NPPF and the abolition of Regional Spatial Strategies;
- the introduction of a range of community rights aimed at promoting development at the local level (e.g. NDPs);
- fiscal freedoms such as the relaxing of restrictions on the Housing Revenue Accounts of local authorities;
- the introduction of the New Homes Bonus;
- the introduction of the growth agenda, which aims to promote economic development through the establishment of LEPs.

**National Planning Policy Framework (NPPF)** sets out government's planning policies for England and how these are expected to be applied. It has introduced a simplified policy regime, which aims to support sustainable development and local flexibility.

**Neighbourhood Development Plans (NDPs)** were introduced as part of the Localism Act 2011. They enable local communities to shape development in their area by producing statutory development plans. The NDP becomes part of the Local Plan, and is then used for deciding on planning applications.

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**New Homes Bonus (NHB)** provides a financial incentive for local authorities to approve new homes. The NHB is paid each year for six years and matches the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. Funding for the NHB is top-sliced from the general funding for local authorities.

**Planning gain** refers to community benefits including affordable housing that is secured from developers as a condition of granting planning permission. The underlying logic relies on the fact that planning permission leads to uplift in land value and hence the community should also share in some of the resultant benefits. In addition, planning gain can mitigate the external costs of developments that may otherwise make it unacceptable. Please also see Section 106 below.

**Real Estate Investment Trust (REIT)** is a company that owns or finances income-generating real estate. UK-REIT companies are exempt from corporation tax on profits and gains from their UK operations but are required to pay out at least 90% of their taxable income as dividend to their shareholders. They facilitate investment in large-scale property portfolios to all investors through the purchase of stock without the need for investing directly in property.

**Regional Spatial Strategies** provided legal spatial planning frameworks for the English regions outside London between 2004 and 2010. Their significance for housing lay in the targets they set for housing numbers which also proved to be highly controversial. They were abolished by the incoming Coalition government in 2010.

**Revolving funds** operate by recycling the original funding for infrastructure as it is paid back through development values without any fiscal year limitations. Accordingly, initial funding could be recouped or interest paid and recycled into new infrastructure projects.

**Section 106 (S106)** is a form of land value capture and refers to planning obligations secured under Section 106 of the Planning and Compensation Act 1990 that require developers and land-owners to provide community benefits, including affordable housing, from the uplift in land values created as a result of the granting of planning permission.

**Special purpose vehicle (SPV)** is defined as a legal entity created solely to serve a special function. In the context of this report, SPVs refer to different forms of partnerships, joint ventures or specially designated quangos with either a thematic or geographic focus in terms of area regeneration and/or affordable housing delivery. These include housing trusts, municipal housing companies and regeneration partnerships.

**Strategic Housing Land Availability Assessment (SHLAA)** refers to local authority documents that identify the sites to meet the need for market and affordable housing in the local authority's area.

**Strategic Housing Market Assessment (SHMA)** refers to local authority documents that provide a robust evidence base of the need for market and affordable housing in the local authority's area.

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**Tax increment financing (TIF)** refers to a funding mechanism that uses anticipated increases in tax revenues to finance current improvements (such as new or improved infrastructure) that are expected to generate those increased revenues. Tax increment financing can be very important for large-scale regeneration schemes and can be created specifically to fund affordable housing.

**The Growing Places Fund** is a £500 million fund set up by the government, which aims to enable LEPs to prioritise and address local infrastructure needs to deliver economic growth and to set up sustainable revolving infrastructure funds in the future that will lever in private investment.

**Vinex** refers to a Dutch urban extension programme whereby local authorities take the lead in providing sustainable urban extensions through land re-adjustment and government subsidies for infrastructure. This has resulted in over 450,000 homes being built between 1995 and 2005.

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# APPENDIX A: METHODOLOGY

The study used a variety of methods in answering the research questions. The *literature review* and *scoping interviews* provided a comprehensive understanding of the main issues related to delivering affordable housing through the planning system.

An *analysis of secondary data* was subsequently undertaken in order to investigate the dynamics of affordable housing provision across England. Data was obtained from a variety of sources – including Communities and Local Government (CLG), GLA, HCA and Office for National Statistics – to construct a comprehensive database with local-authority-level information on unit completions, housing market conditions, affordability and poverty levels. Table A1 shows the different completion variables and their respective data sources for the period of study from 2004/05 to 2013/14.

Due to changes in the way S106 delivery is monitored, for the period 2004/05–2010/11, delivery figures were obtained from the Housing Strategy Statistical Appendix (HSSA). With regard to the last two years of the study, total affordable housing and S106 delivery figures were obtained from a variety of sources, including the HCA (2011–15 Affordable Homes Programme) and Local Authority Housing Statistics (LAHS) (new-build affordable units not reported to the HCA) for England (excluding London) and the GLA for London. Due to the recent nature of the data, it is reported as best HCA, CLG and GLA estimates and should be treated with care. Throughout the project it became clear that data on S106 provision was not consistent over time. Differences between CLG figures and those in local

**Table A1: Housing completion data sources, 2004/05 to 2013/14**

Net additional dwellings (NAD)	Total affordable housing (TAH)	S106 total	S106 nil grant (private developers' contribution only)
2004/05–2013/14: CLG	2004/05–2010/11: CLG	2004/05–2010/11: HSSA	2004/05–2010/11: HSSA
	2011/12–2013/14: CLG Table 1011	2011/12–2013/14: <ul style="list-style-type: none"> <li>• CLG: LAHS data returns</li> <li>• New build affordable housing not reported to HCA</li> <li>• HCA : 2011–15 Affordable Housing Programme S106 completion, except London</li> <li>• GLA : London housing affordability analysis table</li> </ul> Numbers of affordable housing from mixed sites are used as a proxy for S106	2011/12–2013/14: CLG Table 1011

authority S106 Annual Monitoring Reports were also apparent. This suggests that policy is not being based on robust data, which is surprising given the significance placed on S106 by successive governments. Despite these problems, this was the only data source to meet the project’s objectives of drawing out national trends and comparing between areas. Table A2 summarises the other variables used in the quantitative analysis and their respective data sources.

Correlation and regression analyses were employed in order to investigate whether affordable housing delivered through S106 went to the lowest income households and which factors affect the S106 delivery using the variables in Table A2. Following local-authority-level quantitative data analysis, the research concentrated on *fieldwork* with six case studies selected from local authorities based on the Office for National Statistics (ONS) 2001 Area Classification for local authority districts. Considering the similarities between local authorities, the initial 13-fold classification was reduced to seven categories for research purposes. These final categories guided the case study selection process.

Table A3 summarises the category reduction process and the respective case study representatives that were investigated in this research. Each of four case study areas – London, Newcastle, Birmingham and Cumbria – represented the London, regional centre, industrial and manufacturing and coastal and rural typologies respectively. The category prospering Southern England and new and growing towns was covered by the Oxfordshire and Peterborough case studies respectively. It was decided to place Cambridgeshire in the new and growing towns category given the policy and geographic links with Peterborough and because since the 2001 ONS classification was drawn up it was designated as a major growth area.

The fieldwork in the six case study areas included interviews, documentary analysis and a selection of at least three illustrative projects from the study areas. These were used to build up a picture of the operation of S106 and emerging alternatives in each of these areas. Consequently, six different workshops (one in each area) provided a platform for localised approaches based on a range of different scenarios (changes to the planning system, localism, financial mechanisms, and land and governance) for delivering more affordable homes. The methodological approach in the workshops was through ‘backcasting’, which starts by defining a desired future and then seeks to identify the policies and steps needed to get from where we are now to where we want to be in the future. Finally, a national stakeholder workshop fed back expert comments on the findings.

**Table A2: Data sources for other variables, 2004/05–2012/13**

<b>Housing market variables</b>	<b>Demand variable(s)</b>	<b>Socio-economic variables</b>
Median house price: CLG	Waiting list: CLG	LQ PIR: CLG
Lower-quartile (LQ) house price: CLG		Economic Deprivation Index (EDI): CLG
Housing association rent: CLG		Income domain of EDI: CLG
Local authority rent: CLG		Employment domain of EDI: CLG
		Income of local authority tenants: CORE
		Child poverty scores (2006–11 only): CLG

PIR = Price Income Ratio; CORE = Continuous recording of letting and sales of social housing in England

**Table A3: Case study selection from local authority typology**

<b>ONS 2001 Area Classification</b>	<b>ONS 2001 Area Classification reduced</b>	<b>Case study area</b>
Regional centres	1. Regional centres	Newcastle
Thriving London periphery* London suburbs London cosmopolitan London centre	2. London	London
Prospering Southern England	3. Prospering Southern England	Oxford, Vale of White Horse, Cambridge, South Cambridgeshire
Prospering smaller towns	4. Prospering smaller towns	Cherwell, West Oxfordshire, Huntingdon, Fenland, East Cambridgeshire
Coastal and countryside	5. Coastal and countryside	Cumbria
New and growing towns	6. Growing towns	Peterborough
Manufacturing towns Industrial hinterlands Centres with industry	7. Industrial & manufacturing	Birmingham
Northern Ireland countryside (dropped out)	N/A	

\*From this initial category, Cambridge, Oxford, Reading and Watford were included in the Prospering Southern England seven-fold typology.

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# ABOUT THE AUTHORS

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