Office of the
Deputy Prime Minister
Creating sustainable communities

The Value for Money of Delivering Affordable Housing through Section 106

planning

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Cambridge Centre for Housing and Planning Research,
University of Cambridge

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University of Sheffield

July 2005

Office of the Deputy Prime Minister: London

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CHAPTER 1
Introduction and research context

The research question

1.1 The study aims to assess the value for money of delivering affordable housing through the use of Section 106 agreements (s.106). There are five research questions around which the report is structured:

A. How many units of affordable housing are being delivered through s.106 both with and without public subsidy, and what is their tenure?

B. How far do patterns of provision and contributions to costs vary across regions?

C. What are the total costs of provision of a unit of affordable housing and what proportion of the total costs is met by different agents in the public and private sector? How does this pattern vary by region?

D. What is the additional cost – to the public and private sector – of 'on-site' affordable housing provision and does it vary by location?

E. How far does provision of 'on-site' affordable housing contribute to the Government's policy objectives of creating mixed communities?

Policy Context

1.2 The Government has stated its commitment to providing a planning system that creates sustainable communities and delivers sustainable development. The Government believes that it is important to help create mixed and inclusive communities, which offer a choice of housing and lifestyle. The planning system has an important role in creating communities with a better mix of housing.

1.3 Delivering affordable housing through s.106 agreements is becoming increasingly important in the supply of affordable housing. This research indicates that affordable housing delivered through the planning system now accounts for over 40 per cent of all affordable housing completions and acquisitions. It is thus important to examine the efficiency of delivering such a substantial quantity of affordable housing using this mechanism.

1.4 The current policy context is one of change. As part of wider reforms, legislation has been introduced which would enable new regulations and guidelines to include an optional planning charge to developers as an alternative to the current negotiated route for developer contributions. Meanwhile, the final report of the Barker Review (2004) recommended the use of the planning gain supplement to capture windfall gains to landowners at the granting of planning permission. However, in the absence of a planning gain supplement, the Barker Review recommended the use of the optional planning charge. The Government is currently considering both measures.

1.5 Government has not yet reached a decision on how affordable housing might be dealt with by an optional planning charge. Were the decision taken that affordable housing should be delivered through financial contributions, then there are risks that an optional planning charge may deliver fewer affordable dwellings than s.106 negotiations because of the problem of land scarcity in high demand areas. However, depending on its design, an optional planning charge also has the potential to deliver more units.

Research Aims

1.6 This piece of research provides a contribution to the discussion by examining the value for money of delivering affordable housing through the planning system i.e. through section 106 agreements. We examine not only how much affordable housing has been delivered through this mechanism but also whether the cost of provision is greater than the traditional system of non-s.106 affordable housing sites. Although this report comments on means of delivering affordable housing it is not intended as a good practice guide but as an analysis of the delivery mechanism and the associated costs.

1.7 We also examine how using s.106 to provide affordable housing contributes to the objective of mixed communities. We consider the role of on-site provision in delivering units in areas that are normally associated with market housing, how far the affordable housing is integrated with market housing and the extent to which the delivery of affordable housing through s.106 is bedding down. These considerations inform discussion of whether alternative options such as the optional charge and off-site delivery of affordable housing could provide a more efficient system of affordable housing provision.

1.8 The report was commissioned before the final report of the Barker Review. Therefore the study does not consider the recommendation to introduce a planning gain supplement to capture windfall gains.

Research methods

1.9 The methods used to undertake this research comprised:

- Analysis of government Housing Investment Programme (HIP) data together with government data on new housebuilding starts and completions
- Findings from a survey of Registered Social Landlords (RSLs) undertaken for the Joseph Rowntree Foundation (JRF) (2004)
- Analysis of a Housing Corporation dataset examining building costs, Total Cost Indicators (TCI) and funding in London, South West and South East

- Interviews with a range of stakeholders
- Case studies of 16 local authorities
- Site specific details of 39 individual sites, partly identified in the case studies and partly comprising generic information provided by housebuilders.

1.10 Five Annexes are used to present further evidence outside the main body of the report:

1. Analysis of Housing Corporation data for London, South East and South West
2. The case studies
3. Site specific information
4. The financial aspects of on-site and off-site provision of affordable housing
5. Implications for an optional planning charge

CHAPTER 2

Research question A: Units and tenure

A. How many units of affordable housing are being delivered through s.106 and what is their tenure?

2.1 There are two key methods of affordable housing provision through which the vast majority of affordable units are secured. This report concentrates on affordable housing delivered through the planning system using s.106 agreements. Units completed through s.106 agreements may be delivered on-site with the market units or, occasionally, off-site. Alternatively, the traditional method of affordable housing delivery is through 100% affordable housing sites funded through the use of Social Housing Grant (SHG) and other public subsidy. This report will refer to the former method of provision as s.106 sites and the latter as non-s.106 sites. Off-site s.106 provision is treated as a s.106 site even if the site contains only affordable units and appears to be a non-s.106 site.

Quantity

2.2 Housing Investment Programme (HIP) data was used to answer this question. The HIP records numbers of units completed through planning policy. We have taken this definition as a proxy for s.106. However, we recognise that the figures are indicative given the limitations in the data, particularly differences in affordable housing definitions and in what is defined as delivered through the planning system.

2.3 Table 1 below shows that in 2002/03 just under 12,600 affordable units were completed through planning policy, yet as many as 23,700 received planning permissions in the same year. The numbers of units granted permission and completed have risen significantly in recent years. Planning permissions rose by over 25 percent a year during the last two financial years, with completions also rising considerably, albeit more slowly due to the lag of completions behind approvals. Of course, not all permissions result in completions but the data suggest a correlation between the two. This lag implies that in 18 months to two years' time, completions of s.106 affordable units should have risen above 15,000.

2.4 Table 1 also describes how s.106 affordable units have become increasingly important in the overall supply of affordable housing. Such units account for 44 percent of all affordable units, a rise of 23 percentage points from 2000/01.

Table 1 Total Completions, Total Affordable Completions and s.106 Affordable Completions

	1999/00[1]	2000/01[2]	2001/02[3]	2002/03[4]
Total Completions	140,000	133,700	129,900	137,700
Total Affordable Completions	44,226	44,971	32,210	28,835
s.106 Planning Permissions	15,529	14,768	18,480	23,727
(Rise on Previous Year %)		(–5%)	(25%)	(28%)
s.106 Completions	9,244	9,297	10,303	12,592
(Rise on Previous Year %)		(1%)	(11%)	(22%)
s.106 Completions (% of Total Affordable[5])	21%	21%	32%	44%

Source: HIP Data 1998/99-2002/03, Regional Trends 35-38, ODPM Housebuilding Statistics

1 Affordable Housing Secured through the Planning System

2 Affordable Housing Approved through the Planning System

3+4 Affordable Housing Granted Planning Permission

5 including acquisitions

2.5 The survey of 381 RSLs carried out as part of the related project on the Joseph Rowntree Foundation (JRF) (2004) project funded jointly by the JRF and the Housing Corporation found that 70 percent of RSLs were not currently involved in development.

2.6 Table 2 shows that the number of sites that each respondent RSL with an active development programme starts to develop per year is relatively small with only, on average, four s.106 sites and five non-s.106 affordable sites developed during 2002/03. However, the number of s.106 sites has been rising steadily since 1999/00 while the number of non-s.106 sites has remained constant. This increase is consistent with Table 1, which describes the substantial increase in s.106 units as a proportion of total affordable provision.

2.7 A similar story exists with regard to the number of units. The number of s.106 units developed by RSLs responding to the survey has increased by almost 40 percent since 1999/00 compared to a 17 percent increase in the number of units developed on non-s.106 affordable sites. The average number of units developed by RSLs on a s.106 site has fallen from 15 to 12 suggesting RSLs are developing on a greater number of smaller s.106 sites.

Table 2 **Development Activity: Responses to a Survey of RSLs**[1]

Sites					
s.106: Number of Sites		**1999/00**	**2000/01**	**2001/02**	**2002/03**
	Total Number of Sites	88	102	118	155
	Average per RSL	2.8	2.9	3.5	4.0
100%: Number of Sites		**1999/00**	**2000/01**	**2001/02**	**2002/03**
	Total Number of Sites	189	183	183	258
	Average per RSL	4.8	4.2	4.3	4.9
Units					
s.106: Number of Units		**1999/00**	**2000/01**	**2001/02**	**2002/03**
	Total Number of Units	1315	1430	1431	1825
	Average per RSL	39.8	37.6	39.8	40.6
100%: Number of Units		**1999/00**	**2000/01**	**2001/02**	**2002/03**
	Total Number of Units	3128	3592	3420	3656
	Average per RSL	73	75	73	62
		1999/00	**2000/01**	**2001/02**	**2002/03**
s.106: Units Per Site		15	14	12	12
non-s.106: Units Per Site		17	20	19	14

Source: The complementary roles of s.106 and SHG in providing additional affordable housing, Joseph Rowntree Foundation, (Forthcoming). RSL Survey.

1 The total number of sites and units increases over the survey period due to an increasing number of respondents. Respondents were more able to supply data on the later years of the study period. The average, however, provides a more stable means for comparison.

2.7 From the survey we can conclude that a relatively small number of RSLs are developing on a small, but increasing number of sites per year. Non-s.106 sites are still more common than s.106 sites but the frequency of s.106 sites is rising. The non-s.106 sites tend to be larger, especially in the South. If the current patterns of development continue we can expect to see provision of affordable units on s.106 sites exceeding provision on non-s.106 sites within two years.

2.8 62 percent of RSLs who responded to the survey did not perceive s.106 sites to be replacing non-s.106 affordable sites. This figure was over 90 percent in London. 69 percent felt that they were now developing in more expensive areas ranging from 75 percent in the North West to only 62 percent in London and the South East. 69 percent also though that the growth of s.106 resulted in affordable schemes in areas not normally associated with affordable housing, varying from 70 percent in the North to 67 percent in the South. Section 6 has more details. This variation is consistent with table 1 showing rising s.106 sites and stable non-s.106 sites.

Tenure

2.9 The HIP data provide a breakdown by tenure, both for 'all new affordable housing completions/acquisitions' and separately for completions involving s.106 agreements. Table 3 shows that overall, just over three-quarters of affordable completions/acquisitions are social rented units and 15 percent are shared ownership units. The proportion of shared ownership varies by region, from around 1 percent in the North West up to 26 percent in the South East and 22 percent in London.

Table 3 Tenure by Region for Affordable New Build Completions/Acquisitions 2002/03

	RSL Rent	Total Rent[1]	RSL S/O	Other[2]	Total	% Rent	% S/O	% Other
North East	257	277	40	11	328	84	12	3
North West	2,234	2,295	30	397	2,722	84	1	15
Yorks & Humber	1,190	1,190	111	29	1,330	89	8	2
East Midlands	1,483	1,490	227	162	1,879	79	12	9
West Midlands	2,337	2,346	174	278	2,798	84	6	10
East of England	2,383	2,388	65	143	2,596	92	3	6
London	5,317	5,365	1,637	375	7,377	73	22	5
South East	3,856	3,879	1,606	663	6,148	63	26	11
South West	2,582	2,597	324	236	3,157	82	10	7
England	**21,639**	**21,827**	**4,214**	**2,294**	**28,335**	**77**	**14.9**	**8.1**

1. Total Rent includes a small proportion of LA rented units

2. Other includes discounted open market value, sheltered housing and low cost home ownership.

Source: ODPM HIP data 2002/03

2.10 Table 4 examines completions involving a s.106 agreement and shows that 73 percent are social rented but the proportion of shared ownership is slightly higher than the average across all affordable housing at about 18 percent. There is an additional element of nearly six percent discounted market sale.

2.11 Again, these proportions vary quite significantly by region, with over 80 percent social renting in the North East, the East Midlands, the East of England and the South West, but only 68 percent in the North West and 69 percent in the South East. Shared ownership varies from 28 percent in the South East and 21 percent in London to around 10 percent elsewhere.

2.12 The proportion of discounted market sale units varies greatly between regions from none at all in the North East, to 19 percent in the North West. As we might expect, there is very little discounted market sale housing produced through s.106 agreements in London or the South East where house prices are highest.

Table 4 **Tenure by Region for Affordable Units Completed through the Planning System 2002/03[3]**

	RSL Rent	Total Rent[1]	RSL S/O	Discounted Sale	Total[2]	% Rent	% S/O	% Sale
North East	137	143	17	0	160	89	11	0
North West	414	414	95	137	733	68	13	19
Yorks & Humber	384	384	78	47	509	75	2	9
East Midlands	751	766	144	31	1,155	82	12	3
West Midlands	764	764	111	180	1,117	74	10	16
East of England	1,488	1,488	185	102	1,780	84	10	6
London	2,461	2,472	653	22	3,153	79	21	1
South East	2,026	2,026	807	90	2,923	69	28	3
South West	767	767	129	82	1,056	80	12	8
England	**9,192**	**9,224**	**2,219**	**721**	**12,586**	**73.3**	**17.6**	**5.7**

1. Total Rent includes a small proportion of LA rented units

2. Total includes a small number of units where the tenure is unknown (422 units, 3.3%)

3. Number of units completed through the planning system is assumed to be equivalent to units through s.106.

Source: ODPM HIP data (2002/03)

2.13 Case study evidence from 16 local authorities suggests that the affordable units built without public subsidy are likely to be shared ownership, discounted market housing, market renting or low cost (usually small) market housing. Units built using public subsidy are mainly social rented but will include some shared ownership. However, some RSLs are producing social rented units without public subsidy, by using the sale of market housing to cross-subsidise the social rented units.

Summary

2.14 Overall, the tenure pattern of affordable housing produced through s.106 presented from the different sources is complex. HIP data suggest almost 75 percent is social rented, 18 percent is shared ownership and nearly six percent is discounted market sale and low cost home ownership. The case study evidence broadly confirms this picture but also suggests that some low cost market housing counts as affordable for the purpose of s.106 agreements in some areas.

2.15 In addition some RSLs are building social rented units without public subsidy or s.106 agreements and some developers are producing affordable housing without public subsidy. The survey of RSLs conducted for the JRF research found that 88 percent of affordable housing produced through the planning system was social rented housing, with small amounts of shared ownership and key worker housing. The differences between the HIP and survey data cannot be explained with the available data.

2.16 While it is difficult to obtain direct evidence about affordable housing that is produced without subsidy, case study interviews provided examples of RSLs forming subsidiaries that are able to build market housing for sale and to plough the profit or surplus back to cross-subsidise the affordable housing. It is not clear how widespread this practice is but anecdotal evidence suggests that it is increasing. Further research or better data collection are needed to analyse the extent of affordable housing provision without subsidy in more detail.

CHAPTER 3

Research question B: Regional patterns of provision

B. How far do patterns of provision and contributions to costs vary across regions?

Regional Provision

3.1 Table 5 below shows the proportions of affordable housing that have been completed through the planning system in three broad regions, North, Midlands and South. These proportions have been fairly stable over the four-year period. Around 70 percent are in the South, an increase from 68 percent four years ago.

Table 5 **Proportions of affordable housing completed through the planning system, by broad region**

	1999/00	2000/01	2001/02	2002/03
North	14	15	15	11
Midlands	19	16	17	18
South	68	69	69	71

Source: HIP 1999/00 – 2002/03

3.2 Table 6 provides a more detailed breakdown. The highest quantities are completed in London, closely followed by the South East. The East of England and the South West also have high shares compared with regions in the Midlands and the North. The North East has the smallest amount of affordable housing.

Table 6 Regional analysis of affordable housing completed through s.106

	1999/00	%	2000/01	%	2001/02	%	2002/03	%
North East	442	5	290	3	206	2	160	1
North West	550	6	777	8	785	8	733	6
Yorks & Humber	289	3	336	4	502	5	515	4
North	**1,281**	**14**	**1,403**	**15**	**1,493**	**15**	**1,408**	**11**
East Midlands	691	7	778	8	761	7	1,155	9
West Midlands	1,029	11	660	7	985	10	1,117	9
Midlands	**1,720**	**18**	**1,438**	**15**	**1,746**	**17**	**2,272**	**18**
East of England	1,194	13	1,103	12	1,511	15	1,780	14
London	1,842	20	1,958	21	1,904	18	3,153	25
South East	2,553	28	2,298	25	2,394	23	2,923	23
South West	654	7	1,097	12	1,255	12	1,056	8
South	**6,243**	**68**	**6,456**	**70**	**7,064**	**68**	**8,912**	**70**
England	**9,244**	**100**	**9,297**	**100**	**10,303**	**100**	**12,592**	**100**

Source: HIP 1999/00-2002/03

3.3 Table 7 illustrates the importance of s.106 completions in the overall provision of affordable housing within the regions. There have been dramatic increases in all regions in the amount of affordable housing provision through planning policy with substantial increases during the last two years. This increase is confirmed by the RSL survey data. However, the evidence also suggests that while quantities of affordable housing completed through planning policy are rising, overall affordable provision has fallen (Table 1).

Table 7 s.106 Completions as a percentage of Total Affordable Completions/ Acquisitions

	1999/00	2000/01	2001/02	2002/03
North East	17	13	33	49
North West	10	14	23	24
Yorkshire & Humber	14	17	34	39
Average North	**14**	**15**	**30**	**37**
East Midlands	16	18	30	61
West Midlands	18	12	34	40
Average Midlands	**17**	**15**	**32**	**51**
East of England	29	25	51	64
London	23	21	25	43
South East	33	29	34	48
South West	17	28	34	33
Average South	**25**	**26**	**36**	**47**
England	**21**	**21**	**32**	**44**

Source: HIP 1999/00-2002/03

Public Subsidy

3.4 HIP data provide details of the use of public subsidy in the funding of affordable housing. 63 percent of respondents to the JRF survey stated that there were problems obtaining funding for units on s.106 sites.

3.5 Table 8 examines the use of public subsidy in the provision of affordable housing. In 2002/03 over 80 percent of affordable units completed through s.106 agreements were in receipt of public subsidy in the form of Social Housing Grant (SHG) and Local Authority SHG (LASHG) or both. 2,260 units were completed without any public subsidy and can be said to be clearly additional. However, although the percentage of units funded through public subsidy has risen since 2000/01, the number of units completed without subsidy has grown more slowly and actually fell from the 2001/02 figure. This relationship indicates that public subsidy is a key element of the provision of affordable housing though the s.106 route.

Table 8 **Funding of affordable units completed through planning policy in England**

			2000/01		
	Public Subsidy	**%**	**No Subsidy**	**%**	**Total**
North East	264	91	26	9	290
North West	709	87	108	13	817
Yorkshire & Humber	247	67	124	33	371
East Midlands	642	67	322	33	964
West Midlands	538	75	184	25	722
East of England	747	73	276	27	1,023
London	1,174	60	782	40	1,956
South East	2,201	90	236	10	2,437
South West	1,365	98	28	2	1,393
England	**7,887**	**79**	**2,086**	**21**	**9,973**
			2001/02		
	Public Subsidy	**%**	**No Subsidy**	**%**	**Total**
North East	148	72	58	28	206
North West	525	67	260	33	785
Yorkshire & Humber	332	67	166	33	498
East Midlands	438	60	293	40	731
West Midlands	611	62	374	38	985
East of England	1,248	83	262	17	1,510
London	1,337	71	540	29	1,877
South East	2,096	88	296	12	2,392
South West	1,069	85	182	15	1,251
England	**7,804**	**76**	**2431**	**24**	**10,235**
			2002/03		
	Public Subsidy	**%**	**No Subsidy**	**%**	**Total**
North East	153	96	7	4	160
North West	492	67	241	33	733
Yorkshire & Humber	301	58	214	42	515
East Midlands	963	84	177	16	1,140
West Midlands	764	68	353	32	1,117
East of England	1,474	83	306	17	1,780
London	2,745	87	397	13	3,142
South East	2,541	87	382	13	2,923
South West	867	82	189	18	1,056
England	**10,300**	**82**	**2,260**	**18**	**12,560**

Source: HIP data, 2000/01 – 2002/03

3.6 The regions with the highest levels of funding over the three year period are the South East, South West and North East. The lack of patterns relating to areas of high build costs and land prices might suggest the importance of negotiation at the local authority level and on a site by site basis. There are authorities with local planning policies which state that no public subsidy is available for the provision of affordable housing on s.106 sites. The case study evidence determined this policy has only a marginal impact on total provision. One London authority has a no funding policy for s.106 sites but has managed to achieve its local plan objectives for affordable housing provision. Where pressed, in high demand areas with high profit schemes, local authorities are able to negotiate agreements with developers that secure affordable units without the need for public subsidy.

Summary

3.7 Seventy percent of total s.106 affordable units were completed in the South of the country during the period 1999-2003. Units completed through the planning system are becoming increasingly important in the overall provision of affordable housing. Of the 28,835 affordable units completed in 2002/03 44 percent were completed through s.106 agreements. In the East and East Midlands the majority of affordable units come through the planning system. In all areas the proportion of s.106 units is increasing.

3.8 In 2002/03 82 percent of units completed through the s.106 policy were funded through public subsidy: SHG, LASHG or a mix of both. Increases in the number of units completed through s.106 and the rising proportions funded through public subsidy indicates a reduction in the supply of affordable units on non-s.106 sites because the total provision of affordable units has fallen in the last three years. However, non-s.106 sites still provide 56 percent of all affordable completions, rising to 76 per cent in the North West. The proportion will vary by local authority. Factors such as the prevailing demand for development land and the availability of suitable sites, which are typically publicly-owned, small brownfield land in low demand areas, will also determine the proportion of s.106 to non-s.106 sites. However, if the current trend continues then the s.106 policy will provide the majority of affordable units within the next two years.

CHAPTER 4

Research Question C: Costs and funding

C. What are the total costs of provision of a unit of affordable housing and what proportion of the total costs is met by different agents in the public and private sector? How does this pattern vary by region?

The costs of building affordable housing

4.1 In order to address the above research question detailed case studies were undertaken on 39 affordable housing sites, including both s.106 sites and non-s.106 affordable housing sites. The costs of building affordable housing cover land purchase price and build costs. Build costs are the total cost of scheme development excluding the land price. In many cases information on the market value of the scheme, the price paid for land or the prevailing land prices at the time of the purchase to allow an approximation of land cost was not available. In some cases organisations were reluctant to release financial information and in others their records were inadequate to provide the details we required.

4.2 Table 9 shows the average build costs, excluding the cost of land, on the 17 case study sites with the most complete financial data. Housing Corporation data for the South East, South West and London were also analysed for additional information.

Table 9 **Average build costs on the 16 sites**			
	Build cost per unit	**Nature of scheme**	**Notes**
1 – Tower Hamlets	£63,947	s.106 off-site	Specialist units – rental
2 – Tower Hamlets	£50,242	s.106 on-site	All rental
3 – Swindon	£49,438	Non-s.106	All rental
4 – Swindon	£64,020	Non-s.106	Shared ownership
5 – Swindon	£69,065	Non-s.106	90% rental, 10% S/O
6 – Lichfield	£60,388	s.106 on-site	All rental
7 – Reading	£48,500	s.106 on-site	All rental
8 – Fareham	£55,486	s.106 on-site	Rental, key worker S/O
9 – Fareham	£87,963	Non-s.106	All rental, temporary accommodation
10 – Huntingdon	£50,841	s.106	Some market, some rent
11 – Huntingdon	£55,348	s.106 on-site	All rental
12 – Huntingdon	£69,102	s.106 on-site	Ranged from £45,542 for 2 bed flat to £89,575 for 5 bed house
13 – Derby	£53,383	Non-s.106	All rental
14 – Derby	£48,349 rent, £46,365 S/O	Non-s.106	Shared ownership cheaper than rental
15 – Derby	£55,383	s.106 on-site	All rental
16 – Derby	£146,306 for 8 bed house	Non-s.106	Renovation and conversion
17 – Kendal	£60,320	s.106 on-site	Discounted market

4.3 Build costs vary by size of unit and also according to the design and nature of the property. The range is roughly from £45,000 for a one-bedroom flat to about £90,000 for a large family house, excluding the exceptional 8-bedroom house in Derby. Within a district, the variation is related to the nature and specification of the property and the density of the development.

4.4 One question is whether high density developments are more expensive. All the build costs identified here relate to relatively low density schemes. Qualitative evidence from developer interviews suggested that build costs rise steeply once the block is more than four storeys.

Proportion of costs met by different agents

4.5 The case studies provide information on the proportions of total scheme cost including land acquisition paid by the public and private sectors on s.106 sites as well as proportions of grant paid on non-s.106 sites. Table 9 shows the proportion of costs met by the public and private sectors for those sites where sufficient information was available, which was in 13 out of the 17 sites. It also shows the proportion met by the RSL, which comprises borrowing against future rental income plus shared ownership receipts where relevant.

Table 10 **Proportion of costs paid by public and private sectors**

(a) s.106 sites

Site	Public subsidy[1] (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
1	28.0	31.7	40.4	All rent
4	0.0	20.7	79.3	All shared ownership
6	36.0	35.7	28.3	All rent
10	34.3	51.5	14.1	Rural exceptions site with some market units, rest rent
11	25.4	55.4	19.1	All rent
12	35.2	40.0	24.8	Part rent, part S/O
17	0.0	61.6	38.4	Discounted market sale

1 All public subsidy including ADP SHG, LASHG, Safer Communities grant.

2 Borrowing plus receipts from shared ownership sales.

(b) Non-s.106 sites

Site	Public subsidy (%)	Developer contribution (%)	RSL finance (%)	Type of scheme
3	57.0	0.0	43.0	All rent
5	17.4	0.0	82.6	Part rent, part S/O
9	64.6	0.0	35.4	All rent
13	43.8	0.0	56.2	All rent
14	27.4	0.0	72.6	Part rent, part S/O
16	71.2	0.0	28.8	One large house for rent

4.6 What is clear from the table is how very complex is the funding for affordable housing, whether on s.106 sites or otherwise. For example, site 16 with over 60 percent of the costs attributed to the developer is discounted market housing so that the developer was willing to sell a small proportion of the market houses at a discount in order to meet the s.106 requirements. For site 11 with 55 percent developer contribution, the proportion was calculated in a slightly different way, taking the difference between the land price to the RSL and housing land values locally as the developer contribution, which might provide an estimate of profit foregone by the developer. This estimate may be too high as the land may have been purchased at a historically lower price. However, the opportunity cost may still be relatively high i.e. the developer is foregoing the land.

Analysis of London data

4.7 Housing Corporation data for London were analysed although they are incomplete. London is likely to be more extreme because of its higher land prices and higher costs than the rest of the country but the analysis provides good information at the top end of the price and cost range in England.

4.8 Housing Corporation data suggest that while the build costs of providing rental units on s.106 sites is slightly higher than on non-s.106 sites, the reverse is the case for shared ownership units (see Annex 1). Social housing grant for shared ownership units is the same for both s.106 and non-s.106 sites at 30 percent, but for rental units SHG is higher on s.106 sites at 59 percent than on non-s.106 sites at 55 percent. However, the differences are small and appear to reflect the Housing Corporation's Total Cost Indicators (TCI) which appears to be higher on s.106 sites. This finding supports the perceptions of both RSLs and developers that schemes are being costed to Housing Corporation TCI guidelines.

4.9 Data on s.106 schemes in London show that in 2002/03 the average total development cost per unit was £146,000 and the average public subsidy per unit was £82,000 i.e. 56 percent of total development costs. Since there is no indication of whether the land costs have been provided at sub-market levels, we cannot estimate profits foregone. Indeed, we cannot provide a true picture of total costs for the same reason: that actual land costs are not included, only the acquisition cost of the land to the RSL. This discounted cost includes a contribution from the developer.

4.10 London data on s.106 schemes have been combined with the main dataset provided by the Housing Corporation, which does not distinguish between s.106 schemes and others. Again, the data are incomplete but provide an indicative comparison. Of the s.106 schemes, 76 percent of units were social rental and 24 percent shared or other low cost home ownership. The proportions on non-s.106 sites were 67 percent social rented and 32 percent shared ownership or other low cost (see Annex 1 for details). Table 10 below provides a comparison of costs between s.106 and non-s.106 sites by tenure.

Table 11 **Comparison of s.106 and non-s.106 schemes in London, 2002/03**

	s.106		**Non-s.106**	
	Rent	LCHO	Rent	LCHO
Tenure split	76%	24%	67%	32%
Average cost	£149,140	£141,193	£141,807	£148,458
Average SHG	£87,858	£42,527	£78,494	£45,132
SHG%	58.9%	30.1%	55.0%	30.4%

Source: Housing Corporation database

4.11 The proportions are so similar that differences simply reflect circumstances on particular sites. The figures suggest that SHG covers nearly 60 percent of the costs of rental housing and around 30 percent of the costs of shared ownership. The proportions are expected to vary by region but the relevant data are not available.

Land costs: South East and South West

4.12 Acquisition costs of land for s.106 and non-s.106 sites in the South West and South East have been compared. This comparison illustrates potential differences in the characteristics of the location of the two types of housing as defined by land price and associated implications for TCI calculations. Table 12 below shows that in the South West the purchase price per unit of non-s.106 sites is considerably lower (around 25%) than s.106 sites. This difference could reflect a number of factors. The data reflect the purchase price of land per unit. Higher costs could reflect lower density development on s.106 sites. Additionally higher costs could indicate that s.106 units are developed in areas with higher land values.

4.13 Acquisition costs are much closer in the South East. If we assume the same pattern as in the South West with s.106 sites built on more expensive land then we could deduce that developer contributions (greater in the higher demand areas of the South East) are reducing the purchase price of land to the RSLs and bringing the cost of the unit within TCI limits. Further evidence is required to support this assumption.

Table 12 **Acquisition cost of land to RSL, per unit (£s)**

	s.106 sites	**non-s.106 sites**
South West	25,749	19,568
South East	25,647	23,458

Source: Housing Corporation database, 2002-03

Analysis of site specific information

4.14 From the financial information on those sites for which full or almost complete data is available, the following main points emerge:

- Many sites were already in public ownership, including s.106 sites sold to developers by the public body for example county council or local authority.
- In many cases, large sites are broken up and sold to different developers. The overall s.106 contribution has presumably been established in advance, but the information is then often lacking on the market units – so that what are actually s.106 sites become, in effect, non-s.106 affordable sites, albeit surrounded by market units as part of the larger scheme.
- Local authorities are not always calculating the proportion of affordable units properly, so they are in fact getting less than they say. Instead of taking the affordable units as a proportion of total units, they are taking the affordable as a proportion of the market units. For example they may appear to be meeting their targets of 25 percent affordable whereas in fact they are only getting 17 percent affordable.

- However, the costs of provision of some units on non-s.106 sites appear very high. These higher costs appear to be associated sometimes with difficult to develop brownfield land, sometimes with higher quality, but sometimes the costs are higher for no clear reason.

- Local authorities are often able to choose the mix and types of dwellings they receive on s.106 sites.

- These results are highly consistent with our findings from the earlier JRF project (Crook *et al*, 2002).

4.15 Only in very few cases is it possible to estimate the market value, or price, of the land. This means that the discount on the land price the RSL is not known. It also means that except in a few examples costs cannot be apportioned to different actors i.e. public subsidy, RSL finances, developer and landowner. In some cases the developer will already have reflected the cost of provision of the affordable housing in the land price negotiated with the landowner. It is very difficult to obtain data on such scenarios without detailed data on the price paid for the land and the market value of land at the time of purchase.

Summary

4.16 While the information is variable and often incomplete, it shows that the actual build costs of affordable housing vary by size of unit and also according to the design and nature of the property. The range is roughly from £45,000 for a one bedroom flat to about £90,000 for a large family house. The variation within a district relates to the nature of the site as well as its location.

4.17 What is striking from the site-specific analysis is the complexity of funding whether through s.106 or not. The proportion of total costs met by the public and private sectors varies considerably. We did not have sufficient data on land costs or even local average land prices to include all the case study sites. However, the developer contribution likely to be significant when measured in terms of the opportunity cost of the land which would have been used for market housing in the absence of the s.106 agreement.

4.18 The Housing Corporation data on costs in London show that SHG covers around 60 per cent of rented units and 30 per cent of shared ownership units. We would expect this to vary by region. Data for the South East and South West regions enabled us to see whether RSLs paid significantly less for land through s.106 than for non-s.106 schemes. In the South West the opposite was the case but in the South East the land acquisition cost was very similar. This similarity in land prices could mean that higher developer contributions are reducing the purchase price of land to the RSLs and bringing the cost of the unit within TCI limits.

CHAPTER 5

Research question D: Off-site and on-site provision

D. What is the additional cost – to the public and private sector – of 'on-site' affordable housing provision and does it vary by location?

Site specific evidence on the costs of on-site provision

5.1 This section draws on the analysis in Annex 4 and the evidence from the site specific information in Annex 3.

5.2 It is not clear from the available evidence that there are additional costs in on-site provision of affordable units. The absence of full information on land costs means it is difficult to get a picture of the true costs. The costs of the on-site affordable housing depend on the nature and mix of the market housing. The market housing may be modified in terms of house type, size and density of development, usually by increasing density and providing smaller units. In comparison, off-site allows the market housing to remain unchanged.

5.3 Some of the site specific and general case study evidence provided examples where the mix of market housing changes with on-site provision. The evidence suggests that whether the market housing changes depends on whether there is a price reduction to the market houses. The extent of the reduction varies from scheme to scheme and according to the approach of the developer.

5.4 Build costs appear to be similar between on-site and off-site provision – but the sites for non-s.106 affordable housing are sometimes more complex and result in higher costs. Higher costs are likely to be related to the relative scarcity of land supply in the locality and the complexity of sites. The outcome depends on who owns the other site and thus the price paid for the land. It is interesting that the local authority owned a significant number of the case study sites.

5.5 The relative cost to the public purse depends on the negotiation process, in terms of both numbers of units and of choice of alternative sites. Underlying differences in costs and certainties are important here. The developer is more certain where money is simply transferred to an RSL who purchases the site and organises the building.

5.6 In London, the public subsidy for s.106 rental units appears to be slightly higher than for non-s.106 rental units, but the reverse appears to be the case for shared ownership units (see Annex 1). TCI was higher for s.106 units than for non-s.106 units, both rental and shared ownership. This supports the view held by both RSLs and developers that schemes are being costed to meet TCI limits.

The financial implications of on-site provision

5.7 Annex 4 provides an examination of the financial implications of the on-site delivery of affordable housing. It examines the potential impact of land value, the price of market housing and development profitability using hypothetical examples in the East, London and East Midlands utilising costs and values collected during the case studies.

5.8 Using this example, off-site social housing provision allows the developer to generate more value and profit on the market housing site. Some of this increase might be taken from the developer via a higher affordable housing contribution and still leave the developer better off (than would be the case with on-site affordable housing provision).

5.9 The above would only produce greater provision of both market and affordable housing if additional housing land was available. If no land is available then there are additional development schemes competing for a fixed supply of land. The additional schemes will result in higher land prices nullifying the extra value released by the off-site approach.

5.10 The comparative finances of on-site and off-site provision will vary with land and housing costs and values. Higher value areas will be able to support higher affordable housing contributions.

Summary

5.11 It is difficult to establish whether there are additional costs associated with the on-site provision of affordable housing. Indirect evidence suggests that there are, to the developer, because the value of the market units is reduced by the presence of affordable housing on-site. Thus in some cases the nature of the market units produced on-site changed from what would have been produced in the absence of on-site affordable units. It is therefore possible that off-site provision would enable a larger developer contribution because the full gross development value of the market site is achieved.

5.12 Housing Corporation data for London provided some evidence to support the views of both RSLs and developers that schemes are being costed to meet TCI limits.

CHAPTER 6

Research question E: Contribution to sustainable communities

E. How far does provision of 'on-site' affordable housing contribute to the Government's policy objectives of creating mixed communities?

Background

6.1 Government guidance on planning for housing, *Planning Policy in 2000 Guidance Note 3 (PPG3)* stated that:

'The government believes that it is important to help create mixed and inclusive communities which offer choice of housing and lifestyle…Local planning authorities should encourage the development of mixed and balanced communities'.

6.2 The extent to which 'on-site' affordable housing is contributing to mixed communities is an important element of this research. Qualitative telephone and face-to-face interviews were undertaken with key actors, including planners, housing enablers, developers and RSLs selected in relation to the chosen sites within the 16 case study areas. The views of a number of key stakeholders from national organisations were also ascertained.

6.3 The data reveals a number of key issues in relation to the provision of mixed communities through 'on-site' provision. These relate to the extent to which the policy has bedded down, the difficulties in producing on-site affordable housing and the positive aspects of such provision. These issues are discussed further below.

6.4 This section considers the role of on-site provision in contributing to mixed communities, how far affordable housing is integrated and the extent to which s.106 is successful. Discussions with stakeholders highlighted the importance of the perceptions of affordable housing.

On-site provision and mixed communities

6.5 On-site provision of affordable housing contributes to the government's objective of mixed communities by integrating market and affordable units on one site. Provision of affordable units off-site or a commuted payment may result in the affordable units developed in different areas from the market units. Survey analysis examined the extent to which the delivery of affordable housing through the planning system contributed to the mixed communities objective by delivering affordable units in areas not normally associated with affordable housing. Analysis of the survey data shows that traditional affordable housing sites tend to be small brownfield infill sites, ex-local authority land or both. 83 percent of respondents claimed it has become more difficult to secure such sites in the last 5 years due to the price of land in the South and a shortage of publicly owned land coming forward in the North.

6.6 Although just over a third of respondents thought that s.106 sites were replacing traditional non-s.106 affordable housing sites, most believed that s.106 sites were delivering affordable units in very different locations. 69 percent of respondents believed that using s.106 agreements meant they were developing affordable housing in more expensive areas and that, more importantly, they were developing in areas not normally associated with affordable housing. If the mixed communities policy is simply expressed as integrating affordable and market housing both on the same sites and in the same localities then it might be argued that the policy is making a significant contribution to this objective.

6.7 The analysis described in section 5 above suggests that off-site provision has the potential to deliver more affordable units than on-site provision. However, if a greenfield housing development contributed off-site units and these units are then delivered on traditional, small brownfield infill sites this scenario are less likely to satisfy the mixed communities objective. There is, in this simple example, a conflict between maximising affordable housing contributions and the mixed communities objective.

Location and integration of affordable housing on-site

6.8 Throughout the interviews s.106 was stated to be working 'reasonably well' and making an important contribution to creating mixed tenure sites and meeting housing need targets. However, some respondents raised the issue that mixing tenure does not inevitably lead to mixed communities and that communities develop over time.

6.9 An important issue raised in the interviews was that although s.106 created a mix of tenures on-site, the location, design and integration of affordable housing was sometimes an issue. It was stated by some of the planners interviewed that some developers were not as oriented as they could be to creating mixed developments. This varied from scheme-to-scheme. However, developers tended to prefer placing affordable housing in one block 'in the least desirable part of the site' or 'in the back corner' and in some cases the design and size of the affordable units were inferior to the market ones. A number of respondents stated that developers were beginning to realise the benefits of integrating affordable units throughout the site and making sure that their design was indistinguishable from the market units.

6.10 It was argued that the most successful mixed developments were those where it was difficult or impossible to tell the difference between affordable housing and market housing. Several respondents stated that s.106 had modified the nature of the market housing built on the site. Instead of expensive up-market units, smaller, more modest units were being built at higher density. In at least one case the local authority felt this benefited them because they had more than enough up-market houses and it helped them to meet government policy on increasing densities.

The extent to which s.106 has bedded down

6.11 The experiences and perceptions amongst those interviewed indicated that although there were still some minor problems with implementing s.106 policy, these difficulties were lessening over time as all of the parties involved became familiar with requirements and had established better working practices. These problems relate to the negotiation process and there was some criticism about this.

6.12 Developers expressed the view that sometimes local authority staff were not skilled at negotiations, which contributed to delays. However, both planners and housing enablers countered this argument, and criticised developers for sometimes prolonging the negotiation process. In particular, staff at two local authorities cited the difficulties they had experienced with developers employing consultants to negotiate on their behalf and they felt 'very nervous' as they were 'constantly working against the threat of court action' from developers.

6.13 Both planners and housing enablers discussed the lack of government guidance concerning the negotiation process and s.106 agreements. In particular being 'between PPG3 and the new PPG3' was cited as causing difficulties when it came to define local guidance. Differing approaches from one local authority to another can lead to great differences in the negotiation and development process. The benefits of having a dedicated team with the skills, experience and expertise were cited as a major advantage in speeding up and streamlining the whole process.

6.14 Situations also arise where inexperienced small landowners are involved and hence the 'mechanisms and processes have to be explained and it is complicated'. However, if a local authority is geared up to deal with these instances major problems should not occur.

6.15 s.106 may have caused some difficulties in the policy's early stages. However, local authority staff stated that as the parties involved become familiar with the requirements of s.106, better understand the process and begin to co-operate with each other, 'it is getting better'. The process is seen as workable and successful in terms of both numbers of units provided and delivering sustainable communities.

Perceptions of affordable housing residents

6.16 A key issue emerging from the interviews is the perception of the characteristics and behaviour of affordable housing residents amongst developers, landowners and local community residents One planner described how 'affordable housing scares every developer and landowner [...] because it's perceived to have knock on effects'. Another described how key workers and shared ownership schemes were preferred by developers over social renting. Throughout the interviews respondents described a number of common prevailing perceptions about affordable housing residents, for instance, that they will be a source of anti-social behaviour and that the value of adjacent market housing would be reduced. Examples were given where purchasers of market housing resented affordable residents because they were being subsidised in properties of a similar standard.

6.17 Negative media attention focussing on affordable housing residents, asylum seekers and refugees were also cited by planners and housing enablers as causing difficulties and delays in the development process. In one area the public perception was that all recent new developments were to be exclusively for asylum seekers or refugees. As a result the RSL had to pursue a publicity scheme to explain the situation. Dealing with 'NIMBYism' was time consuming both for planners and RSLs and had to be dealt with in a sensitive manner.

6.18 Respondents stated that once on-site schemes had worked successfully 'and there aren't three burnt out cars in the drive, there aren't people making their property derelict' it was much easier to get developers on board and persuade the general public that any new developments would not inevitably be a problem.

6.19 A number of respondents cited that there was some resistance to pepper potting by RSLs as it made management difficult. However, in one interview this reason was perceived as masking the real difficulty facing RSLs, which were service charges not covered by housing benefit. If affordable housing was located in separate blocks it can keep costs down for the RSL. One respondent stated that pepper potting could cause difficulties for the residents of affordable housing as it could put pressure on them as they are seen as 'stigmatised' and the attitudes of purchasers can often be resentful towards affordable residents.

Summary

6.20 RSLs and developers generally felt that s.106 on-site provision was working 'reasonably well' and making an important contribution to mixed communities and meeting local housing need. This finding is consistent with earlier research (Crook et al, 2002). The policy of using s.106 to deliver affordable housing appears to be 'getting better' and bedding down over time as local authorities and developers become familiar with the requirements and with negotiations.

6.21 There are still problems in the way residents of affordable housing are perceived which can create resistance to developments in local communities. There is some debate about whether mixed tenure on-site leads to mixed communities. Underlying this debate are developer's preferences, RSL's abilities to manage affordable housing and the time it takes for communities to develop.

6.22 Housing associations and local authorities are keen to see the current s.106 arrangements 'tweaked' to improve speed and output. On-site provision was considered crucial in most areas as development land is scarce. Without on-site provision through s.106 many interviewees believed local authorities would find it difficult to produce affordable housing and address housing need.

6.23 However, these problems should not detract from the positive aspects and the success of many schemes and the knock on effects this has in encouraging developers and RSLs to be more creative and in fostering more positive images of affordable housing schemes and their residents amongst the general public.

CHAPTER 7
Conclusions

7.1 The research confirms that s.106 plays an important role in the delivery of affordable housing. However, there are other factors besides s.106 which have a significant influence on the provision of affordable housing. Some of these factors affect the availability of land, others affect the capacity to negotiate affordable housing contributions, still others affect the financial capacity of RSLs and other stakeholders. Such factors include:

- Mixed communities – an important measure in increasing the acceptance of on-site s.106 units by all stakeholders.
- Sixty percent brownfield target – constrains the characteristics of sites generally to small infill sites with high development costs.
- Increased densities – this increases the potential supply of affordable units but can also increase the costs of development as well as management costs for RSLs.
- Other planning obligations – the requirement for other essential planning obligations can reduce the contribution available to affordable housing.
- Key worker policy – key worker housing is essential but is more attractive to developers and may reduce the supply of social rented housing.
- Modern methods of construction – it is difficult to make these cost effective on small sites and so can push costs up for RSLs in some cases.
- Rent restructuring – this can affect the ability of the RSL to raise loans.
- The grant regime – the abolition of LASHG has implications for affordable housing delivery if it is not replaced by other means. The short term nature of the bidding regime for funds can delay or postpone a scheme.
- TCI calculations – TCI levels averaged across a local authority may prevent affordable development in more expensive areas. TCI levels can be used by developers in negotiations to limit contributions or push costs up to prohibitive levels.

7.2 Crucially, the overall demand for housing will have a dramatic influence on the profitability of development and, therefore, the ability of local authorities to secure developer contributions. The operation of the s.106 policy may be very different in a falling housing market.

7.3 At present using s.106 agreements can be seen to contribute to the government's objective of mixed communities through the on-site provision of affordable housing. Almost 12,700 affordable units mixed between social rented, shared ownership, key worker, discounted market and low cost market housing were completed through the planning system in 2002/03. The majority of these units were on market development sites and in many cases integrated with the market units. With the rapid increase in planning permissions for s.106 units, over 15,000 affordable units could be delivered via this mechanism in 2005/06.

7.4 The traditional provision of affordable housing is through non-s.106 affordable housing sites. These sites tend to be small brownfield infill sites, often in low to medium land value areas. However, using s.106 agreements has shifted the supply of some affordable housing into areas not normally associated with such housing, these areas often being higher land value locations. Again using s.106 can be seen to contribute to the objective of mixed communities.

7.5 The research demonstrates that there is little difference in the build costs of affordable housing between s.106 and non-s.106 units but evidence in the South West indicates that s.106 land costs per units are higher than for non-s.106 sites. Public subsidy in the form of SHG is required generally at TCI limits for both forms of delivery. Over 2,000 affordable units have been delivered through s.106 without the need for public subsidy in 2002/03. With a possible delivery of 15,000 units within 2 years this could mean as many as 2,700 units delivered without the need for public subsidy if current funding patterns prevail. With a tougher negotiating stance from local authorities and clearer central government guidance as to the powers of local authorities we might expect over 3,000 units.

7.6 The study reveals that information on land costs is limited. The absence of land costs makes it difficult to present a picture of the full costs to all parties of delivering affordable housing. In terms of contributions from developers, the evidence we do have suggests that local authorities could secure affordable housing contributions of around 5 per cent of gross development value of a scheme or more in higher demand areas. However, the availability of land may restrict the delivery of affordable housing.

7.7 The view of the majority of developers, RSLs, planners and housing enablers who participated in this research is that using s.106 to deliver affordable housing is 'working well' and has 'bedded down' over the last 5 years. Many participants in this research complained that the main failings of the s.106 process were the length of time it took to negotiate and the costs involved during the process. With a more efficient framework in place for negotiating agreements, which would also reduce the significant costs involved, the process could be shortened benefiting all parties. Clearer local plan policies and detailed pre-application discussions would clarify the local authorities position creating greater certainty for developers and landowners. The evidence suggests that with refinements to the current system the provision of affordable units through planning policy is likely to rise.

7.8 The current policy environment offers an opportunity for change. The Barker Review advocates three levels of contribution – a planning gain supplement to capture windfall gains to landowners; scaled-down contributions through s.106 linked to the direct impact of the development; and affordable housing contributions. However, the role of on-site provision within such a system is not clear.

7.9 The element of certainty delivered by a set optional planning charge is appealing. However, if the charge were based on a financial contribution, to deliver the current quantities of housing completed through s.106 agreements would require land to be available upon which to develop affordable units. Allowing authorities to allocate land for affordable housing might alleviate the constraint, but any land would have to be in the right areas to achieve a similar contribution to mixed communities and the landowner must be willing to sell the land at this price.

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ANNEX 1

Housing Corporation Central Office Data Analysis and analysis of data for three regions: South East, South West and London

This annex presents additional data provided by the Housing Corporation central office and for three regions, the South East, the South West and London. These are the only regions which recorded data for s.106 sites separately over the study period. All regions have now begun to collect and record data on s.106 sites.

Housing Corporation central office data analysis

Table 1 below shows the total ADP funded units built in 2002-03 split by region and tenure. Because the Housing Corporation is encouraging prefabricated construction methods in order to speed up delivery, these are identified separately. The data are for completions and include renovations in addition to new build.

Table 1 **ADP funded units 2002-3**

	MF Rent	MF Sale	OSM Rent	OSM Sale
East Midlands	783	320	0	0
Eastern	1,988	211	31	6
London	4,014	1,328	50	0
Merseyside	604	170	0	0
North East	698	86	0	0
North West	810	234	53	0
South East	1,567	521	166	34
South West	1,322	339	48	53
West Midlands	1,014	260	88	6
Yorkshire & Humberside	1,041	58	0	0
Total	**13,841**	**3,527**	**436**	**99**

MF Rent: mixed funding rented
OSM Rent: off-site manufactured rented (prefabricated construction methods)
Source: Housing Corporation database, 2002-03

Table 2 is taken from the same database and records the number of units funded from other sources.

Table 2 Other funded units 2002-3

	Challenge Fund	LAOS	LASHG
East Midlands	0	93	61
Eastern	459	211	230
London	3,211	554	378
Merseyside	0	0	0
North East	0	5	10
North West	0	10	3
South East	3,158	273	343
South West	0	55	480
West Midlands	0	24	59
Yorkshire & Humberside	0	12	83
Total	**6,828**	**1,237**	**1,647**

LAOS: Local authority outstanding, LA claim to ODPM for interest paid on borrowed capital to invest in housing schemes

LASHG: Local authority Social Housing Grant

Source: Housing Corporation database, 2002-03

Table 3 shows total affordable units completed with public subsidy in 2002/03.

Table 3 Total affordable units completed with public subsidy, England, 2002-03

	Rent	Shared ownership	Total
ADP funded	14,250	3,653	17,120
Challenge Fund	3,732	3,096	6,828
LA OS	1,024	213	1,237
LASHG	1,414	233	1,647
Total	**20,420**	**7,195**	**27,615**

Source: Housing Corporation database, 2002-03

Tables 4 and 5, derived from the Housing Corporation, database show the regional distribution of all affordable units.

Table 4 All publicly funded affordable units, 2002-03

Total	Rent	LCHO	All	%
London	6,574	2,961	9,535	34.5
SE	3,944	2,118	6,062	22.0
SW	1,795	502	2,297	8.3
EM	915	346	1,257	4.6
East	2,722	414	3,136	11.4
WM	1,180	271	1,451	5.3
Yorks	1,136	58	1,194	4.3
NE	702	90	792	2.9
NW	879	238	1,117	4.0
Merseyside	604	170	774	2.8
Total	**20,451**	**7,168**	**27,615**	**100**

Source: Housing Corporation database

Table 5 Broad proportions by region

Region	%
South	76.2
Midlands	9.9
North	13.9

Source: Housing Corporation database

Table 6 presents an analysis of the Housing Corporation database by region and by tenure.

Table 6 **Breakdown of Rental and LCHO units, all new build units, 2002-03**

	Rent	Sale	Total
Challenge Fund			
London	1,680	1,531	3,211
South East	1,730	1,428	3,158
Eastern	322	137	459
Total	**3,732**	**3,096**	**6,828**
LA Off site mix fnd			
London	482	72	554
South East	211	62	273
South West	44	11	55
East Midland	71	22	93
Eastern	169	42	211
West Midlands	24	0	24
Yorkshire & Humber	12	0	12
North East	5	0	5
North West	6	4	10
Total	**1,024**	**213**	**1,237**
LASHG			
London	348	30	378
South East	270	73	343
South West	381	99	480
East Midlands	57	4	61
Eastern	212	18	230
West Midlands	54	5	59
Yorkshire & Humber	83	0	83
North East	6	4	3
North West	3	0	10
Total	**1,414**	**233**	**1,647**
ADP funded			
London	4,064	1,328	5,392
South East	1,733	555	2,288
South West	1,370	392	1,762
East Midlands	783	320	1,103
Eastern	2,019	217	2,236
West Midlands	1,102	266	1,368
Yorkshire & Humber	1,041	58	1,099
North East	698	86	784
North West	863	234	1,097
Merseyside	604	170	774
Total	**14,277**	**3,626**	**17,903**
Total all sources	**20,447**	**7,168**	**27,615**

Source: Housing Corporation database

HOUSEBUILDING

Tables 7 and 8 below show total housing starts and completions for 2002/03. The low level of starts and completions in the social landlord and local authority sectors suggest that the Housing Corporation figures include rehabilitation and conversion as well as new build.

Table 7 House building: permanent dwellings started, by tenure and region, 2002-03

	Private Enterprise	Registered Social Landlords	Local Authorities	All Dwellings
North East	6,048	228	1	6,277
North West	18,303	758	35	19,096
Yorkshire and the Humber	15,405	330	0	15,735
East Midlands	16,706	449	4	17,159
West Midlands	13,481	1,333	42	14,856
East	18,765	1,034	9	19,808
London	12,514	3,339	0	15,853
South East	23,031	2,545	52	25,628
South West	15,355	1,109	58	16,522
England	**139,608**	**11,125**	**201**	**150,934**

Source: ODPM from P2m returns and returns to NHBC

Table 8 House building: permanent dwellings completed, by tenure and region, 2002-03

	Private Enterprise	Registered Social Landlords	Local Authorities	All Dwellings
North East	5,398	103	0	5,501
North West	17,369	955	9	18,333
Yorkshire and the Humber	13,678	554	0	13,232
East Midlands	14,169	703	21	14,893
West Midlands	12,581	1,331	6	13,918
East	16,489	1,180	66	17,735
London	11,435	4,258	71	15,764
South East	19,949	2,731	80	22,760
South West	14,222	1,515	18	15,755
England	**125,290**	**13,330**	**271**	**137,891**

Source: ODPM from P2m returns and returns to NHBC

Analysis of data for the South East region, 2002-2003

The data for the three regions, South East, South West and London, relate to approvals, not completions, because completions do not identify s.106 schemes separately. Therefore actual completions are likely to be somewhat less because not all schemes go ahead.

Table 9 All new build approvals with s.106, 2002/03

Average TCI per unit	£117,473
Average allocation per unit*	£52,939
Allocation as % of total scheme costs	48%

*Includes funding by Safer Communities, SHG and LASHG

Table 10 All new build approvals, 2002/03

	s.106 sites		Non-s.106 sites	
	Total	**%**	**Total**	**%**
Total number of affordable rented units	1,860	49.51	3,770	85.24
Total number of affordable shared ownership units	1,897	50.49	653	14.76
Total s.106 units	**3,757**	**100**	**4,423**	**100**
Average cost of rented unit	£111,481		£110,093	
Average cost of s/o unit	£111,328		£115,333	
Total scheme costs	**£271,145,900**		**£490,361,755**	
Average TCI per rented unit in relation to average cost	1.07:1		1.06: 1	
Average TCI per s/o unit in relation to average cost	1.06:1		1.03: 1	
Average TCI per rented unit	£117,504		£116,262	
Average TCI per s/o unit	£119,338		£119,120	
Total SHG per rented unit	**£57,940**		**£57,878**	
Total SHG per s/o unit	**£27,839**		**£32,198**	

Table 11 Total cost figure

	s.106 sites		Non-s.106 sites		
	Rented	Shared Ownership	Rented	Shared Ownership	Total
Total scheme costs	£207,354,988	£63,790,912	£415,049,321	£75,312,434	£761,507,655
Other public subsidy	£10,803,903	£592,262	£24,324,673	£624,989	£36,345,827
SHG (Allocation value)	£107,768,746	£15,951,749	£218,203,193	£21,025,085	£362,948,773
TCI	£221,968,429	£67,329,594	£438,309,091	£77,785,107	£805,392,221
Number of units	**1,860**	**573**	**3,770**	**653**	**6,856**
Per unit					
Total unit costs	£111,481	£111,328	£110,093	£115,333	
Other public subsidy	£5,809	£1,034	£6,452	£957	
SHG (Allocation value)	£57,940	£27,839	£57,879	£32,198	
TCI	£119,338	£117,504	£116,262	£119,120	
% of TCI	93.42%	94.74%	94.69%	96.82%	94.55%

Table 12 s.106 and non-s.106 units

	Rent	Shared ownership	Total
ADP funded	2,144	570	2,714
Challenge Fund	0	224	224
LASHG	3,149	769	3,918
Total	**5293**	**1,563**	**6,856**

Source: Housing Corporation database, 2002-03

Table 13 **s.106 units only**			
	Rent	**Shared ownership**	**Total**
ADP funded	885	252	1,137
Challenge Fund	0	21	21
LASHG	954	321	1,275
Total	**1,839**	**594**	**2,433**

Source: Housing Corporation database, 2002-03

Table 14 **Non-s.106 units only**			
	Rent	**Shared ownership**	**Total**
ADP funded	1,259	318	1,577
Challenge Fund	0	203	203
LASHG	2195	448	2,643
Total	**3,454**	**969**	**4,423**

Source: Housing Corporation database, 2002-03

Analysis of data for the South West region, 2002-2003

Table 15 **All new build approvals with s.106, 2002/03**	
Average TCI per unit	£102,979
Average allocation per unit*	£32,244
Allocation as % of total scheme costs	35%

*Includes funding by Safer Communities, SHG and LASHG

Table 16 **All new build approvals 2002/03**

	s.106 sites		Non-s.106 sites	
	Total	**%**	**Total**	**%**
Total number of affordable rented units	463	82	2,006	91
Total number of affordable shared ownership units	103	18	193	9
Total s.106 units	**566**	**100**	**2,199**	**100**
Average cost of rented unit	£91,495		£94,434	
Average cost of s/o unit	£88,374		£110,061	
Total scheme costs	£51,464,523		£210,677,363	
Average TCI per rented unit in relation to average cost	1.14:1		1.10:1	
Average TCI per s/o unit in relation to average cost	1.10:1		1.01:1	
Average TCI per rented unit	£104,344		£103,524	
Average TCI per s/o unit	£96,843		£110,777	
Total SHG per rented unit	**£35,572**		**£39,142**	
Total SHG per s/o unit	**£17,289**		**£19,035**	

Table 17 Total cost figures (combined data including both s.106 and non-s.106 units)

	s.106 sites		Non-s.106 sites		
	Rented	**Shared Ownership**	**Rented**	**Shared Ownership**	**Total**
Total scheme costs	£42,361,992	£9,102,531	£189,435,494	£21,241,869	£262,141,886
Other public subsidy	£5,939,029	£224,639	£3,107,721	£1,476,981	£10,748,370
SHG (Allocation value)	£16,469,614	£1,780,721	£78,518,259	£3,673,848	£100,442,442
TCI	£48,311,452	£9,974,808	£207,668,527	£21,380,019	£287,334,806
Number of units	**463**	**103**	**2,006**	**193**	**2,765**
Per unit					
Total unit costs	£91,495	£88,374	£94,434	£110,061	
Other public subsidy	£12,827	£2,181	£1,549	£7,653	
SHG (Allocation value)	£35,572	£17,289	£39,142	£19,035	
TCI	£104,344	£96,843	£103,524	£110,777	
% of TCI	87.7%	91.3%	91.2%	99.4%	91.2%

Table 18 s.106 and non-s.106 units

	Rent	Shared ownership	Total
ADP funded	1,904	203	2,107
Challenge Fund	115	10	125
LASHG	440	93	533
Total	**2,459**	**306**	**2,765**

Source: Housing Corporation database, 2002-03

Table 19 s.106 units only

	Rent	Shared ownership	Total
ADP funded	312	46	358
Challenge Fund	0	10	10
LASHG	141	57	198
Total	**453**	**113**	**566**

Source: Housing Corporation database, 2002-03

Table 20 Non-s.106 units only

	Rent	Shared ownership	Total
ADP funded	1,592	157	1,749
Challenge Fund	115	0	115
LASHG	299	36	335
Total	**2,006**	**193**	**2,199**

Source: Housing Corporation database, 2002-03

The 566 s.106 units identified in Table 2.20 amount to 27% of the total new build affordable units.

Analysis of data for the London region, 2002-2003

The London analysis uses data provided by the Housing Corporation London region for s.106 units built in London, together with the London region section of the main database of all units built with subsidy. This was necessary because the London region data did not include non-s.106 units. By matching individual schemes, we were able to identify about 75% of the s.106 schemes in the London-only data. Data were missing from five boroughs: City of London, Hammersmith, Merton, Sutton and Westminster.

Table 21 uses the London-only data to provide some basic information, while Tables 22 to 26 use the main Housing Corporation database with some of the s.106 sites identified (combined data).

Table 21 All new build approvals with s.106, 2002/03

Affordable housing as proportion of market housing (average)	30%
Average cost per unit	£146,002
Average SHG per unit	£82,008
SHG as % of total scheme costs	56%

* London-only data on s.106 sites

Table 22 All new build approvals 2002/03

	s.106 sites		Non-s.106 sites	
	Total	**%**	**Total**	**%**
Total number of affordable rented units	1148	76	5425	67
Total number of affordable shared ownership units	357	24	2605	32
Total s.106 units	**1,505**	**100**	**8,030**	**99**
Average cost of rented unit	£149,140	77	£141,807	67
Average cost of s/o unit	£141,193	23	£148,458	33
Total scheme costs	**£221,619,153**	**100**	**£1,156,038,173**	**100**
Average TCI per rented unit in relation to average cost	1.17:1		1.16:1	
Average TCI per s/o unit in relation to average cost	1.09:1		1.02:1	
Average TCI per rented unit	£173,821		£164,298	
Average TCI per s/o unit	£154,306		£151,699	
Total SHG per rented unit	**£87,858**		**£78,494**	
Total SHG per s/o unit	**£42,527**		**£45,132**	

* Main dataset adjusted to identify s.106 sites (combined data)

Table 23 **Total cost figures**

	s.106 sites		Non-s.106 sites		
	Rented	**Shared Ownership**	**Rented**	**Shared Ownership**	**Total**
Total scheme costs	£171,213,149	£50,406,004	£769,304,865	£386,733,308	£1,377,657,326
Other public subsidy	£3,112,947	£599,191	£41,246,856	£5,173,398	£50,132,392
SHG (Allocation value)	£100,860,431	£17,266,053	£425,829,169	£117,570,050	£661,525,703
TCI	£199,546,607	£55,087,103	£891,317,873	£395,175,518	£1,541,127,101
Number of units	**1,148**	**357**	**5,425**	**2,605**	**9,535**
Per unit					
Total unit costs	£149,140	£141,193	£141,807	£148,458	
Other public subsidy	£2,712	£1,678	£7,603	£1,986	
SHG (Allocation value)	£87,858	£48,364	£78,494	£45,132	
TCI	£173,821	£154,306	£ 164,298	£151,699	
% of TCI	86%	92%	86%	98%	89%

*Combined data including both s.106 and non-s.106 units

Table 24 **s.106 and non-s.106 units**

	Rent	**Shared ownership**	**Total**
ADP funded	4,064	1,328	5,392
Challenge Fund	1,680	1,531	3,211
LAOS	482	72	554
LASHG	348	30	378
Total	**6,574**	**2,961**	**9,535**

*Combined data including both s.106 and non-s.106 units

Table 25 s.106 units only

	Rent	Shared ownership	Total
ADP funded	1,148	333	1,481
Challenge Fund	0	24	24
LAOS	0	0	0
LASHG	0	0	0
Total	**1,148**	**357**	**1,505**

*Combined data s.106 units only

Table 26 Non-s.106 units only

	Rent	Shared ownership	Total
ADP funded	2,939	972	3,911
Challenge Fund	1,656	1,531	3,187
LAOS	482	72	554
LASHG	348	30	378
Total	**5,425**	**2,605**	**8,030**

*Combined data, non-s.106 units only. Note: this may include some s.106 sites that could not be identified separately.

The 1,505 s.106 units identified in Table 25 amount to 16% of the total affordable units built. However, this total includes rehabilitation units as well as new build. If new build figures are used, the London proportion rises to 24%.

ANNEX 2

The Case Studies

Introduction

In order to assess how far patterns of provision and contributions to costs vary across regions, and to establish tenure differences across regions, a number of issues need to be considered. Previous research carried out by the Cambridge and Sheffield teams (Crook et al, 2002) indicated that there were strong regional variations in the proportions of new social housing funded through SHG and s.106 agreements. Greater proportions of SHG are being used in the south and south east than in the midlands and northern regions to fund dwellings on s.106 sites.

Case studies were selected to focus on the processes and outcomes at the site-specific level. The case study areas were chosen first, to ensure a geographical spread across the regions; second, to ensure adequate representation of rural and urban authorities and third, to reflect high and low demand areas (table 1).

In order to gain a clearer understanding of the role of planning gain in a range of different districts it was essential that the majority of the districts had built a number of affordable units over the last few years and had built a reasonable number of s.106 units. The outturn figures in table 1 represent the total additional number of Local Authority and RSL dwellings for each region, averaged over the period 1998/99, 1999/00, 2000/01, 2001/02. The units through planning policy are those that are provided through s.106 agreements. This data is sourced from the 2002 HIP Housing Strategy Statistical Appendix.

Table 1: **Selected Local Authorities**

	Region	Rural/Urban	Mean annual outturn 1998/99 2001/02	Units through planning policy
Huntingdon	East	Rural	127.75	66
Hatfield	East	Rural	43.5	0
South Norfolk	East	Rural	44	7
Chelmsford	East	Rural	102	116
Tower Hamlets	London	Urban	539	151
Westminster	London	Urban	337.5	139
Southwark	London	Urban	238	10
Reading	South East	Urban	142.5	108
Fareham	South East	Rural	75.25	52
South Hams	South West	Rural	72	95
Swindon	South West	Urban	192.5	129
Derby	East Midlands	Urban	121.25	87
Leeds	Yorkshire & Humberside	Urban	396.5	59
Newcastle	North East	Urban	127	0
Liverpool	North West	Urban	973.25	0
South Lakeland	North West	Rural	53	46

Source: 2002 HIP Housing Strategy Statistical Appendix.

The final selection of case study areas was as follows:

London boroughs:
- Tower Hamlets
- Southwark
- Westminster

South East:
- Reading
- Fareham

East of England:
- Huntingdonshire
- South Norfolk
- Chelmsford
- Hatfield

East Midlands:

- Derby

South West:

- Swindon
- South Hams

Yorkshire and Humberside:

- Leeds

North East:

- Newcastle

North West:

- Liverpool
- South Lakeland

The following section comprises summary profiles of each of the case study areas.

London boroughs:

TOWER HAMLETS

Tower Hamlets is an urban district in London. It has a relatively high dwelling to household ratio at 1.06 compared to that for England at 1.04. The mean house price is significantly higher than that for England at £226,975 compared with £161,665. The tenure breakdown shows that Tower Hamlets has a significantly lower percentage of owner-occupiers than England at 27.38% compared with 68.07% for England. The percentage of council tenants, RSL tenants and shared-ownership tenants is much higher than in England. The percentage of private renters is also higher than in England. The mean average income for Tower Hamlets is £25,000, marginally above the figure for England of £24,067. The median average income for Tower Hamlets is £16,500 and the unemployment rate is 2.18%, significantly higher than the figure for England of 1.01%.

SOUTHWARK

Southwark is an urban district in London. It has a relatively high dwelling to household ratio at 1.08 compared to that for England at 1.04. The mean house price is significantly higher than that for England at £243,727 compared with £161,665. The tenure breakdown shows that Southwark has a significantly lower percentage of owner-occupiers than England at 30.04% compared with 68.07% for England. The percentage of council tenants, RSL tenants and shared-ownership tenants is much higher than in England. The percentage of private renters is also higher than in England. The mean average income for Southwark is £22,500, marginally below the figure for England of £24,067. The median average income for Southwark is £15,400 and the unemployment rate is 1.08%, higher than the figure for England of 1.01%.

WESTMINSTER

Westminster is an urban district in London. It has a high dwelling to household ratio at 1.19 compared to that for England at 1.04. The mean house price is significantly higher than that for England at £479,475 compared with £161,665. The tenure breakdown shows that Westminster has a significantly lower percentage of owner-occupiers than England at 34.19% compared with 68.07% for England. The percentage of council tenants and shared-ownership tenants is lower than in England. However the percentage of RSL tenants and private renters is higher than in England. The mean average income for Westminster is £49,100, significantly above the figure for England of £24,067. The median average income for Westminster is £23,000 and the unemployment rate is 1.36%, higher than the figure for England of 1.01%.

South East:

READING

Reading is an urban district in the South Eastern region. It has a low dwelling to household ratio at 1.02 compared to that for England of 1.04. The mean house price is higher than that for England at £172,152 compared with £161,665. The tenure breakdown shows that Reading has a marginally lower percentage of owner-occupiers than England at 65.41% compared with 68.07% for England and a higher percentage of owner-occupiers with mortgages. The percentage of council and RSL tenants is significantly below that in England although the percentage of shared ownership is higher. However the percentage of private renters is above that for England. The mean average income for Reading is £25,100, slightly above the figure for England of £24,067. The median average income for Reading is £17,100 and the unemployment rate is 0.59%, below the figure for England of 1.01%.

FAREHAM

Fareham is a rural district in the Eastern region. It has a low dwelling to household ratio at 1.00 compared to the England ratio of 1.04. The mean house price is similar to that for England at £189,277 compared with £161,665. The tenure breakdown shows that Fareham has a higher percentage of owner-occupiers than England at 85.53% compared with 68.07% for England and a considerably higher percentage of owner-occupiers with mortgages. The percentage of council, RSL, shared-ownership and private tenants is below the average. The mean average income for Fareham is £21,000, below the figure for England of £24,067. The median average income for Fareham is £17,900 and the unemployment rate is 0.37%, below the figure for England of 1.01%.

East of England:

HUNTINGDONSHIRE

Huntingdonshire is a rural district in the Eastern region. It has a relatively average dwelling to household ratio at 1.03 compared to that for England at 1.04. The mean house price is similar to that for England at £163,671 compared with £161,665. The tenure breakdown shows that Huntingdonshire has a higher percentage of owner-occupiers than England at 75.76% compared with 68.07% for England particularly for those without a mortgage. The percentage of shared ownership and council tenants is below that of England however the percentage of RSL tenants is significantly above that in England. Additionally the percentage of private renters is below that for England. The mean average income for Huntingdonshire is £21,100, below the figure for England of £24,067. The median average income for Huntingdonshire is £16,100 and the unemployment rate is 1.03%, similar to the figure for England of 1.01%.

SOUTH NORFOLK

South Norfolk is a rural district in the Eastern region. It has an average dwelling to household ratio at 1.04 equal to the England ratio. The mean house price is similar to that for England at £167,442 compared with £161,665. The tenure breakdown shows that South Norfolk has a higher percentage of owner-occupiers than England at 77.67% compared with 68.07% for England and a considerably higher percentage of owner-occupiers without mortgages. The percentage of council, RSL and private tenants is significantly below that in England and the percentage of shared ownership tenants is similar to the average. The mean average income for South Norfolk is £21,800, below the figure for England of £24,067. The median average income for South Norfolk is £16,400 and the unemployment rate is 0.56%, below the figure for England of 1.01%.

CHELMSFORD

Chelmsford is a rural district in the Eastern region. It has an average dwelling to household ratio at 1.01 less than the England ratio. The mean house price is higher than that for England at £202,173 compared with £161,665. The tenure breakdown shows that Chelmsford has a higher percentage of owner-occupiers than England at 78.2% compared with 68.07% for England and a considerably higher percentage of owner-occupiers with mortgages. The percentage of council, RSL and private tenants is significantly below that in England and the percentage of shared ownership tenants is also lower than average. The mean average income for Chelmsford is £25,400, above the figure for England of £24,067. The median average income for South Norfolk is £17,900 and the unemployment rate is 0.5%, below the figure for England of 1.01%.

HATFIELD

Hatfield is a rural district in the Eastern region. It has an average dwelling to household ratio at 1.02, less than the England ratio. The mean house price is higher than that for England at £218,339 compared with £161,665. The tenure breakdown shows that Chelmsford has a lower percentage of owner-occupiers than England at 63.26% compared with 68.07% for England and a considerably lower percentage of owner-occupiers without mortgages. The percentage of council tenants is significantly above that in England however the percentage of shared ownership, private and RSL tenants is lower than average. The mean average income for Hatfield is £24,700, above the figure for England of £24,067. The median average income for Hatfield is £15,600 and the unemployment rate is 0.45%, below the figure for England of 1.01%.

Midlands:

DERBY

Derby is an urban district in the East Midlands region. It has a high dwelling to household ratio at 1.08 compared to that for England at 1.04. The mean house price is significantly lower than that for England at £120,742 compared with £161,665. The tenure breakdown shows that Derby has a similar percentage of owner-occupiers to England at 68.49% compared with 68.07% for England and with similar proportions to England of those with and without a mortgage. The percentage of shared ownership, council and RSL tenants is marginally above that in England. Additionally the percentage of private renters is below that for England. The mean average income for Derby is £16,600, below the figure for England of £24,067. The median average income for Derby is £12,800 and the unemployment rate is 1.33%, significantly above the figure for England of 1.01%.

South West:

SWINDON

Swindon is an urban district in the South West region. It has an average dwelling to household ratio at 1.04, equal to the England ratio. The mean house price is lower than that for England at £143,175 compared with £161,665. The tenure breakdown shows that Swindon has a higher percentage of owner-occupiers than England at 73.09% compared with 68.07% for England. The percentage of council tenants is similar to the percentage for England. However the percentage of RSL, shared ownership and private tenants is lower than in England. The mean average income for Swindon is £20,000, below the figure for England of £24,067. The median average income for Swindon is £15,900 and the unemployment rate is 0.48%, below the figure for England of 1.01%.

SOUTH HAMS

South Hams is a rural district in the South West region. It has a high dwelling to household ratio at 1.17. The mean house price is lower than that for England at £220,693 compared with £161,665. The tenure breakdown shows that South Hams has a higher percentage of owner-occupiers than England at 75.31% compared with 68.07% for England. The percentage of council tenants is significantly lower than the percentage for England. However the percentage of RSL, shared ownership and private tenants is marginally higher than in England. The mean average income for South Hams is £17,800, below the figure for England of £24,067. The median average income for South Hams is £13,000 and the unemployment rate is 0.59%, below the figure for England of 1.01%.

North West:

LIVERPOOL

Liverpool is an urban district in the North West region. It has a high dwelling to household ratio at 1.10 compared to that for England at 1.04. The mean house price is significantly lower than that for England at £81,173 compared with £161,665. The tenure breakdown shows that Liverpool has a lower percentage of owner-occupiers than England at 52.06% compared with 68.07% for England with a reduction in those both with and without a mortgage. The percentage of council and RSL tenants is much higher than in England however the percentage of shared ownership tenants is significantly below that in England. The percentage of private renters is above that in England. The mean average income for Liverpool is £16,900, below the figure for England of £24,067. The median average income for Liverpool is £14,000 and the unemployment rate is 2.24%, significantly above the figure for England of 1.01%.

SOUTH LAKELAND

South Lakeland is a rural district in the North Western region. It has a high dwelling to household ratio at 1.14 compared to that for England of 1.04. The mean house price is similar to than that for England at £161,896 compared with £161,665. The tenure breakdown shows that South Lakeland has a higher percentage of owner- occupiers than England at 75.24% compared with 68.07% for England and a considerably higher percentage of owner-occupiers without mortgages. The percentage of council, RSL, private and shared-ownership tenants is significantly below that in England. The mean average income for South Lakeland is £18,400, significantly below the figure for England of £24,067. The median average income for South Lakeland is £13,400 and the unemployment rate is 0.52%, below the figure for England of 1.01%.

North East:

NEWCASTLE

Newcastle is an urban district in the North East region. It has a high dwelling to household ratio at 1.07 compared to that for England at 1.04. The mean house price is significantly lower than that for England at £128,400 compared with £161,665. The tenure breakdown shows that Newcastle has a lower percentage of owner-occupiers than England at 52.86% compared with 68.07% for England with a reduction in those both without and without a mortgage. The percentage of council tenants is much higher than in England however the percentage of shared ownership and RSL tenants is marginally below that in England. The percentage of private renters is above that in England. The mean average income for Newcastle is £17,500, below the figure for England of £24,067. The median average income for Newcastle is £14,200 and the unemployment rate is 1.76%, above the figure for England of 1.01%.

Yorkshire and Humberside:

LEEDS

Leeds is an urban district in Yorkshire and Humberside. It has a relatively average dwelling to household ratio at 1.03 compared to that for England at 1.04. The mean house price is significantly lower than that for England at £122,981 compared with £161,665. The tenure breakdown shows that Leeds has a lower percentage of owner-occupiers than England at 61.79% compared with 68.07% for England with a particular reduction in those without a mortgage. The percentage of council tenants is much higher than in England however the percentage of RSL tenants and shared ownership tenants is significantly below that in England. The percentage of private renters is similar to in England. The mean average income for Leeds is £17,900, below the figure for England of £24,067. The median average income for Leeds is £13,700 and the unemployment rate is 1.03%, similar to the figure for England of 1.01%.

Within these case study authorities the aim was to gather detailed information from approximately 20 sites, covering those with s.106 and no public subsidy, those with s.106 and public subsidy, those with public subsidy but no s.106 (so called 100% sites). Some of this information was available through the planning authority while detailed information on costs came from the RSL involved.

ANNEX 3

Site Specific Information From The Case Studies

Of the 35 sites identified in the case studies, we have reasonable financial information for 17 of them. All the sites have been anonymised.

Table 7.1 **Summary of the case study sites**

Site	Location	Nature of agreement	Developer contribution as % of GDV[1]
Site 1	Tower Hamlets	s.106 (33% on and offsite)	4.97%
Site 2	Tower Hamlets	s.106 (25% onsite)	8.48%
Site 3	Swindon	100% affordable	—
Site 4	Swindon	100% affordable (shared ownership)	20.69%
Site 5	Swindon	100% affordable	—
Site 6	Lichfield	s.106 (25% onsite)	3.96%
Site 7	Reading	s.106 (20% onsite)	8.70%
Site 8	Fareham	s.106 (27% onsite)	—
Site 9	Fareham	100% affordable	—
Site 10	Huntingdon	s.106 Rural exceptions 65% affordable	30.71%
Site 11	Huntingdon	s.106 (28% onsite)	15.47%
Site 12	Huntingdon	s.106 (17% onsite)	4.74%
Site 13	Derby	100% affordable	—
Site 14	Derby	100% affordable	—
Site 15	Derby	s.106 (20% onsite)	—
Site 16	Derby	100% affordable	—
Site 17	South Lakeland	s.106 (17% affordable)	10.32%

1 We can only estimate the contribution as a proportion of gross development value (GDV) for those s.106 sites where sufficient information is available.

Site 1 – Tower Hamlets

Nature of site: s.106 – 25% onsite affordable,
Total 33% affordable (including offsite contribution, land for ADP units)

This site is located in Tower Hamlets which operates a policy of no SHG.

The developer owned the land and wanted to build 25% affordable housing on the site plus offsite affordable housing elsewhere in the borough giving a total of 33% affordable.

The on-site scheme consisted of a development of 769 residential units plus a 400-bedroom hotel and 500,000 sq ft of office space. Of the total 769 units, 25% (193) were built as affordable and transferred at nil value to the RSL.

There was additionally an offsite provision of 20 flats, funded by s.106 at a cost to the developer of £763,000. These flats were built elsewhere in the borough as part of a development of 85 new homes for people moving out of the estate opposite which was being refurbished.

Additionally the developer paid the RSL £2,250,000 to purchase the majority of the offsite land which was owned by an engineering company. A small portion of the land was owned by Tower Hamlets council and transferred at nil value.

Tower Hamlets identified the RSL because they were one of Tower Hamlets' preferred partners. The negotiations with the developer involved details of moving the obligation offsite. The unit breakdown was determined through discussions with Tower Hamlets based on housing need and there were a number of larger flats for Asian communities. The rents were set according to the Tower Hamlets schedule of affordable rents and were then inflated for delayed handover in September 2005.

The impact of the s.106 on the offsite scheme has been to increase the number of affordable housing units on this site. Previous versions of the scheme rested on cross-subsidy from sales units on the site. These sale units have been taken out of the scheme in favour of s.106 units rented at affordable rent levels.

The overall developer contribution is around 5% on the value of the main site. There is assumed to be no relevant value associated with the second site.

The second site became a 100% site rather than a mixed site – with the possible implication that the local authority did not want market housing on this site given the nature of the other housing to be built on the site.

The total number of s.106 units obtained was 213 (including off site and on site) as against 576 market homes – giving an overall total of 27%. In addition there were 65 ADP funded homes on the second (100%) site for which the developer donated the land.

The assumed value of the on site affordable homes is the same as for the 2 bed market units – this is quite high by comparison to flats in the area.

The sites involved and the negotiations involved were clearly very complex.

	Total	Mean unit cost	Percentage
Onsite – total market units (576)			
Market value 226 1 bed flats	60,116,000	266,000	
Market value 340 2 bed flats	119,000,000	350,000	
Market value 3 premiere suites	3,000,000	1,000,000	
Market value 7 penthouses	17,500,000	2,500,000	
Total market value	199,616,000		100
193 affordable units (25% onsite)	6,916,000	266,000	3.46
Offsite costs – Campbell works 85 units			
Total development cost	7,685,466		100
Of which land costs	2,250,000		29
Of which direct costs	5,435,466		71
Developer contribution: free land	2,250,000	25,471	1.13
18 bedsits for vulnerable people	2,170,299	120,572	
Safer communities grant	1,615,521		
Developer contribution: free land (mean estimate)	554,778		
29 flats	1,318,969	45,482	
ADP grant	425,160		
Developer contribution: free land (mean estimate)	893,809		
18 houses	2,816,778	156,488	
ADP grant	2,262,000		
Developer contribution: free land (mean estimate)	554,778		
20 s.106 units (131 habitable rooms)	1,379,420	68,971	
Developer contribution: cash	763,000		0.38
Developer contribution: free land (mean estimate)	616,420		
Total developer contribution	9,929,000		4.97

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
1	28.0	31.7	40.4	All rent

Site 2: Tower Hamlets

Nature of site: s.106 – 25% offsite affordable

The site was identified by the RSL that owned it. It comprised four derelict flats in a two-storey block with grassed hard standing to the front. This land had little amenity value due to its location on a busy road. The RSL asked the developers to tender for a package of four sites to get a better deal. The successful developer paid the RSL for the site and built the units. The new market units were 12 one bedroom and 12 two bedroom flats. The ground floor flats have been designed to accommodate people with disabilities.

The development had external benefits such as the regeneration of a run down area. The houses had expensive cladding to improve their external appearance and sold for higher values than anticipated. Some of this profit was passed back to the RSL.

The affordable contribution was provided offsite across the road. Eight separate affordable units were built off site giving a total of 8/32 = 25% off site affordable housing. The developer identified the main reason for the split being to ease management problems and the RSL identified this site as more appropriate for young families.

The total developer's contribution across the site was 8 percent of the total market value.

	Total	**Unit**
Land for market dwellings purchased from RSL (density 100 flats/ha)	1,483,200	61,800
Building costs of market dwellings	1,205,808	50,242
Building costs of affordable dwellings	401,936	50,242
Sale price 12 1 bed flats	2,010,000	167,500
Sale price 12 2 bed flats	2,730,000	227,500
Total market value	4,740,000	
Total developers profit	1,649,056	68,711
Total developers contribution	401,936	
As % of total open market value	8.48%	

There is insufficient information to estimate the proportion of costs attributable to public and private sectors.

Site 3 – Swindon

Nature of Site: 100% affordable

This was a 100% affordable housing scheme. A council site was earmarked for general needs through the first RSL. However a second RSL had an allocation from the 2001/02 Safer Communities Programme for two young parents schemes in Swindon.

This led to the Local Authority twisting the first RSL's arm to release some of their site to the second RSL for the purchase price of £115,000. The money from the Safer Communities fund was topped up with Housing Corporation money. The development by Partnership First consisted of 8 two-bed three-person flats of 52 metres square and a playroom for young parents.

	Total	**Mean unit cost**	**Percentage**
Total (open market valuation)	444,000.00	55500.00	
Of which land value (purchase price)	115,000.00	14375.00	
Direct/works costs	395,502.00	49437.75	
Principal scheme costs	510,502.00	63812.75	
Capitalised interest	5,022.00	627.75	
Other on costs	102,710.00	12838.75	
Total scheme costs	**618,234.00**	**77279.25**	**100**
Net RSL investment	262,855.00	32856.88	43
Social housing grant (including Safer Communities)	355,379.00	44422.38	57

Site	**Public subsidy (%)**	**Developer contribution (%)**	**RSL finance[2] (%)**	**Type of scheme**
3	57.0	0.0	43.0	All rent

Site 4 – Swindon

Nature of Site: 100% shared ownership

The site was identified by the RSL four years ago. The housing association looked at the site as having potential due to its good residential location and notified the Local Authority.

Two years later the site became available to a developer and the local authority put forward the RSL as its preferred partner.

The RSL bought the land from the developer for £100,000. There was no grant available. However the payment to the developer was calculated on the basis of the grant the scheme would have been eligible for, for example 45%.

The scheme consisted of 10 units, 4 1-bed flats and the remainder 2/3 bed houses, which were all shared ownership on 50:50 equity. Shared ownership was the chosen tenure because of the lack of grant available. The RSL stated that this tenure was fairly typical especially since the demise of LASHG.

No social housing grant was claimed for this development, although the eligible amount was £276,000, which the RSL thought could be viewed as the developer contribution. The RSL stated 'one could however argue that the eligible SHG at 100% of TCI would more fairly reflect the developer's contribution – the eligible SHG then increases to around £320,000'.

Many months were spent negotiating with the developer to get the eventual price and a tariff system may have been more straightforward. However the RSL thought they had got an excellent deal in this case and they were able to increase the specification of the shared ownership units.

	Total	**Unit**
Shared ownership – 10 units		
Land price paid to developer	£100,000	£10,000
Building costs paid to developer	640,236	£64,024
Price paid to developer	**£740,236**	**£74,024**
TCI (86%)	**£843,869**	**£84,387**
Indicative developer subsidy	**£276,000**	**£13,800**
Market value of units		
4 flats	**£443,268**	**£110,817**
6 2/3 bed houses	**£890,598**	**£148,433**
	£1,333,866	£259,250
Developer subsidy as % of GDV	20.69%	

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
4	0.0	20.7	79.3	All shared ownership

Site 5 – Swindon

Nature of Site: 100% affordable

This is part of a larger site which comprises half of the Northern development area of Swindon where just over 5,000 new homes will be built. The affordable housing requirement for the whole area is approximately 10% and land is set aside for 410 units of affordable housing. 90% of this housing is for housing association development and 10% is for low cost market housing – where the purchase price is less than 80% of the open market value – or shared ownership.

This site comprises 17 low cost home ownership units and 11 general needs rented units.

The level of SHG required seems relatively high despite the monies from sale receipts.

	Total	Unit
Acquisition (land)	£742,00	£29,531
Works	£1,933,540	£69,065
On-costs (normal + discount + deficit)	£470,014	£18,788
Total scheme cost	**£3,146,422**	**£112,372**
TCI	£3,217,862	£114,924
Scheme cost index	97.6% of TCI	
Social Housing Grant	**£550,000**	**£19,644**
Sale receipts	£1,102,500	£39,375
Net loan	£1,463,009	£52,250

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
5	17.4	0.0	82.6	Part rent, part S/O

Site 6 – Lichfield

Nature of Site: s.106 – 18% affordable onsite

This scheme represents the affordable element of a further phase of social rented housing in Lichfield. The RSL is currently on site with the developer where 13 units of 2 and 3 bed homes are being constructed and a wide range of other house builders are on site with all the preferred partners RSLs.

The s.106 agreement confirms a requirement for 15% social housing onsite plus 10% affordable market housing. However this scheme is part of a larger scheme which will in total provide 25% affordable housing. The developer is building 61 market units and is contributing to 13 affordable units (18%) by letting the RSL purchase the land at the discounted value of £144,000.

The developer's contribution to affordable provision is 3.96% of the development value. As a result the SHG contribution is reduced.

	Total	Unit	Percentage
Affordable element			
Land value (purchase price)	144,000	12,000	
Direct/works costs	724,653	60,388	
Capitalised interest	5,943	495	
Other on costs	82,676	6,890	
Total scheme costs	**957,272**	**79,773**	**100**
RSL purchased units from developer for	957,272	79,773	
Net RSL investment	421,272	35,106	44
Social housing grant	536,000	44,667	56
Market element – 61 units 1-5 bed			
Land for market dwellings	3,431,250	56,250	
Build costs of market dwellings	3,679,520	60,320	
Discount on land sold to RSL	531,000		
Sale price of market units	13,420,000	220,000	
Affordable provision as % of open market value	3.96%		

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
6	36.0	35.7	28.3	All rent

Site 7 – Reading

Nature of site: s.106 – 20% affordable onsite

This windfall, brownfield site was identified by the developer. The site was previously used as a storage depot and is situated off a main road on the edge of a residential area and is part of a larger development of private housing. It is within 1km of a large shopping centre with good access to local facilities. The RSL purchased the land from the developer and entered into an agreement to provide 20 flats for affordable rent.

The developer built 82 homes for sale and the 20 social rented flats. The local authority nominated an RSL as a preferred partner to work with the developer to develop the affordable housing for rent.

The analysis below uses indicative land values from the Valuation Office Agency Property Price Report and Building Costs form the Association of British Insurers to estimate the developer's contribution. Total scheme costs are taken from the RSL's bid submission to the housing corporation. Using these very indicative figures it is evident that the developer's contribution is negligible. It can in fact be calculated that the RSL paid full market price for the land and construction. The primary use of the s.106 was in securing the land.

	Total	Per unit	
Building costs – 5 1 bed flat	189,000	37,800	Association of British insurers
6 x 2 bed flat	291,000	48,500	Association of British insurers
1 x 3 bed flat	54,200	54,200	Association of British insurers
Land for affordable housing	884,152	73,679	
Total scheme cost	1,418,352	214,179	RSL bid form
Affordable units – phase 2		**Per unit**	
Building costs – 2 x 2 bed flat	97,000	48,500	Association of British insurers
2 x 3 bed flat	108,400	54,200	Association of British insurers
Land for affordable housing	381,660	95,415	
Total scheme cost	587,060	198,115	RSL bid form
Affordable units – phase 3		**Per unit**	
Building costs – 2 x 2 bed flat	97,000	48,500	Association of British insurers
2 x 2 bed flat	97,000	48,500	Association of British insurers
Land for affordable housing	181,948	45,487	
Total scheme cost	375,948	142,487	RSL bid form
Site transferred to RSL at	1,447,760	72,388	
Marker units (82)			
Building costs (82 houses)	4,946,240	60,320	Association of British insurers
Land for market units (density 40/ha)	5,658,000	69,000	Valuation Office Agency
Land for affordable units (0.5 ha)	1,380,000	69,000	Valuation Office Agency
Minus sale price of land	1,447,760		
Total cost to developer	10,536,480	163,805	
Developer contribution	**1,447,760**		
Sale price of market units	16,638,620	202,910	
Affordable provision as % development value	8.70%		

There is insufficient information to estimate the contribution attributable to the public and private sector.

Site 8 – Fareham

Nature of Site: s.106 – 27% affordable onsite

The site was initially owned by Hampshire County Council who sold it to the developer with the s.106 agreement already incorporated in the land. It is a mainly greenfield site with 'a bit round the edges – back gardens and sheds'.

The s.106 housing element consisted of 19 rented units and 2 key worker houses. The key worker houses were in the s.106 at full market value, but as these were £200,000 town houses the county council provided some money to the RSL to subsidise them. 57 market houses were also built.

We do not have information regarding the size of the market site and therefore can not even give indicative information regarding the extent of the discount on the land and the developer's contribution towards the affordable housing. However this site is of particular interest as it highlights the high level of grant needed even when it is owned by a public body and the development includes some shared ownership which helps to cross subsidise the social rented units.

	Total	Unit	Data source
Affordable units (19 rented, 2 shared ownership)			
Land cost	£848,350	£40,397	
Works costs	£1,165,215	£55,486	
Total scheme cost	£2,190,774	£104,323	
Grant rate	42.30%		
LASHG (for 19 rented units)	£927,322	£48,806	
County Council Grant (for 2 shared ownership units)	£110,682	£55,341	
Total grant	£1,038,004	£49,429	
Receipts to RSL			
6 x 1 bed shared ownership sales	£270,000	£45,000	
2 key worker unit sales	£147,000	£73,500	
Total receipts to RSL	£417,000		
Market units (57)			
Land for market dwellings	£4,132,500	£72,500	Property market report Association of British Insurers
Build costs of market dwellings	£3,438,240	£60,320	
Total cost	£7,570,740	£132,820	
Sale price of market units	£9,120,000	£160,000	

There is insufficient information to estimate the contribution attributable to the public and the private sector.

Site 9 – Fareham

Nature of Site: 100% affordable housing

This site was owned by Fareham Borough Council which had a long term lease that had to be renegotiated. The council had to buy the tenant out although the site was now a disused petrol station. It was a brownfield, regeneration site.

The land was sold to the RSL at well below market value. However this was partially due to the high level of decontamination needed.

The RSL built 18 units. Of these 18 units 12 were family houses which were initially being used for temporary accommodation. Using new build in this way has eliminated bed and breakfast for homeless families in Fareham, and the tenancies usually end up being permanent. The other 6 units were 1 bed flats. All the units were social rented.

The site was not identified in the Local Plan but neither was it truly windfall because the council had always had it in mind to use for housing at some stage – the problem was the lease.

	Total cost	Unit
Affordable housing – 18 units		
Land cost	£288,000	£16,000
Works cost	£1,583,336	£87,963
Total scheme cost	£1,871,336	£103,963
Social Housing Grant	£888,777	£49,377
LASHG	£213,428	£11,857
Other grant	£106,714	£5,929
Total grant	£1,208,919	£67,162
Grant as percent of scheme cost	64.6%	
Estimated RSL finance	35.4%	

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
9	64.6	0.0	35.4	All rent

Site 10 – Huntingdon

Nature of Site: Rural exceptions, s.106 – 62% affordable

This rural exceptions site was secured using s.106 by Huntingdon District Council for the development of 8 affordable bungalows to be provided in perpetuity to those people who cannot afford to rent or buy houses generally on the open market. Five market houses were also constructed. This contribution gave 62% affordable housing, a very high proportion, due to the site's nature as a rural exceptions site.

The site had a low land value and a council funded village specific local needs survey had previously identified local need.

	Total	Unit	Data source
Affordable units – 8 bungalows			
Building costs	406,728	50,841	Association of British Insurers
Land for affordable bungalows (0.23 hectares)	600,300	75,038	Property market report
Total cost	1,007,028	125,879	
Purchase price of land	32,000	4,000	RSL grant application
Works	433,542	54,193	
Total	465,542	58,193	
On costs	69,831	8,729	
TSC	**535,373**	**66,922**	
SHG (71%)	380,115	47,514	
RSL financing	155,258	19,407	
Market units – 5 units			
Land for market dwellings (0.2 hectare)	522,000	104,400	
Building costs	301,600	60,320	
Total cost	823,600	164,720	
Land for affordable dwellings	600,300		
Minus sale price of land	32,000		
Developer contribution	**568,300**		
Sale price of market units	1,850,688	231,336	
Affordable housing contribution as a % of total development value	30.71%		

Site	**Public subsidy (%)**	**Developer contribution (%)**	**RSL finance[2] (%)**	**Type of scheme**
10	34.3	51.5	14.1	Rural exceptions site with some market units, rest rent

Site 11 – Huntingdon

Nature of site: s.106, 28% affordable

This s.106 site is in a village location. The site comprises 38 market dwellings and 15 affordable dwellings for rent, a 28% contribution. The site was transferred to the RSL at the reduced value of £75,000 giving a developer contribution of £1.4m. This represents 15% of the development's GDV.

Affordable units (15)		**Per unit**	**Square metres**	
Building costs – 4 2 bed bungalows	203,364	50,841	63	Association of British Insurers
4 x 2 bed houses	244,296	61,074	78	
5 x 3 bed houses	331,760	66,352	88	
2 x 4 bed houses	193,024	96,512	128	
Land for affordable housing (0.56 hectares)	1,477,358	98,491		Property market report
Total cost	2,449,802	163,320		
Site transferred to RSL at	75,000	5,000		
Works	830,216	55,348		
Site development/pre works	75,000	5,000		
Total	980,216	65,348		
On costs (15%)	147,032		9,802	
TSC	**1,127,248**	**75,150**		
SHG (57.11%)	643,771	42,918		
RSL financing	483,477	32,232		
Market units (38)				
Land for market dwellings (1.43 hectares)	1,871,321	49,245		Property market report
Building costs – 38 3, 4, 5 bed houses)	2,292,160	60,320		Association of British Insurers
Total cost	4,163,481	109,565		
Land for affordable dwellings	1,477,358			
Minus sale price of land	75,000			
Developer contribution	**1,402,358**			
Sale price of market units	9,064,900	238,550		
Affordable housing contribution as a % of total development value	15.47%			

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
110	25.4	55.4	19.1	All rent

Site 12 – Huntingdon

Nature of site: s.106 – 17% onsite

This development is the 1st phase of a larger project of 3 phases on a former hospital. This phase secures 17% affordable housing, with 23 affordable units and 111 market units. Of the 23 affordable, 9 are for rent and 14 for shared ownership for key workers. The 9 rented include a number of bungalows for use by the less mobile. The other two phases have not yet been fully agreed.

The s.106 specified that the land should be transferred to the RSL for £1. This means the developer is effectively contributing £1.2m towards the affordable housing through discounted land. This is effectively 4.7% of the GDV.

Affordable units (23) -	**Total**	**Per unit**	**Sq. metres**
Building costs – 9 rent, 14 shared ownership for keyworkers			
2 x 2 bed flats	91,083	45,542	60.4
2 x 2 bed flats	100,372	50,186	66.56
6 x 2 bed bungalows	270,354	45,059	59.76
5 x 2 bed houses	275,964	55,193	73.32
4 x 3 bed houses	252,560	63,140	83.74
2 x 4 bed houses	158,340	79,170	105
1 x 5 bed house	89,575	89,575	118.8
Land for affordable housing (0.47 hectares)	0.47		
Total cost	1,217,026	52,914	
Site transferred to RSL at	1		
Works	1,589,358		
On costs (15%)	238,403		
TSC	**1,827,762**		
SHG (58.67%)	1,072,346		
RSL financing	755,416		
Market units (111)			
Land for market dwellings	2,162,015	56,895	
Building costs – 111 houses	6,695,520	60,320	
Total cost	**8,857,535**	**117,215**	
Land for affordable dwellings	1,217,026		
Minus sale price of land	1		
Developer contribution	**1,217,025**		
Sale price of market units	25,678,296	231,336	
Affordable housing contribution as a % of total development value	4.74%		

Site	**Public subsidy (%)**	**Developer contribution (%)**	**RSL finance[2] (%)**	**Type of scheme**
12	35.2	40.0	24.8	Part rent, part S/O

Site 13 – Derby

Nature of Site: 100% affordable

This windfall site was identified by the RSL who negotiated with the vendor after another RSL had been unsuccessful in securing it. It had been identified in the emerging Local Plan and was a regeneration of a brownfield site within the Asterdale Renewal Strategy area. It was financed through the RSL, Housing Corporation ADP and LASHG.

In terms of tenure it is all social rented (no shared ownership) and the mix was determined by the RSL working in partnership with the local authority in the light of identified housing needs in the local area.

In total there are 22 social rented units, 13 of which are 2-bed houses, 4 are 3-bed houses and 5 are 4 bed houses. There is a vast shortage of larger 4 and 5 bedroom properties in Derby so this development met some of that need.

	Total	Unit
Social Rented units – 22		
Purchase price (land) – 0.2 ha	£350,000	£15,909
Build costs	£1,174,432	£53,383
Pre-works costs	£12,766	
VAT	£2,625	
Standard on-costs	£246,372	
Total scheme cost	**£1,786,195**	**£81,191**
Grant rate	43.79%	
Total grant	**£782,075**	**£35,549**

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
13	43.8	0.0	56.2	All rent

Site 14 – Derby

Nature of Site: 100% affordable

This site is an ex car showroom on the edge of Derby. The site was identified and purchased by the developer and then sold to the RSL. The site was a windfall (in emerging Local Plan) brownfield site. It was not a regeneration site. The site was financed by Housing Corporation ADP and the RSL. The mix of units was determined by discussions with the developer, RSL and Derby City Council. The affordable element comprised 14 2 bed houses, 8 of which were shared ownership and 6 social rented.

This scheme is interesting as it is said to have caused land prices to increase in Derby more or less overnight. Land prices were around £200,000/acre and with this site they rose to £500,000/acre. In terms of demand for the units, 150 applications were received in 4 weeks for the 8 shared ownership properties.

The scheme did involve grant but a fairly low proportion due to low build costs and land costs and cross subsidy from the shared ownership properties.

	Total	Unit
Rented properties – 6 units		
Purchase price (land) – 0.32 ha	£105,857	£17,643
Contract works	£290,094	£48,349
VAT	£209	
Standard on-cost	£67,347	
Total qualifying scheme cost	**£463,507**	**£77,252**
Scheme grant rate	37.5%	
Total grant	£173,815	£28,969
Shared ownership properties – 8 units		
Purchase price (land) – 0.19 ha	£141,143	£17,643
Contract works	£370,921	£46,365
Standard on-cost	£128,016	
Total qualifying scheme cost	**£618,500**	**£77,312**
Scheme grant rate	19.75%	
Total grant	**£122,170**	**£15,271**

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
14	27.4	0.0	72.6	Part rent, part S/O

Site 15 – Derby

Nature of site: s.106 – 20% onsite affordable

This site was a windfall (in emerging Local Plan) brownfield site identified for regeneration by the developer. The site was a former caravan sales site and was financed by the RSL and Housing Corporation ADP. The mix of units was determined by negotiation between Derby City Council and the developer. 82 houses were built in total and the affordable element comprised 22 social rented units, 13 of which were 2 bed houses, 4 were 3 bed houses and 5 were 4 bed houses. Some of the affordable dwellings had street frontage on the site and this scheme is hailed as very successful in terms of mixed communities.

In terms of the developer contribution it is not clear what the nature of his subsidy was. The RSL purchased the land at or close to its market price of £2m/ha in Derby. The build costs were relatively low and may have included some element of developer subsidy.

	Total	Unit
Affordable units (22 social rented)		
Purchase price land – 0.2 ha	£350,000	£15,909
Build costs	£1,174,432	£53,383
Pre-works costs	£127,666	£5,803
VAT	£2,625	£119
Standard on cost	£246,372	£11,199
Total scheme cost	£1,901,095	£86,413
Grant rate	43.79%	
Total grant	£832,490	
Market units (82)		
Building costs	£4,946,240	£60,320
Land cost	£4,100,000	£50,000
Total cost to developer	£9,046,240	£110,320
Sale price of market units	£11,943,792	£145,656

There is insufficient information to estimate the contribution attributable to the public and the private sector.

Site 16 – Derby

Nature of Site: 100% affordable – financed through RSL funding, Local Authority SHG, and commuted sum payments

This site was a council owned disused car park and was purchased by the RSL for the nominal price of £1. It is a windfall brownfield site and was financed from LA SHG, the RSL and commuted sums.

The site was in a regeneration area in the heart of a deprived BME community with a high Index of Deprivation ranking. The mix of the units was determined by the council in response to housing need for larger families and comprised 2 large family houses converted into one larger extended family house for 14 people that can be converted to smaller units if necessary in future.

The conversion costs are quite expensive given the area and include remediation/flexibility costs.

	Total/Unit cost
One 8-bedroom house	
Purchase price (land cost)	£1
Contract works	£146,306
VAT	£175
Total scheme costs	**£168,454**
Grant rate	71.18%
Grant	**£119,906**

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
16	71.2	0.0	28.8	One large house for rent

Site 17 – Kendal

Nature of Site: s.106 – 17% affordable

The site was a greenfield site allocated in the local plan which runs from 1997 to 2006. The site was identified by the Local Authority through its research process which runs alongside the adoption of the local plan.

The site is a large flat site, on a bus route, to the South of Kendal near the shopping centre. It was originally owned by 2/3 private owners and was acquired by one developer. The scheme was originally zoned for 170 houses in the local plan. The local authority wanted 20% affordable housing.

165 market houses were built and 33 affordable (17%). The affordable houses were 2 bed terraced and 1 and 2 bed flats. The market homes were 3 and 4 bed detached and a few 2/3 bed terraced flats. The value of these flats was approx £90,000.

The affordable homes were sold at discounted value for £67,000. The type and price of these homes was determined by the 2002 Housing Needs Survey.

No RSL was involved.

	Total	Unit
Market units (165)		
Building costs	£9,952,800	£60,320
Land for market units	£5,362,500	£32,500
Total cost to developer	£15,315,300	
Affordable units (33)		
Building costs	£1,990,560	£60,320
Land for market units	£1,072,500	£32,500
Total scheme cost	£3,063,060	£92,820
Affordable housing sale value	£2,211,000	£67,000
Market housing sale value	£21,618,600	£216,186
	£5,850,000	£90,000
Gross development value	£29,679,600	£373,186
Total developer costs	£18,378,360	
Affordable provision as % of GDV	10.32%	

Site	Public subsidy (%)	Developer contribution (%)	RSL finance[2] (%)	Type of scheme
17	0.0	61.6	38.4	Discounted market sale

ANNEX 4

The Financial Aspects of on-site and off-site Provision of Affordable Housing

This annex explains how the development finances of providing affordable housing on-site and off-site may be assessed, and identifies potential policy implications.

- In principle, off-site social housing provision allows the developer to generate more value and profit on the market housing site. Some of this increase might be taken from the developer via a higher affordable housing contribution and still leave the developer better off than would be the case with on-site social housing provision.

- The above would only produce greater provision of both market and affordable housing if additional housing land was available near the market housing site. If land were not available, then the extra value released by the off-site approach would simply be absorbed in higher land prices for both market and affordable housing.

- The comparative finances of on-site and off-site provision will vary with land and housing costs and values. Higher value areas will be able to support higher affordable housing contributions.

- The analysis suggests that an optional planning charge will only produce more affordable housing through off site contributions if suitable land is available and developers are developing in areas associated with high property values.

Site level analysis

The financial aspects of on-site and off-site provision of affordable housing were analysed through the exploration of these two approaches to development in different market settings. The analyses are based on cases in the Eastern Region, in inner London and in the Midlands but are hypothetical. Data to support the analyses vary in quality. The information relating to the market element of the developments was obtained from secondary sources and, at best, may only be considered indicative. The information relating to the RSL element is more accurate and reliable, although it has been transposed from actual to hypothetical sites. The analyses assume that off-site RSL provision occurs close to the market housing sites on available land of similar price and that there are no hidden subsidies in the land transactions.

Scenario 1: on-site provision of RSL housing

It is current practice for either developers to provide land for affordable housing provision on market housing sites 'free' or at a discount on market value. In this circumstance the financial structure of the development of the site as a whole is made up of two parts: (a) that relating to the private developer, which includes the cost of providing land for affordable housing; and (b) that relating to the RSL, consisting of the costs of producing affordable housing on its part of the site.

The first hypothetical scheme is in the Eastern region and consists of a 3.75 ha site with a value of £11.25m. 115 units are built: 92 market houses on 3 ha (80%) and 23 affordable, social units on 0.75 ha (20%); the land value is £2.25m, (see Table 1). In addition, the developer must meet other non-affordable housing obligations costing £2m, see Figure 1, column 1a. The main elements of the cost of providing the social housing (see column 1b) are the land cost borne by the private developer; (the inclusion in column 1b is *intentional* double-counting) and the construction costs borne by the RSL.

Scenario 2: off-site provision of RSL housing

In this scenario, market housing is built on the whole of the developer's site (that is, 115 houses on 3.75 ha). A payment equivalent to 20% of the market value of the site is made, instead of giving up that portion of the site for social housing. A site of the same size and price (that is, 0.75 ha and £2.25m) is acquired nearby and the RSL housing is built on it.

The move to off-site provision of social housing has a significant impact on the private developer's finances. The costs of the land and of the affordable housing and other planning obligations are fixed. The building of the extra market housing results in increased construction costs and fees and increased finance costs on these disbursements. The market value of the scheme increases by a similar proportion: 25%[2]. However, a combination of the residual/marginal nature of the profit and of the significant fixed costs results in profit 'gearing' – the profit grows at a faster rate than (some) costs and (total) value[3] (see Figure 1, column 2).

Policy implications

This analysis has significant implications for policy. Where the above circumstances hold, there is potential to negotiate additional developer contributions for affordable housing. Off-site social housing provision allows the developer to generate more value

2 20% is a quarter (25%) of 80%.

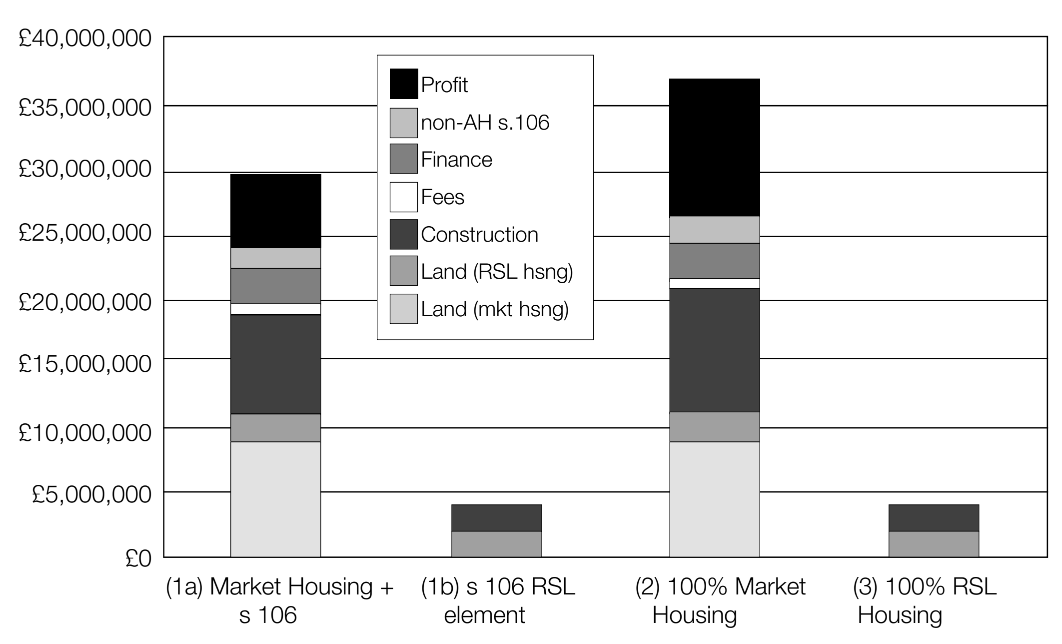
3 A simple example will illustrate the principle of profit gearing. Consider a housing scheme where the units have a total market value of £10m. The houses cost £4m to build and the land cost £4m to buy, including that part that will be donated to an RSL for affordable housing. The total development cost is £8m, leaving a profit of £2m (a rate of profit of 25% of costs and of 20% of value). If the developer is able to build 25% more houses on the site, then the building costs will be £5m and the total market value of the houses will be £12.5m. However, the land cost remains £4m. Consequently, the profit is £3.5m (£12.5m – (£5m + £4m)); that is, it has increased by £1.5m or 75% of the original profit.

and profit on the market housing site[4]. In the case of the hypothetical site in the Eastern region, the developer's profit on cost would increase from 22% to 41% (see Table 2). Some of this increase might be taken from the developer via a higher affordable housing contribution and still leave the developer better off (than would be the case with on-site social housing provision). However, this would only produce greater housing provision – of both market and affordable housing – if additional housing land was available near the market housing site. If this was not the case, then the extra value released by the off-site approach would simply be absorbed in higher land prices – for both market and affordable housing.

The comparative finances of on-site and off-site provision will vary with land and housing costs and values. These differ greatly between regions. Analyses of hypothetical sites for a region of relatively high costs and values such as London and a region of relatively low costs and values such as the Midlands were undertaken (see Tables 1 and 2, and Figures 2 and 3). It is noticeable that development values for the Midlands site were not sufficient to support a non-affordable housing s.106 contribution. Otherwise there is a tendency, though slight, for the profit gearing to be higher in higher value locations. That this variation is not more marked may be due both to the similar assumptions made about the hypothetical schemes. For example, that the developer's profit will be approximately 20% of costs in all locations) and to some equalising adjustments that were made (for example, that no non-affordable housing s.106 contribution would be required in the Midlands).

The conclusions drawn from the financial analyses must be treated as provisional. They are based on hypothetical scenarios that incorporate indicative data and embody large assumptions. Much more work needs to be done on this aspect of affordable housing provision before the results may be considered robust.

Figure 1 **Financial Structure of Schemes – Eastern Region**



4 The analysis holds the schemes' built form the same. Alterations in scheme design and housing mix may offer further potential for extracting more value from the market housing site.

Figure 2 **Financial Structure of Schemes – Inner London**

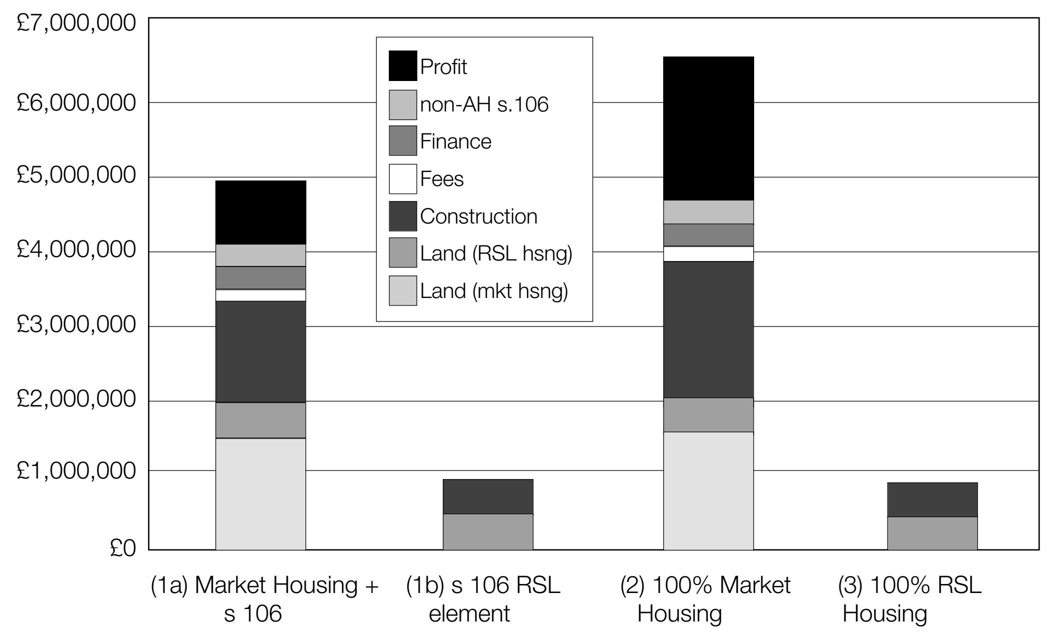


Figure 3 **Financial Structure of Schemes – Midlands**

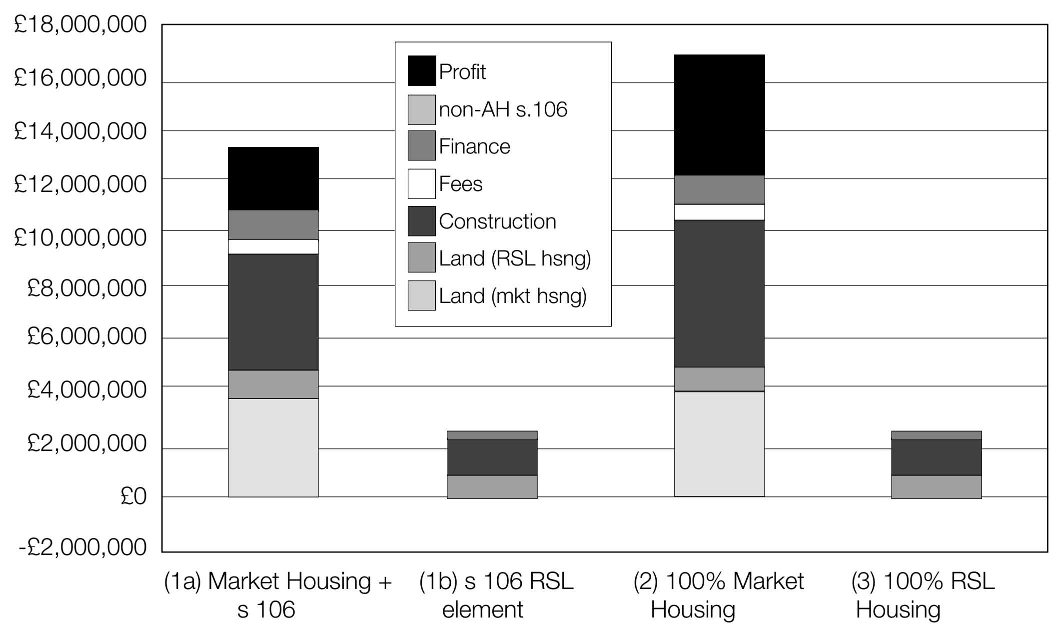


Table 1 **Based Characteristics of Hypothetical Schemes**

On-site provision		1. Eastern Region	2. Inner London	3. The Midlands
Whole site	Site area (ha)	3.75	0.33	2.50
	Site value	£11.25m	£1.98m	£5.00m
	Units (no.)	115	33	104
Market housing	Site area (ha)	3.00	0.25	2.00
	Site value	£9.00m	£1.50m	£4.00m
	Units (no.)	92	25	82
Affordable housing	Site area (ha)	0.75	0.08	0.50
	Site value	£2.25m	£0.48m	£1.00m
	Units (no.)	23	8	22
	% provision	20%	24%	21%

Table 2 **Comparison of Profitability of On-site and Off-site Provision**

Method of Provision		1. Eastern Region	2. Inner London	3. The Midlands
On-site	Profit on cost	22.38%	20.27%	22.53%
	Profit on value	18.28%	16.85%	18.39%
Off-site	Profit on cost	40.56%	41.52%	36.59%
	Profit on value	28.85%	29.34%	26.79%

ANNEX 5

Implications For The Optional Planning Charge

Importantly, the site-specific information in Annex 3 demonstrates the complexity of the system. This complexity has implications for the operation of an optional planning charge. The optional planning charge could take a number of forms. The charge could provide affordable housing on-site or off-site and could be payable in-kind or as financial contribution.

Some local authorities currently accept a commuted sum in lieu of on-site provision, which tends to be related to their target of 25 percent or 30 percent of on-site affordable units. They estimate how much it costs to produce a unit of affordable housing on that kind of site, and multiply by the number of units produced by applying the target to the market housing. They may require a slightly higher proportion because the housing is no longer on-site.

If the part of the optional planning charge linked to affordable housing was not related to a target but is part of a whole set of charges for different aspects of planning gain, there is a risk that less affordable housing will be provided. Of course, additional land on which to develop the units would also need to be in place. The examples where we have full information suggest that the affordable housing contribution amounts to roughly 5 percent of gross development value, which appears to be an acceptable level of charge. However, developments vary widely in values and local authorities have only limited information. The negotiation route can partly overcome this information problem.

This section compares the costs and benefits of funding affordable housing by negotiated on-site contributions with provision on other sites where the funding comes partly from charges paid by developers on wholly market sites.

Current practice

Planning authorities tend to negotiate on-site contributions of affordable housing from developers of market housing sites either in the form of discounted land and/or discounted prices for dwellings, which are usually transferred to RSLs. Typically between 15 and 30 percent of a s.106 market site will be devoted to some form of affordable housing. Some contributions are also made for off-site provision.

On-site contributions may deliver more socially inclusive development by creating communities of mixed tenure on market housing development sites. They also provide land for RSL development in areas where RSLs have not typically been able to develop owing to prohibitive land prices and ensure that in general RSLs can acquire land.

However, negotiations for on-site contributions through s.106 are time consuming and can lead to delays in the provision of both market and affordable housing. The windfall gains to developers or landowners – or economic rent – available for funding affordable housing may be less than with off-site provision. Lower gains may result from the presence of affordable housing, which may reduce prices of market houses, slow the sales of market houses, change the mix of type and size of market houses and raise construction costs.

Funding through the optional planning charge – the principles

The proposals for the optional planning charge are designed to provide greater transparency and certainty for all stakeholders and help developers and local planning authorities avoid unnecessary delays. The optional planning charge would provide an alternative to negotiated planning agreements. It could provide affordable housing in different ways. The consultation paper, *Contributing to sustainable communities – a new approach to planning obligations* published in November 2003 suggested three options for how affordable housing could be secured with the new charge:

- a pure financial contribution (determined by a menu of charges);
- provision by an in-kind contribution (including affordable housing on-site); and
- a combination of these two options.

Funding through a financial optional planning charge – off-site provision

This section focuses on the issues how the optional planning charge might be used to provide affordable housing off-site though a financial contribution. This option is only one of the options for providing affordable housing using the optional planning charge, but highlights some of the key issues when set against current provision.

Commuted sums offer an opportunity for developers to make financial payments for affordable housing provided off-site. Commuted payments tend to be linked explicitly to the off-site provision The amount of public subsidy requirement is reduced by the amount of the commuted sum. In 2002/03 just under £30m was received in commuted sums, over £11m of which was in London. Most of these payments have been on brownfield developments, typically small sites or for residential conversions, where it is thought that on-site provision of affordable housing would be inappropriate. Developers have the right to reclaim the commuted sum if it is not actually spent on delivering affordable housing in the plan area within a term specified in the s.106.

A financial optional planning charge for off-site provision would extend the commuted payment practice by eliminating the negotiated nature of the sum and replacing it by a sum defined by a LPA's schedule.

This option might generate more economic rent provided:

- there are no negotiations over the charge and the process is thereby speeded up;
- the charge is set at a level sufficiently high to generate the funds required whilst at the same time not set so high as to tempt developers to opt for negotiations as an alternative;
- the charge generates more economic rent by eliminating the downward pressures of on-site affordable housing on market prices and sales rates etc.
- the charge is paid 'up front' rather than in instalments as the market scheme is implemented; in a period of rapid escalation in land and building costs, phased payments might significantly reduce the positive impact of a system of optional charges compared with current on-site practice.

The above assumes that there will be no change in the stance taken by local authorities to the need to exact other charges or negotiated contributions to address other planning gain requirements for example, education or amenity spaces.

Funding through a financial optional planning charge – some issues of practice

If a financial optional planning charge approach is pursued, Local Planning Authorities and RSLs will be faced with a number of practical difficulties in ensuring that the affordable houses secured represent value for money. There are at least two options open to them:

- to secure the off-site supply in the same locality or neighbourhood as private provision. Although this provision would not be on the same development, it would be in the same neighbourhood and hence contribute in a mixed community objectives. How much can be secured will depend on site availability and price. It will also depend on construction costs: if large sites are available economies of scale may increase provision, compared with on-site provision under s.106. Hence if sites are difficult to obtain, prices are high and sites are small providing affordable housing close to the market site require as much if not more subsidy. Moreover, there may be delays in acquiring sites and arranging finance.
- one way round the problems potentially raised by 'near market site' provision is to locate the new affordable housing elsewhere on cheaper sites. This option should allow more units to be constructed, provided the price of the land does not reflect high remediation costs. However, this option might not contribute as effectively to mixed community objectives.

The above assessment assumes that the optional planning charge is spent within the same LPA where it is collected and that that LPA policy frameworks are independent of the charge. Neither may be the case. LPAs may decide to acquire land in other boroughs and may change their planning policies to generate higher economic rents and hence higher charges in local schedules.

The appropriate option will depend on the local housing market conditions. In areas where there is a large stock of affordable housing, off-site provision may be a better value-for-money option.

Many of those expressing views during this research argued that more funding would be required under a financial optional planning charge if the same quantities of affordable housing were to be delivered. This was because, in the South particularly, they felt the land shortage would push up land prices and RSLs would not be able to compete without additional funding. At present, RSLs are benefiting from free or cheap land on a site purchased by a developer. If instead the RSL was given cash equivalent to the cost of that land, unless more land is made available by the planning system or local authorities supply more land currently in their ownership, the additional cash might fuel land prices. However, it must be emphasised that all respondents perceived the optional planning charge as being cash only rather than in kind or on-site.

Funding through a financial optional planning charge – Developers' views

Although developers thought s.106 was working 'reasonably well' a key area of concern was the negotiation of s.106 agreements and the way in which local authorities and solicitors often handled these negotiations. Uncertainty about costs from the outset was a major concern and, to this extent, the optional planning charge system would, at least, 'guarantee certainty from the outset'. The inconsistent approaches of local authorities as well as a lack of clarity during the negotiation of s.106 agreements were also raised as causes for concern as these issues have knock-on effects for the costs and start dates of developing sites. Again an optional plnning charge may help here.

Developers cited clear examples of the types of constraints they faced. These included the 'overly high demand' of some local authorities for affordable housing making it 'unprofitable to develop' and so 'restricting development', the 'abuse' of PPG3 and circular 1/97 by some authorities, resulting in developers 'buying' planning consent, and planners over controlling aspects of the development process. If the optional planning charge is set by individual local authorities this situation would continue, and perhaps deteriorate if the developer had limited scope for negotiation. With on-site delivery of affordable housing, developers can ensure that affordable housing contributions are used for the delivery of such housing.

Developers did say that that in some cases using s.106 to facilitate policy on mixed communities was the correct approach. However, they were prone to question the 'mix and balance put forward by local authorities and whether their proposed mix is sensible or relevant'. Developers felt that local authorities could emphasise social renting instead of more general and varied forms of affordable housing. A greater balance of different types of affordable units, for example, shared ownership and low cost subsidised market housing would be more acceptable and appropriate. The ability to negotiate is key.

A clear and transparent up front charge set by the local authority could help avoid many delays and costs associated with negotiating s.106 agreements. Such delays and costs were cited as major difficulties by developers. One developer stated that the biggest risk was delay as 'property inflation is running at around 8 percent per annum'.

One developer talked of a four year negotiation process where housing was provided at 35 percent discount (a £190k flat was sold to the RSL for £140k) and the final overall cost to the developer of the negotiations of the s.106 agreement was £30 million. This developer said that 'the key problem with s.106 is that the charges are split and complex', and the legal costs for the four year negotiation period was £300,000. Another developer cited an example of a 26 unit site where two s.106 agreements had to be negotiated, one with the district and one with the county, and a s278 agreement had to be negotiated regarding the public highway. The whole process was very lengthy and, with the negotiation of three agreements, solicitors' fees were significant.

The mechanics of granting planning permission after the committee stage was also mentioned as a problem and solicitors were criticised as being 'slow and poor quality'. Developers also said that it was difficult to negotiate with local authorities in some instances, because 'if they don't like it they'll just appeal'.

Removing the negotiated element of an affordable housing contribution may alleviate some of the problems described above however it would remove some of the flexibility inherent in the current system. There may also be problems in setting a charge for the generality of sites.