



Value for Money of Delivering Affordable Housing Through Section 106

Summary

- In November 2003 ODPM commissioned University of Cambridge and University of Sheffield to undertake a study on the delivery of affordable housing through the planning system.
- The research confirms the importance of section 106 agreements (s.106) in delivering affordable housing and its contribution to Government's objective of mixed communities. However, many factors influence affordable housing provision, including availability of land, policy on mixed communities, brownfield targets, increased densities, other calls on s.106 and the availability of public subsidy grant regime.
- Almost 12,700 affordable units were delivered through the planning system in 2002/03. These units were mixed between social rented and intermediate housing. The study estimates that over 15,000 affordable units a year could be delivered by 2005/06.
- Around 2,000 affordable units a year are delivered through s.106 without public subsidy. If current funding patterns prevail, this number could rise to 2,700. With tougher negotiations, clearer policy and better guidance, we might expect over 3,000 units a year without having a detrimental impact on housing supply.

planning

- The availability of land remains a key restriction on delivery of affordable housing. Provision through s.106 has shifted the supply of some affordable housing into higher land value areas. Non-s.106 sites tend to be smaller in-fill sites, often in low to medium land value areas.
 - Demand for housing will have a large impact on profitability of development and the ability of local authorities to secure developer contributions. The operation of s.106 will be very different in a falling housing market.
 - There is little difference in the build costs of affordable housing between s.106 and non-s.106 units. Public subsidy tends to be negotiated around allowable limits. The Housing Corporation's new partnering approach to investment offers more flexibility.
 - Information on land costs is limited, making it difficult to present a picture of the full costs to all parties. The evidence we have suggests affordable housing contributions could be up to 5% of gross development value of a scheme or more in high demand areas.
 - The majority of respondents in the study thought that using s.106 to deliver affordable units is working well and has bedded down over the last five years. The main failings were perceived to be delays in negotiation and the costs. A more efficient framework could reduce the significant costs and delays involved.
3. The research informs discussion of whether alternative options provide a more efficient system of affordable housing provision. The research was commissioned before the final report of Kate Barker's Review of Housing Supply and so does not consider the recommendation of planning gain supplement to capture windfall gains to landowners.
 4. The report is an analysis of the delivery mechanism, rather than a good practice guide. The research used a combination of primary data, surveying, case studies and detailed interviews. Sources include:
 - Analysis of government Housing Investment Programme (HIP) data together with data on new housebuilding starts and completions.
 - Findings from a survey of RSLs undertaken for the Joseph Rowntree Foundation (2005) *The complementary roles of s.106 and SHG in providing additional affordable housing*.
 - Analysis of Housing Corporation data on building costs, total costs indicators and funding in London, South West and South East.
 - Interviews with stakeholders and case studies of 16 local authorities.
 - Site specific details of 39 individual sites, identified in the case studies and using generic information provided by housebuilders.

Objectives and Method

1. This research examines the value for money of delivering affordable housing through the planning system i.e. through section 106 agreements. It considers how much affordable housing has been delivered and whether the costs are greater than non-s.106 provision.
2. The research also examines how using s.106 to provide affordable housing contributes to the objective of mixed communities. The report considers the role of on-site provision, the extent to which affordable housing is integrated with market housing and evidence that the process is bedding down.

Key Findings

UNITS AND TENURE

5. Data from the Housing Investment Programme (HIP) suggests around 12,700 units of affordable housing were completed in 2002/03 through s.106. The tenure pattern of these units is complex.
6. The HIP data suggests almost 75% is social rented, 18% is shared ownership and 6% is discounted market sale. Case study evidence broadly confirms this picture.
7. However, a survey of RSLs conducted found that 88% of affordable housing produced through s.106 agreements were social rented, with small amounts of shared ownership and key worker housing. The differences between cannot be explained with the available data.

8. There is evidence of RSLs building social rented units without public subsidy or s.106 agreements. Similarly, some developers are building affordable housing without public subsidy. However, the evidence is anecdotal and based on the case studies.
15. The limited information indicates that in the South West RSLs tended to pay more for land where s.106 agreements were used, while in the South East the land acquisition costs were very similar for s.106 and non-106 sites. Higher developer contributions could be bringing the land price within the Housing Corporation's allowable limits.

REGIONAL PATTERNS OF PROVISION

9. Affordable housing through the planning system is becoming increasingly important in overall affordable provision. 44% of the 28,835 affordable units completed in 2002/03 were completed through s.106 agreements.
10. 70% of all total s.106 affordable completions were in the South of England, but in all areas the proportion of S.106 units is increasing. In the East and East Midlands the majority of affordable units come through the planning system.
11. In 2002/03 82% of units completed through s.106 agreements attracted public subsidy. However, non-s.106 route is still the dominant form of provision, making up 56% all affordable completions, although the proportions vary by region.
12. Prevailing demand for development land and the availability of suitable sites also determine the proportion of s.106 to non-s.106 sites. However, if the current trend continues then S.106 agreements will provide the majority of affordable units within the next two years.

COSTS AND FUNDING

13. Information on costs is variable and often incomplete. Build costs of affordable housing vary by size of unit and according to the design and nature of the property. Build costs vary from around £45,000 for a one bedroom flat to about £90,000 for a large family house.
14. Data on land costs or even local average land prices are limited. The absence of land costs makes it difficult to ascertain the true costs of provision. However, the developer contribution is likely to be significant in terms of the value of the land which would have been used for market housing in the absence of the S.106 agreement.

16. The proportion of costs met by the public and private sectors varies considerably. Public subsidy tends to be higher for social-rented units. Housing Corporation cost data in London show that Social Housing Grant covers around 60% of the cost of rented units and 30% of shared ownership units.

OFF-SITE AND ON-SITE PROVISION

17. There is some evidence that the value of the market units may be reduced by the presence of affordable housing on-site. In some cases the nature of the market units produced on-site is altered by the presence of on-site affordable units.
18. Off-site provision might enable a larger developer contribution. However, it would only produce greater provision of both market and affordable housing if additional housing land were available. The key constraint remains availability of housing land.
19. Indeed, the trade-off may be complex. Sites for non-s.106 affordable housing are often more complex with higher costs. Higher costs are related to scarcity of land supply and the complexity of sites, which may require additional infrastructure or significant re-mediation works.

CONTRIBUTION TO SUSTAINABLE COMMUNITIES

20. RSLs and developers felt that s.106 on-site provision was working reasonably well and making an important contribution to mixed communities. Using s.106 to deliver affordable housing appears to be bedding down over time as local authorities and developers become familiar the requirements and with negotiations.

21. There is some debate about whether mixed tenure on-site leads to mixed communities. Underlying this debate are developers' preferences, RSLs abilities to manage affordable housing and the time it takes for communities to develop. Perceptions of affordable housing residents can still create resistance to developments.
22. However, these problems should not detract from the positive aspects and the success of many schemes. S.106 agreements have encouraged developers and RSLs to be more creative and to foster positive images of affordable housing schemes.
23. Housing associations and local authorities are keen to see the current s.106 arrangements adapted to improve speed and output. On-site provision was considered crucial in most areas, because development land tends to be scarce.

Further Information

Further information is contained in the full report, *Value for Money of Delivering Affordable Housing through Section 106*, which is available via the ODPM website: www.odpm.gov.uk/planning

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