

**Housing the nation:
Changing the mindset**

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HOUSING THE NATION: CHANGING THE MINDSET

Is the Planning System making the best contribution it can to delivering the nation's housing needs at affordable costs?

Introduction

1. The remit of planning is now wider than ever before and is required to balance many competing objectives. For the past twenty years this has included a requirement to deliver 'affordable housing', whereby the literal objective of policy is to push development viability to its margins in order to maximise the delivery of affordable homes alongside other planning benefits. To date the benefits secured through s106 agreements, including affordable housing, have not been viewed as public 'funds' or 'investment' and there is little consideration as to whether the deliverables represent good value for money and optimal outcomes.
2. Affordable homes by definition require significant 'subsidy' per home. The source of this subsidy, however, is an increasing challenge. A consequence of significant cuts means minimal grant funding is now available for affordable housing delivered through s106 agreements; whilst there are increasing and competing demands on the available s106 monies.
3. We are constantly seeking to adjust to a "new world" where the reduced burden of government objectives brings an increased responsibility to deliver more with less resources. A major theme underlying public sector service delivery is to ensure public funds are spent efficiently on activities that provide the greatest benefits and achieve the greatest outcomes. Despite planning being a core function of local government, linkages with local finance and investment decision making have to date been limited. The introduction of the Community Infrastructure Levy (CIL) changes this.
4. As local authorities are now charged with taking increased financial control it is appropriate to consider whether planning policies which seek to secure affordable housing are being used to their best potential; to consider whether the delivery of affordable housing is being optimised; and there are opportunities to deliver better outcomes, with more joined up solutions which release and reinvest value. Affordable housing may not always need to be viewed as 'cost' it can present an opportunity.

5. Against this background, this paper overlays the responsibility for addressing the chronic shortage of affordable housing and asks if the nation is inevitably doomed to fail to meet that challenge – or whether a new, creative use of planning and other powers is needed. It reflects on the challenges faced, the realities of planning day to day and considers whether the current system is set up to optimise delivery of affordable housing or if we all could be doing more.
6. Components of the solution include considering the following:
 - a. How aware are we of how much subsidy is being used to deliver affordable homes and whether this is delivering the greatest additionality¹, best outcomes and good value for money?
 - b. We presume that delivery of affordable housing on site is necessary to deliver mixed and balanced communities, but are arbitrary red line boundaries of planning applications really the best way to define whether a community is mixed and balanced, and what is the opportunity cost of this presumption?
 - c. Viability is now at the heart of planning but are the policies and approaches taken getting the most out of the process or is it time to take a different view on how viability informs policy formulation and decision making?
 - d. Are public/private sector relationships tokenism or real and could we be achieving more by sharing risk, fostering more positive partnerships and challenging the private sector to come up with better solutions?
 - e. Are linkages between housing delivery and CIL, wider regeneration initiatives and other service areas, being made or are we missing opportunities?

PART 1 – Overview of the Issues

The Challenges

7. The ‘problem’ or ‘challenge’ is well rehearsed: we are not delivering enough homes and we need to be delivering more of the right types of homes in the right places. Recent years have seen a range of Commissions, Reviews, Working Groups and Advisory Panels. Typically these have comprised leading practitioners or experts all striving to better understand the extent of the issues faced, their causes and to identify possible solutions. We have been pretty good at defining the problem. There is agreement that we have a significant housing ‘shortfall’. Earlier this year,

¹ Additionality is a term used to describe the provision of extra affordable housing as a result of additional funding, innovation or the specific approach to delivery taken in respect of a particular development.

Shelter reported that nearly a decade on from Kate Barker identifying a need for 3 million homes over this period, we have fallen short by at least a million.

8. There is some general consensus about the number of new homes we need on an annual basis. However there is less consensus about what type and tenure of homes are required to make the most meaningful contribution. The general thrust of the available information (see Figure 1) suggests we should be working towards c. 250,000 new homes per annum as a realistic requirement.

Organisation	Estimated No. Homes Per Annum
Barker Review	245,000*
Cambridge Centre for Housing and Planning Research	270,000
TCPA	275,000-280,000
National Housing and Planning Advice Unit	280,000

* Private Sector New Homes

Figure 1 – Estimated Number of Homes Per Annum by Organisation

9. Over recent years, house building has been at the lowest levels for 100 years. Every decade since 1970 has seen a reduction of overall completions on the previous decade. Completions represent just 43% of the annual demand and need for homes. In 2012/13, each local authority completed an average of 331, homes meaning every local authority would need to increase their delivery by c. 230% to c. 750 homes per annum to meet the 250,000 ‘target’. This is a required scale of change unprecedented since the post-war development programme.
10. The gap between supply and demand is persistent and widening – this in turn feeds through to the increased unaffordability of homes to a growing proportion of the population. In the meantime, a number of factors frustrate both housing delivery overall and further reduce the affordability of our homes, for example:
 - The global economic and banking crisis has led to more cautious lending to both developers and house builders and also to prospective purchasers making it harder for those on the margins of affordability to access home ownership.
 - Austerity measures have resulted in significant cuts in government funding for affordable housing delivery. The 2011-2015 Affordable Homes Programme committed only 20% of the funds of the 2008-2011 National Affordable Housing Programme, i.e. £1.8 billion vs. £8.9 billion. For the period 2015-2018 the government has announced funding of £3.3 billion for ‘affordable’ housing, this has been publicised as an increase but in reality this figure is 37% of the funds

that were available in 2008-2011 which was a period in which we still achieved too little.

- The latest population projections to 2033 are even higher than previously expected, suggesting the need for an average annual increase of 232,000 households with the most significant increases expected in the South East of England and London.
 - House prices are continuing to rise: since 1982 the United Kingdom has experienced positive housing price inflation in the majority of years, with double digit growth in 12 of those years. Currently house prices are growing at their fastest rate since the peak of the market in November 2006 - the West Midlands and the North East seeing the largest increases in buyer activity in July 2013.
 - Extensive central and local government reforms have directly impacted the land allocation, policy formulation and decision making which are implicit to the release of land for residential development. Plan making and decision making is protracted, often lacks commercial reality so that, in many cases, policies for affordable housing have made the transition from being realistic and deliverable requirements to becoming aspirational targets set at a level which the majority of new schemes could never achieve. Negotiation is therefore implicit and viability testing has become a necessity for even the simplest of schemes.
 - Relations between the public and private sector have become increasingly strained with an undertone of distrust – on both sides.
11. Nothing here is new. The problems and causes are well documented. The enormity of the issue facing us and the consequences of failing to deliver are well rehearsed and reported, seemingly daily. There is a persistent shortage between need and delivery of c. 150,000 homes per annum – building these may keep pace with household and population growth but will not address the sustained undersupply. Undersupply drives increasing unaffordability and inaccessibility.
 12. The scale of the challenge is further exacerbated when the additional complexities of the diminishing quality of the existing housing stock are taken into account. Refurbishment can achieve a great deal but replacement should also be factored in as existing accommodation reaches the end of its useful life. Even a low rate of replacement of existing stock at just 1% would imply a requirement for a further c. 250,000 new homes per annum, making a total requirement of 500,000 new homes per annum. Even this level of supply represents “standing still” as it does not address the effects of decades of chronic under-provision.

13. The stock that we do have is not being used efficiently and effectively, evidenced by the incidences of empty, under occupied and over-crowded homes. It is not just the housing stock that is ageing, the population is too. These households have changing needs and requirements which are not readily provided for in the existing stock when the necessary capital and revenue funds are not available. The housing needs of specific groups extend beyond the statutory housing duties of authorities and link with the wider support services, for example adult and social care, health services etc. Cross-department joined-up solutions should not be viewed as desirable or good practice, they are absolutely essential.
14. All of these factors contribute to worsening affordability. As set out above, house price growth has been sustained and is currently growing at its fastest rate since the peak in 2006. In real terms, over just a decade the average cost of a home has doubled. The cost of housing continues to increase disproportionately to incomes and lending has become harder to access. This inevitably affects lower income households and first time buyers and those at the margins of normal lending ratios and requirements. There has been a marked increase in the number of households registered on housing waiting lists, currently c.1.8m (excluding those seeking a transfer). However, of those on the waiting lists only c. 40% (Housing Strategy Statistical Appendix datasets) are in one of the 'reasonable preference categories' i.e. qualifying as being in priority need with the local authority having a statutory duty to house. This proportion has slightly fallen with the increasing waiting lists, suggesting more households 'at the margins' of being in affordable need have been drawn into housing need. Incidences of over-crowding have increased as latent households have no other option.
15. There is evidence of increasing numbers of households who are unlikely to be eligible for, or have a reasonable prospect of being allocated, affordable housing but who are increasingly unlikely to meet their housing requirements in the open market. Evidently, the need for affordable housing is not simply from those households with very low or no income: the need extends through the middle income earners and in some areas into the higher income brackets to households who simply are unable to satisfactorily meet their needs and aspirations in the open market.
16. Mechanisms to deliver against this challenge are well established in policy terms and the next sections consider this as well as the generally historic support of grant funding and an overview of the Government's response.

Affordable Housing as a Policy Requirement

17. In addition to directing and controlling overall housing delivery for the past twenty years, planning has provided an important contribution to the delivery of affordable homes. The emergence of affordable housing as a policy issue is well documented² and evidenced by the progress of planning circulars and guidance and the relative increases in priority given by Councils to their affordable housing policies in their planning frameworks. Affordable housing policy has rapidly evolved from its original rationale of delivering affordable homes in rural areas to being a national planning policy requirement for all sites above specified thresholds for which failure to comply could justify refusal of a planning application³. The attempted transfer of the problem from the public to the private sector has been one of the most significant events in modern planning policy.
18. It is not the purpose of this paper to discuss the intent or coincidence of this new policy area at a time of wider central government financial reforms, including the fall-out from curtailing local authority building or the reduction in grant funding for affordable housing. Nor does the paper spend time on the extent to which the market failure to provide enough homes is actually a consequence of the control that planning places on the supply of land in the first place. Whilst these are both valid and interesting questions, it is noteworthy that affordable housing policy must now operate in a very different environment, with current policies having to respond to the radically different financial and economic context to address the significantly worsened affordability.
19. Today affordable housing is integral to national housing and planning policy but has changed very little since the publication of PPG3 15 years ago. Whilst PPG3 is no longer a current policy document, replaced by PPS3 which has consequently been superseded by the publication of the National Planning Policy Framework (NPPF), there were three key principles which were established by PPG3 and which remain central to current affordable housing policy:
 - Viability was introduced as a planning consideration;
 - The realisation that if policy requirements are set at too high a level, supply overall will reduce, further increasing housing prices and exacerbating affordable housing need; and

² Michael Oxley Affordable Housing Provision Through Land Taxation (June 2004)

³ Circular 6/98 (1998), PPG3 (2000) and the Government's Green Paper on Housing (2000)

- A presumption in favour of on-site delivery of affordable housing in order to achieve “mixed and balanced communities”.

The Demise of Grant Funding

20. Affordable housing requires some form of subsidy to enable it to be ‘affordable’. The relationship is relatively simple in that the greater the affordability of the affordable product, the lower the prospective occupier’s income may be - conversely the larger the subsidy must be to deliver it in the first place.
21. The reduction in affordable housing delivery is unsurprising given the significant fall in grant funding over recent years. The level of funding available to support delivery of affordable housing for 2011-2015 is a fifth of that available during the 2008-2011 funding programme. The current programme targets delivery of 80,000 new homes based on an average grant per unit of £22,000 – this compares to delivery of c.155,000 new homes under the 2008-2011 programme with an average grant rate per unit of £70,000⁴. Grant per unit under the current programme is about a third of that which was available prior to public expenditure cuts.
22. Looking forward, the June Comprehensive Spending Review announced £3.3 billion for delivery of affordable housing for the period 2015-2018 to deliver 165,000 homes – the announcement comes with big claims, not least that it will lead to a higher delivery of affordable homes over a 4 year period than the previous administration achieved. Caution is needed. The grant per unit rate would be £18,000 – even lower than that under the current programme. The Government also expects ‘*something for something*’ with a call for providers to achieve more conversion of re-lets at affordable rents or for affordable homes to be sold when vacant to release funding.
23. It is unclear whether the shift of public resources from capital grants to increased housing benefits will provide better value for the taxpayer. Lower grant rates per unit are in part funded by a one-off use of capital surpluses held by housing associations and in part by providers charging higher rents to tenants. Two thirds of these households are supported by housing benefit, with a consequential increase in the housing benefit bill of an estimated £1.4 billion. Whether this provides a sustainable solution remains to be seen.

⁴ In London government funding has reduced from around £90,000 per home under the previous National Affordable Housing Programme, to around £26,000 per home under the current programme.

24. The demise of grant funding is not only impacting the number of homes delivered but also the tenure and affordability of these homes. Subsidy is and will always be crucial to enabling delivery of affordable housing. The current and future levels of grant funding are plainly insufficient to do the job and will be required to be 'topped up' from other sources. Potential sources of additional funding include:
- Central Government – extra funding is unlikely as an extension of the affordable housing programme as this would increase the public sector deficit - the preference is for government to act as guarantor enabling the housing sector, local authorities and the private sector to benefit from the government's credit rating, lowering risk and reducing the cost of finance. This "opportunity" for others to take the initiative, therefore, is offered instead of tangible money.
 - Local authority – the removal of the housing revenue account releases the opportunity for authorities to borrow to develop new homes. The scope is significant, with 'headroom' of about £2.8bn and scope to increase this if borrowing caps are altered. This would potentially deliver about 15,000 – 60,000 homes dependent on where the caps are set.
 - Registered Providers – Housing associations are responsible for the management of 2.6 million homes in England. The not-for-profit bodies have replaced local authorities as the main providers of social housing since the 1980s. Reduced funding from central government has meant a need to incur debt to a greater extent than previously to pay for new homes there is capacity for increased borrowing – however, whether the RPs with scope to borrow are those with the appetite to invest remains to be seen, as does the true extent of the scope for borrowing. The current affordable housing programme has taken advantage of the sector's current financial capacity but this may be a one-off opportunity. With the rise in the value of property in the preceding 10 years, housing providers have strengthened their balance sheets and were able to use their surpluses and borrowing, as well as other sources, to provide around £10 billion of funding alongside government's contribution. Whether or not this approach is repeatable will depend on the future financial health of the sector and its ability to continue to borrow on the scale required, which will in turn depend on factors such as interest rates and the strength of the housing market.
 - Private sector – the scope for increased borrowing by the private sector depends on the level of risk and return but it is unlikely that the most affordable homes, requiring the highest subsidy, will realistically provide the scope for long term commercial returns.

25. For the foreseeable future at least, whilst grant remains restricted, the 'developer' subsidy secured through planning policies will be critical to enabling affordable housing delivery. The amount of subsidy being provided through s106 towards affordable housing should not be underestimated. Despite affordable housing being a relative new comer as a material planning consideration, to date it generally 'trumps' competing objectives when it comes to s106 negotiations - establishing itself as an overriding policy priority. A large part of this priority is due to Councils needing to meet their statutory obligations to house people in need and the relative costs to a council (of temporary accommodation) if they do not have enough affordable homes in their area.
26. At the peak of the boom, in 2007/08, of the £4.9 billion of obligations secured through section 106 negotiations over half, £2.6 billion, was for affordable housing⁵ - equivalent to c. £100,000 of developer subsidy per affordable home delivered through s106 – this is in addition to the inevitable public subsidy that most of these homes would also have benefitted from through the Housing Corporation's National Affordable Housing Programme 2006-2008 which, for the period, was £3.9 billion.
27. Today, the amount of developer subsidy that is required to deliver a single affordable home varies depending on factors which include: house prices; tenure; type; size of affordable homes; the scale; nature and complexity of the site and development; and availability of grant funding and the timescale over which delivery takes place.
28. Figure 2 below summarises the range of types of affordable housing products currently being delivered. Social rent represents the lowest cost to the occupier of all of the products and requires the greatest subsidy. Affordable rent, shared ownership and equity loans can all benefit from Homes and Communities Agency (HCA) funding. The cost to the occupier, and hence the required income, increases as you work around the products.

⁵ CLG (2010) The Incidence, Value and Delivery of Planning Obligations in England in 2007-08, Final Report

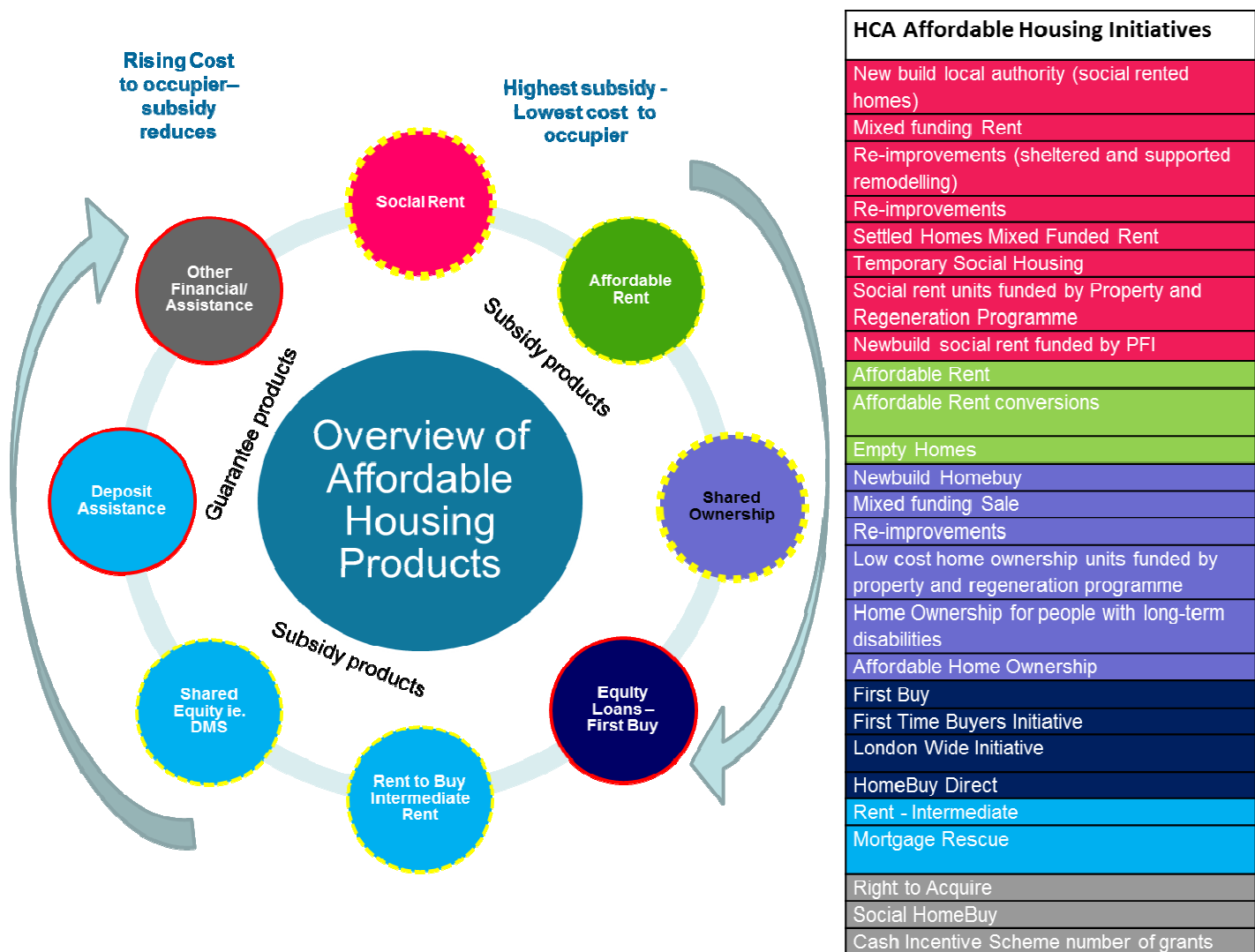


Figure 2 Overview of Affordable Housing Products

29. Traditionally, grant funding programmes have focused on delivering the most affordable tenures to the households on the lowest incomes with affordability being maintained for future occupiers i.e.. principally social rent and shared ownership. This requires higher subsidy per unit and is reflected in the higher grant levels per unit. Current and future funding programmes, with grant levels per unit of £18-22,000, mean that government financial support for affordable housing to the level necessary to fulfil a comprehensive welfare role is no longer feasible. The rise in rent levels inherent in the change from social rents to affordable rents will have potential knock on effects on the cost of the Housing Benefit bill (currently some £20 billion per annum). Housing benefit will have to subsidise higher rents. This approach appears more attractive to the government than direct subsidy. How suitable this is as a long term solution or whether this can be extended over future programmes awaits to be seen.

30. The table below in Figure 3 provides an illustrative example of the amount of subsidy required for a 2 bedroom unit in a low/mid value area (ie. £150-200,000 for a 2 bedroom home) and a mid/high value area (£375-450,000 for a 2 bedroom home).

Tenure	Subsidy per unit Low-Mid Open Market Values	Subsidy per unit Mid-High Open Market Values
Social Rent	£100-120,000	£320-390,000
Affordable Rent	£55-80,000	£285-350,000
Intermediate	£35-100,000	£230-300,000
Deposit Assistance or similar	£15-35,000	£50-100,000*

* Caution re: affordability

Figure 3 Estimated subsidy per unit by different tenure and price range.

31. Affordable housing requires subsidy. The more affordable the product, the more subsidy is needed. The claims of central government investment in affordable housing delivery need to be considered in this context. If the £3.3 billion announced in June this year was spent on social rent homes it is estimated that the number of homes able to be delivered would be just 20-33,000 i.e. 80-90% lower than the reported 165,000. New affordable homes are not only less affordable, but there are moves to reduce the affordability of the existing affordable homes (by migrating social rent to affordable rent) or selling these homes with the aim of generating additional receipts. Alternative sources of central government funding are unlikely to be forthcoming in the near future. This means that developer subsidy secured through affordable housing planning policies and s106 agreements is more important than ever before and should be considered alongside other areas of opportunity such as the use of public land, direct investments from local authorities using new financial powers and other sources of income and cross-subsidies from sales.
32. Furthermore the current affordable housing programme is also dependent on the planning process as half of the new homes expected to be built are planned for the final year of the programme, and half do not yet have confirmed sites or planning permission.

Central Government's Response

33. The cuts in funding for affordable housing are part of wider austerity measures affecting all government departments. The move towards support for less subsidy hungry tenures and more efficient and effective use of existing homes is set out in the Government's housing strategy *'Laying the Foundations'* (November 2011). Whilst

the strategy recognises the key role of housing delivery to wider economic growth and success, the support for increased housing supply is limited - for example, to supporting public sector land release, locally-led large scale development and through enabling stalled development.

34. Even more limited is the support to increase the overall supply of the social housing stock. The focus is instead on ensuring it is used for those who genuinely need it, and with an increased emphasis being placed on widening access to home ownership with the support of measures such as Help to Buy. These do not require public borrowing to be increased but do little in real terms to assist with the need for more homes and more genuinely affordable homes. The most recent Comprehensive Spending Review and its aspiration to see '*something for something*⁶' has been reported by some commentators as being the beginning of the end of the social housing sector.
35. Ultimately, responsibility for delivery of new affordable homes is devolved to local planning authorities to orchestrate and enable new development and to try and manage to the best it can the mix of tenures and types of homes to meet a range of market and affordable needs. The *National Planning Policy Framework (NPPF)* provides central government's policy framework for planning setting out what authorities are required to do, what they must have regard to and how they should go about it. It brings together the wide ranging issues which authorities are now required to address and recognises the importance of delivering growth. In respect of housing, whilst intended to represent policy 'reform', most of what is set out for affordable housing is a summary of its predecessors. The NPPF does go further than PPS3 in suggesting that on site affordable may not always be the best solution but, otherwise, its principal recipe is to target an increase in overall house building.
36. The NPPF identifies housing as a priority and requires authorities to assess and to plan for a full range of need including market, affordable housing and the needs of different community groups, albeit there is little guidance as to how this should be done and what is considered to be a realistic time frame to be targeting to meet the need. There is less emphasis on direction and more on local authorities generating their own solutions. Authorities are required to identify sufficient viable and deliverable sites, allocate these in order that they can meet the need and to apply policies to secure affordable housing as sites come through the development control process. There is little in the NPPF which directs planning to focus on anything other than the headline proportion of affordable housing secured on site – or to look to

⁶ George Osborne in his speech attacked the notion of, and sought to end, the 'something for nothing' culture.

deliver joined-up outcomes and ‘policy plus’⁷. Affordable housing is viewed simply as a need and an outcome – a simple translation on a 1:1 need : policy ratio. It is local solutions that must address these issues. Furthermore, whilst aspirational policies which are not deliverable are discouraged, many authorities still seek to adopt them with a ‘*subject to viability*’ policy test.

37. More generally, the NPPF encourages authorities to be proactive in order for for planning to be a creative exercise and there to be integration between assessment and strategies for housing, employment and other uses, taking full account of relevant market and economic signals (NPPF paras 50, 158, 154). Creative local solutions are certainly necessary, but will they be achieved without clearer guidance?
38. A number of other changes add to the relevant background against which solutions need to be found:
 - The Localism Act: Seeks to shift power from central government to communities with specific provisions seeking increased local control and engagement such as the ‘power of competence’, ‘local referendums’ and their link to development without planning permission, ‘neighbourhood plans’ and, of course, the final removal of the primary legislation for Regional Strategies which spelled the end of regional housing targets. The emphasis is for matters of local importance to be ‘locally considered’ rather than centrally dictated.
 - Community Infrastructure Levy: Introduced by the Planning Act 2008, CIL came into force on 6 April 2010 through the Community Infrastructure Levy Regulations 2010. To date about 13 Councils across England and Wales⁸ have an adopted charging schedules with many more at or past the examination stage so this number will increase quickly in the next 3 months. The impact on affordable housing delivery remains to be evidenced – there are significant concerns that affordable housing delivery will be subject to a marked reduction, depending on the rate set and the willingness of authorities to use the exceptions available to them. Simply if CIL charges are set above existing s106 levels then there is only one outcome - the amount of affordable housing has to reduce. Affordable housing is no longer “top trump”.
 - Growth and Infrastructure Act: The Act has added to the viability debate with its fast track approach to simplifying or modifying existing consents burdened with affordable housing to the point where they are judged as being unviable or

⁷ Policy Plus means achieving something through innovative solutions which is more than the policy would secure if implemented in its basic form.

⁸ Source: Planning Resource Cil Watch August 2013

undeliverable. This is a relatively blunt and potentially useful policy instrument to try and fix situations where the inflexible application of affordable housing to historic consents threatens delivery. It does little, however, to repair the damaged relationship between Councils, local residents and developers in the interest of promoting positive planning.

- Emerging guidance: Following on from the Taylor Review, at the time of this paper being written, draft national planning guidance to support the NPPF is being prepared for launch. The 'beta' version of the new website which links the guidance is now available publically and includes specific viability guidance. The draft also emphasises the importance of market signals in identifying the need for more (affordable) housing. The draft helpfully clarifies some matters but the status of this will be only guidance - it does not and cannot change the policies contained in the NPPF and it can help to make sure the important messages are not missed, but it can only enable, not deliver, the necessary outcomes.

Summary

39. There has been a longstanding call for a radical response to address long-standing failings associated with the delivery of homes. The situation is showing no indication of changing. Meanwhile, affordability is set to worsen. Latest government statistics show affordable housing starts have dropped and affordable completions are 25% down compared to the same period last year. The current interventions and policies evidence good intent, however they will not by themselves deliver change.
40. All local authorities now have affordable housing policies in their suite of local plan documents. With reduced public subsidy to support delivery of affordable homes there will be a greater reliance on planning policies to enable delivery of affordable homes. But planning is required to balance competing requirements for limited developer subsidy with CIL representing a major challenge. A consequence of CIL is that affordable housing has also fallen down the agenda of planning priorities – it is now the outcome or the residual of the planning negotiation.
41. Despite the 'cues' and 'hooks' on increasing the overall supply of market housing, policy makes clear that development cannot be over burdened by affordable housing or other obligations. The NPPF may stimulate a welcome increase in housing delivery but it is not clear that this will bring a step change in affordable housing delivery. Significant cuts to public subsidy for affordable housing and the introduction of CIL mean that it remains unclear as to how supply of affordable housing will be maintained or increased over future years.

42. There is no easy quick fix to the problem. However, despite the scale of the challenge and amidst significant cuts in public expenditure, there has been little consideration to date of whether, in securing affordable housing delivery through s106 agreements, the greatest benefits and outcomes are being achieved and that subsidy is being spent in the most efficient way. The scope for planning to be used more positively to deliver better outcomes and to knit together competing issues and optimal solutions is not actively pursued by current central government strategy, policy or interventions.
43. Affordable housing delivery should not continue to slip down the policy agenda at the cost of CIL and other policy aspirations. We are seeing less affordable housing delivered and we will continue to see this unless proactive and assertive steps are taken. We do not need more strategies. We have had years of being encouraged to deliver and have been inundated with best practice and guidance. The demographic challenges we face, combined with cost pressures mean we have to turn our attention to ensuring we get the most from what we have. Against this background, the next section of this paper goes on to consider how affordable housing policies are being used in practice, including some of the challenges and frustrations faced day to day, with a view to helping to consider whether there are realistic opportunities to use planning to optimise affordable housing outcomes.

PART 2

Affordable Housing Negotiation and Delivery in Practice

44. Planning negotiations involving affordable housing are often protracted and preoccupied by the 'headline' of what proportion of affordable housing is being secured on site. There is a tendency to spend too long discussing the numbers which do not matter and too little time meaningfully understanding and responding to those which do. Informed discussions and neighbourhood specific outcomes which may provide scope to deliver 'policy plus' are often dismissed without being given due consideration.
45. This section of the paper discusses, at a high level, two key areas of planning which are critical to securing affordable housing:
 - The policies which seek to secure affordable housing; and,
 - The use of viability in planning.
46. Understanding how planning works day to day to deliver affordable housing helps to inform whether affordable housing is being delivered entrepreneurially, making the

most of the opportunities available to deliver better outcomes, more joined-up solutions and, where appropriate, creating value.

Affordable Housing Planning Policy

47. There are high expectations of what affordable housing policy should deliver. Not only does planning policy operate as a 'tax' to pay for affordable housing, it also seeks to 'place-make', deliver better neighbourhoods, and create mixed and balanced communities. Policy fails to direct or distinguish between the two requirements – the boundaries are blurred. This makes decision making difficult.
48. Expectations are greater than ever before, and have coincided with planning policies relating to other aspects of development also becoming more demanding - residual s106 costs remain after CIL, design standards and requirements have increased (i.e. minimum unit sizes have increased by +10%) and regulatory requirements are often more onerous. Overall there are higher costs of delivering more demanding stands and less money available for grant and yet expectations in terms of quantitate delivery are unresponsive.
49. The amount of affordable housing sought by planning policies has increased. A decade ago it was normal for policies to require 20-30%: now policy-makers consider 35-50% to be reasonable – or at least necessary as the scale of affordable housing need becomes clearer. But simply increasing the headline requirement does not deliver more affordable homes, particularly when policies are necessarily subject to viability testing. Wider policy requirements are also more onerous and CIL, particularly, is more expensive than s106 which brings with it (particularly for larger schemes) uncertainty and risk and the likely inevitability of reduced affordable delivery.
50. Planning policy requirements are increasingly aspirational, often with little prospect of their requirements being deliverable - evidenced by the relatively small number of residential and mixed use schemes that are able to be determined without viability evidence being submitted. A consequence of aspirational policies is that ascertaining what constitutes a 'policy compliant' development is particularly difficult. For example, policies which require a 'minimum' quantum of affordable housing with lower quanta only acceptable in exceptional circumstances make establishing benchmark or threshold land values even harder.
51. A further consequence is that, in determining applications, it is rare for a scheme to be able to be reported as delivering the targeted amount of affordable housing. As such there is a sense that, even where evidence is provided which confirms 'maximum reasonable' is being achieved, the authority feels the need to chase its

aspirational target by requiring a review mechanism, which obliges the developer to at least share any apparent future increase in value.

52. The NPPF seeks to protect against aspirational policies, requiring that the cumulative impact of standards and policies, including affordable housing, should not frustrate delivery of development. Policies often seek to overcome this by including 'subject to viability' provisions without which few plans could be deemed sound (para 174 NPPF).
53. Despite these challenges, planning policies for affordable housing remain relatively simple in what they require. The presumption of on site delivery of affordable housing often remains in the same form introduced by PPG3 some 15 years ago despite the circumstances in which affordable housing is delivered such as: the funding, the needs, the affordability, the types of sites and the wider definition of what constitutes mixed and balanced communities all having moved on significantly in the intervening period.
54. Policies themselves tend to be poorly informed relying on translating headlines into priorities which are then interpreted and applied uniformly to each site and without any consideration as to whether there could be circumstances where better, indirect outcomes could be achieved. Similarly, there is a cynicism and reluctance to embrace innovation. Opportunities are often dismissed, for example in tenure innovation, sensitive lettings policies and alternative providers. This is also evident in the absence of joined up policy solutions, the lack of commerciality and creativity.
55. A common theme, and the biggest shortfall of the policies used to secure affordable housing delivery, is the absence of provisions to ensure that:
 - The best outcomes are being achieved; and
 - Limited subsidy is used most efficiently and effectively.
56. We need to establish the potential funding available to pay for affordable housing and then consider how this is best invested to deliver the objectives of place making, better neighbourhoods, and mixed and balanced communities. The absence of additionality and value for money as policy tests when considering the delivery options for affordable housing is unacceptable in the new world.

Viability

57. A direct consequence of the 'aspirational' nature of affordable housing policies is that the submission of viability evidence is required on more and more applications. The viability process itself results in delay, frustration between officers, members, advisors and applicants. It is often the principal cause of distrust and presents a

considerable planning risk. This is increasingly the case and as CIL rolls out nationally, there is no prospect of this improving. There is a growing perception that the viability process is adversarial – but it does not need to be and it could be so much better.

58. Guidance on viability in planning may help to resolve some of the frustrations surrounding standardising some assumptions but it will never solve the issues because there is no one size fits all ‘viability’ formula or methodology. Furthermore, whilst it is right that the viability appraisals which inform the planning process are based on robust and credible inputs and utilise established financial appraisal methodologies, it is unrealistic to consider that viability in planning can result in a determinative answer either when informing policy making or in determining individual planning applications. The interpretation of the outputs of viability appraisal, including establishing benchmark land values, represents the biggest challenge – this will never be resolved by guidance as it requires careful consideration and informed judgement on a scheme by scheme basis having regard to specific circumstances, costs, priorities etc. It also requires a fundamental understanding of how the market works and how it values risk.
59. Viability in the context of planning requires reasonableness and an on-balance view that the public sector is getting a good deal – and an understanding that viability is an art rather than a science. However, without the right knowledge this transition cannot be made. Those involved in viability in planning and in using this as part of decision making need to be better informed and to recognise that planning by numbers will never provide definitive outcomes. Viability in planning needs to work well – the consequences of it not are too high in view of the scale of the housing challenge that we face. If current reports are right and we are turning a corner in housing delivery then the viability tests imposed by policy as currently being applied in practice risk frustrating overall housing delivery, exacerbating the affordable needs that are intended to be addressed.
60. Affordable housing is normally viewed as a cost, but rarely as an opportunity or crucially as something which has the potential to create value for the public sector. The failure to explore and report the opportunity cost⁹ of different proportions, types, tenures of affordable housing along with timing and alternative delivery solutions, fuels the distrust between applicants and authorities and represents a missed opportunity. Decisions are made without a proper financial understanding of the cost per affordable home to the public sector. There is a need to understand additionality

⁹ Opportunity cost is a term which in this context is used to compare the benefit that could have been delivered if investment was used elsewhere

and value for money of alternatives, along with the potential for affordable housing to be part of something bigger which can release value.

61. A consequence of the pre-occupation with viability is that negotiations are back-ended and the tendency to look for definitive answers means the consideration of the local issues, wider regeneration initiatives, socio economic characteristics, needs, affordability, pipeline and opportunities are often overlooked.
62. A further challenge facing viability at present is the implications of successful Freedom of Information requests¹⁰. Recent cases which have required the release of financial information provided in confidence to local authorities to assist in the determination of planning applications are rightly leading to increasing concerns by applicants.

Summary

63. Part 1 of this paper made the case for why there will be a greater reliance on planning policies to enable delivery of affordable homes and the importance of these policies working well at a time when less affordable housing is being delivered and when it risks continuing to slip down the policy agenda at the cost of CIL and other policy aspirations.
64. Part 2 of this paper has described how we have learnt to work within the current provisions of policy and have come to accept viability as being central to planning policy and decision making. In this context we have found ways to make the current process work, but it does not work well and there is unquestionable opportunity for improvement.
65. It is important to look forward and consider the direction of travel of planning and delivery of affordable housing. In practice, the viability process is becoming increasingly strained - with the spirit in which it was introduced as being a test of reasonableness being at risk of being lost in the search for absolute and definitive answers. Viability in planning was always intended to inform decision making, to be part of a wider set of considerations – not to be determinative.
66. Planning policies which result in a financial obligation on a developer should be considered together as part of the policy making process – to enable deliverability to be properly considered and expectations managed. Priorities need to be revisited. If we are serious about delivering affordable housing, planning authorities need to

¹⁰ Examples include http://www.ico.org.uk/~media/documents/decisionnotices/2012/fer_0449366.ashx and http://www.ico.org.uk/~media/documents/decisionnotices/2013/fer_0461281.pdf

reflect this in setting CIL and in the other regulatory, design and on site s106 requirements. Policies need to encourage innovation and entrepreneurialism – assessing overall outcomes and ‘policy plus’ solutions, enabling rather than trying to constrain delivery within artificial red line boundaries of planning applications.

67. Part 3 of this Paper considers the scope for planning to deliver better outcomes.

Part 3 – Optimising Outcomes

68. In considering what scope there is to look to alternative approaches to affordable housing policy and decision making, it is necessary to challenge existing presumptions, widen the scope of issues and to look to overcome the limitations and frustrations which currently exist.
69. There are wide ranging areas and issues which may benefit from being considered. Some require corporate level buy-in and will depend on the attitude of a local authority to embracing change and to risk. Others depend on the ability to identify and pull-together opportunities and will require wider engagement from a range of stakeholders. Planning and the processes that underpin it provide an opportunity for what could otherwise be just high level discussions to be translated into delivery. Essential to this is how planning is used and the ability for it to be a positive process that questions, enables, meaningfully encourages and facilitates delivery. This takes a strategic will – and imagination. Set out below are some areas which can broaden the conversation and open up opportunities for enhanced outcomes.

Additionality

70. This means testing how much subsidy is being used (public and private (i.e. developer)) against what outcomes are being delivered – the outcomes need to be considered not just by homes but also the type, tenure, size, affordability and suitability of homes being delivered is important – how does it relate to what is needed? If planning gain was viewed as an investment decision rather than a planning decision there would be formal scrutiny to assess value for money - for example, as used by the HCA and central Government when assessing expenditure of public money (The Green Book – Appraisal and Evaluation in Central Government). These ‘investment’ outcomes could then be considered against benchmarks and alternative potential investments/deliverables to ensure outcomes are optimised and to provide reassurance that the public sector is approaching decision making consistently and achieving value for money.

Widening Linkages

71. Investment decision making in local authorities is department focused, meaning that new opportunities may be lost as authorities fail to consider if there are joined-up solutions which could deliver better outcomes and/or value for money. CIL adds a further dimension to this – every authority should be coordinating, commissioning and strategically directing investment into infrastructure and at the same time identifying, facilitating and enabling wider linkages between housing delivery and CIL, other regeneration initiatives, adult and social services, education and housing delivery etc. where there may be scope to deliver better outcomes.

Partnerships

72. Authorities who foster partnerships with the private sector can challenge the private sector to come up with better solutions which may be more innovative, cost effective, generate additional revenue etc.

Public Sector Assets

73. Public sector ownership of land and assets is extensive. We only have to look around us to see evidence of underutilised public sector assets where there may be scope for extension/adaptation, refurbishment, intensification, re-provision and redevelopment and more comprehensive regeneration, for example, of existing Council-owned housing estates. The inclusion of publicly owned land and assets in the equation brings wider benefits, for example greater certainty of delivery.
74. The use of public sector assets to facilitate regeneration including affordable housing delivery is not new but in recent years the scope for these assets to be used more creatively to achieve best value has been recognised. Central to Laying the Foundations is the release and sale of large scale public owned land assets and the idea of Build Now Pay Later whereby deferred or phased land payments and/or shared risk have become options - the rationale being that it allows the developer to better manage development cash flow as land is not an upfront payment. Whether sale of land and assets is the best outcome for authorities requires more detailed consideration – alternatives may include using s106 obligations for affordable homes to be built on local authority owned sites with the developer taking cost and construction risk and transferring the completed units to the local authority who will then be able to either retain, manage and benefit from revenue or sell to an appropriate Affordable Housing Provider (this may also avoid procurement issues associated with the sale of land). This is potentially a very efficient alternative as it avoids over payment for land by developers – it ensures money is spent on delivering affordable housing and other benefits rather than land whilst the local authority can

control key aspects of the affordable homes i.e. tenure, size, type and affordability etc.

75. A further extension of this may be for private market homes to be built, the construction cost paid for out of the sales receipts, but the profit retained by the local authority for investment elsewhere. By developing models where there is a mix of affordable and private tenure homes being built using s106 monies on local authority owned land, receipts are able to be maximised and reinvested in other sites on a similar basis – delivering additionality.

Risk Sharing

76. Viability is at the heart of planning decision making. In the face of having to sign off financial appraisals there is an increasing tendency to seek the safety net of 'review mechanisms' – most see the public sector sharing 'upside' only (i.e.. higher returns than anticipated). Over recent years, principally in response to the downturn in economic conditions, it has become accepted that in exceptional circumstances, there may be scope for the public and private sector to share risk through the use of deferred or contingent obligations which enable developments to proceed which may otherwise not be deliverable with expected levels of affordable housing due to current market viability. Where such mechanisms are used as a catch all for every scheme, however, planning is clearly failing as there are wider concerns associated with incorporating reviews. Reviews create risk and uncertainty for the developer – which in turn affects yields and reduces value. The developer's willingness to commit to up front planning benefits will be reduced and, ironically, the valuation should show less ability to pay for affordable housing. The ability to fund and deliver the development at all may even be affected.
77. Such mechanisms therefore need to share risk appropriately, be drafted simply and transparently and link to known outcomes. They should only be used exceptionally. An alternative may be to consider whether an authority could take equity in a development in lieu of the on-site delivery of part of the affordable obligation. More usually, however, authorities should simply recognise that the development is offering what it can afford – and recognise the benefits of housing delivery, even if the affordable sector is not directly benefited.

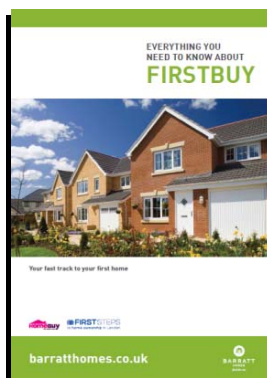
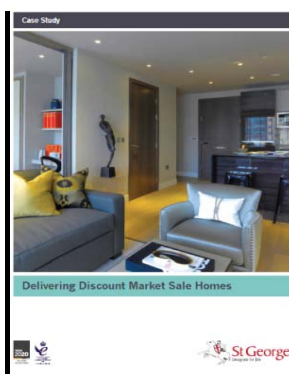
Deferred Value Release

78. Affordable housing receipts at the time of the initial purchase often do not reflect the potential to release additional revenue downstream - for example, through staircasing receipts, equity release etc. Potential exists to consider whether this can be captured and reinvested in the homes themselves, i.e. in a larger scheme to help maintain affordability of future sales or, where there are concerns over maintaining affordability

in the longer term, considering whether affordable housing built now needs to be retained in ‘perpetuity’ or whether there could be a case to release it as intermediate sale or private market, thereby creating value for further investment. The launch of Affordable Rent to Buy (see above) follows this model.

Tenure Innovation

- 79. There is a tendency to require delivery of the tenures for which there is the greatest ‘need’ and tenures which are well known to the authority with no proper consideration as to whether the decisions being made are actually optimising additionality – this is in part a product of the 1:1 need : requirement ratio misconception but also symptomatic of the inherent opposition to change. The move to affordable rent has been unsettling for the industry, developers are often caught between local authority aspirations for target rents (albeit planning and housing departments may have different views), the HCA/GLA/Central Government requirement for affordable rents, viability appraisals and the views of independent assessors on individual schemes and the political make-up of planning committees. The 2015 bid round will not resolve this – in announcing the funding a requirement for “*something for something*” was specified as being more homes converted to affordable rents.
- 80. The introduction of affordable rents, a growing realisation of the unaffordability of shared ownership, lack of grant funding for s106 sites and potential for affordable housing to release value, however, is prompting a healthy widening of products and providers. Housebuilders such as Barratts and Persimmon are directly delivering equity share schemes whilst Discount Market Sale (see box below) is being delivered by Berkeley Group. Places for People have successfully operated Try Before You Buy: meanwhile the Government has also recently been announced an intention to re-launch Rent to Buy later this year (see box below).



The instinctive response of an authority may be to reject tenures which are not affordable to households on the lowest incomes. However with the government pushing for more value to be extracted from affordable housing, consideration needs

to be given to how local authorities can take control of their finances locally. A planned strategy for schemes suitable for rent or borrowing against unsold equity and equity release offers scope to creating a 'fund' which may be used to subsidise lower rents on other schemes.

Discount Market Sale (DMS)

A low cost shared equity product delivered directly by the developer, where the new build home is purchased at a discounted price, without the need for public subsidy. Qualifies as affordable housing under the NPPF definition. The purchaser buys a percentage of the property with no interest or rent charged on the unsold remaining equity – optimising affordability when compared to shared ownership (where a rent is charged on the unsold equity typically set at 2.75% of the unsold equity). Purchasers can acquire additional equity through staircasing. When offering the same initial equity shares as DMS together with charging rent on the unsold equity at 1.5% (this would be low compared to the level typically offered by registered providers under shared ownership arrangements) a home requiring

Another significant advantage to DMS in addition to the enhanced affordability, is the opportunity for the Council to gain the retained equity. This provides the Council with the opportunity to borrow against this retained equity and raise additional finance. The retained equity is released when a purchaser staircases up in order to purchase 100% of the equity (at the discretion of the Council), enabling the Council to gain a capital receipt to reinvest in in a other affordable housing initiatives and strategic objectives.

Rent to Buy

On 26 June 2013, George Osborne announced a £3.3bn investment in affordable housing, which included the introduction of the 'new' 'Affordable Rent to Buy' scheme – a £400m programme allowing new build homes to be let to tenants at affordable rents for a fixed period of time, allowing them to save for a deposit. At the end of the period, the sitting tenant will get first option to buy the home and achieve their 'aspiration of home ownership.' Limited details are available. In terms of funding envisaged in 2015/16 allocation of £250m and 2016/17 allocation of £150m – to be administered by the HCA.

Details are awaited on eligibility, length of tenancy, length of affordability, options for sale if the tenant does not want to purchase and whether this may include being sold as open market housing.

Mixed and Balanced Communities

81. The presumption that a community should be mixed and balanced within the red line boundary of a planning application was introduced by PPG3 at a time when the amount of affordable housing sought was much lower, grant was available and policy aspirations were viewed as being potentially deliverable. Better consideration is needed as to what constitutes the community for these purposes. By joining up some of the points above, better outcomes may be able to be achieved by extending the benefits of planning applications outside of the red line boundary and investing in the existing communities within which they sit.
82. Furthermore, we need to know more about where the opportunities in our authority areas exist, how they link to wider initiatives and opportunities and, critically, how this relates to housing need and development in the pipeline. Targeted investment in existing assets or communities can achieve much more than isolated affordable tokens in high value schemes. If there is a mismatch between where new homes are being built, the types of homes able to be delivered, the affordability of these homes and where homes are needed, careful consideration is required to ensure opportunities are not overlooked or dismissed on the basis of a sterile policy presumption.

On Site Presumption

83. Whilst a presumption of on-site delivery is an appropriate and reasonable starting point for planning, it is also necessary to question whether this is always right or whether the application of greater flexibility should be considered. Why should the application site be the best place to invest in affordable housing? What evidence is there that the community within which the site is located is or is not balanced already – market housing may help to better balance an existing concentration of affordable housing. Partial or total off-site delivery should not be misinterpreted as an easy solution for developers – to be feasible the alternatives would need to be deliverable, outcomes/restrictions linked to the s106 site and be demonstrated to lead to outcomes which are better than those which could be delivered on site (i.e. greater affordability, earlier deliver, family homes, linkages to wider initiatives etc). Off site will often be a better answer because it delivers more and provides greater benefit to those in housing need – this should not be automatically dismissed without being given appropriate consideration.

More Efficient and Effective Use of Existing Stock

84. Greater consideration can be given to the existing housing stock – both private and affordable – to consider whether there are opportunities to protect and improve existing affordable homes or even to invest in the existing private sector stock with a

view to making market homes available as affordable homes. This can be much better value for money than new build affordable. There has been a reluctance to link affordable housing requirements from s106 to the existing stock because the new homes created do not 'count' in accounting terms as net additional against targets or in the Annual Monitoring Report. The focus, however, should be on delivering outcomes overall.

85. There are number of key questions which should always be explored and answered:
- Are there homes which are not desirable to lose through Right to Buy because re-providing them is subsidy intensive? Are there occupiers who would like to Right to Buy but whose homes are un-mortgagable so their 'discount' isn't portable? Could there be options available to those households looking to exercise their Right to Buy to benefit from their discounts but for alternative properties – potentially on an equity share basis?
 - Can empty homes initiatives be widened?
 - Are there elderly tenants under-occupying family affordable homes who may have specific needs which are not currently met by the current housing stock?
 - Could existing homes be altered or extended to create larger family homes?
 - Are there opportunities for infill / hidden homes?
 - Investment in bringing homes up to Decent Homes standards – could investment enable homes which are subject to long term voids be re-let or is there a case for these homes being redeveloped or sold?
 - Could homes within the existing private stock be purchased – for example street properties?
86. In all these areas the answers may lead to the conclusion that a little money can go a very long way in delivering additional affordable housing capacity.

Better Reporting

87. Authorities should be allowed to be smarter in measuring need and additionality – so that they can seek to improve the ratio – nobody should be satisfied with 1:1. Common issues include that some new sources of supply simply do not count as being 'additional' affordable homes in government reporting i.e. empty homes, adaptation/extension of existing homes and where there are cross authority boundary solutions which could deliver better outcomes there is generally no mechanism for

ensuring the 'losing' authority receives credit for what it would have delivered and the 'recipient' authority receives credit for the additionality.

Widening the Housing Offer

88. The emphasis on viability presumes every scheme will maximise returns as quickly as possible and seeks to test viability to its margins. This reflects the dominance of owner occupation as the tenure of choice. There are opportunities for new tenures, however, which do not sit comfortably within the standard planning policy tests for affordable housing - for example, products which operate within the private rental sector. Commentators suggest that the investment potential for Private Rented Sector (PRS) requires a new asset class to be created to recognise the uncertainty over the product – margins are suggested to be about a quarter of normal developer returns reflecting a contractor-style return rather than a normal developer profit because the asset is retained.
89. Promoting this approach would mean that, based on the normal viability tests, schemes would not be able to afford to deliver affordable housing on site – similarly there are questions over how integration would impact the potential attractiveness to investors. Legitimate concerns therefore exist around whether this would result in PRS becoming a loophole to avoid affordable housing delivery, whether claims that it could genuinely meet an affordable housing need are able to be substantiated and what happens if PRS is released quickly and sold as private homes. All these concerns are reasonable but can potentially be overcome.
90. Where PRS is delivered by the private sector, it may be feasible to use viability to conclude that nil affordable housing can be delivered but also to test the difference between this and the scheme as private for sale. A relatively simple clawback s106 provision could operate in the event the tenure changes so that a number of homes revert to 'affordable' and/or a payment in lieu is made and/or the public sector benefit from equity in lieu of affordable provision of an agreed number of homes.
91. Similarly, as part of a PRS proposal, there could be scope for consideration to be given to whether some of the rental homes could legitimately meet affordable needs and be delivered as intermediate rent via a discount on the market rent. Just as affordable rent has blurred the boundaries between social rent and market rent, PRS offers the scope to be extended to do the same. This would not necessarily need to be unit specific but could relate to a number of units over a scheme with controls that, at any single point in time, an agreed number of properties are 'benefiting' from these reduced rent terms. A priority is ensuring there are no restrictions which would either unduly dissuade or prevent potential investors entering the market i.e. artificial constraints on market rent growth rates. From the perspective of the public sector,

potential may also exist to consider whether there are possible synergies and efficiencies of bringing PRS forward alongside Affordable Rent to Buy proposals.

Change of Use

Where there are areas of identified opportunity but where the private sector is not taking the initiative themselves, consideration may be given to whether there is an opportunity for local authorities to incentivise the use of the recently announced extension of permitted development rights allowing conversion of office to residential to encourage appropriate conversions. This could follow a model similar to the empty homes initiative where authorities benefit from this new source of supply by offering owners grant funding in lieu of affordable lettings for an agreed period after which the homes are able to be sold or rented on the open market.

Compulsory Purchase Orders

92. Authorities and private sector partners should consider whether there is a positive role for CPO, particularly to facilitate those schemes where there is otherwise no reasonable prospect of delivery but which are critical to realising the wider potential of an area. CPO has been generally used as a defence position to manage badly fading assets or facilitate necessary road or service infrastructure. However, where CPO is positively advanced in conjunction with the private sector Authorities could more actively participate in site assembly and promotion of development. This offers genuine potential to unlock value for money solutions.

Optimising Outcomes: How Do We Do It?

93. Paragraphs 68-89 of this paper introduce a lot of areas for discussion – it is not realistic to consider that all of these factors will always be capable of being used in every case and it is inevitable that an immediate reaction will be to identify potential problems, risks or reasons for not pursuing these options. However, the range of potential actions demonstrates that there is in reality great potential to think creatively and to optimise outcomes with different factors suiting different specific circumstances.
94. Change does not just require a discussion of new initiatives, strategies or plans - it needs action. Doing nothing is not a sustainable option. Presently, there is a window of opportunity where stakeholders in both the public and private sector are aligned in the desire to deliver growth. ‘Delivery’ risks being an increasingly overused term – this Paper highlights the potential to make it meaningful again. Policy needs flexibility to allow a range of opportunities to be explored and considered alongside other priorities and considerations. Most policies provide flexibility already. The critical role in the application of policies and decision making is to make sure that decision

makers consider how outcomes can be optimised, rather than accept the lesser outcomes available from traditional solutions.

95. Better outcomes, in the context of the delivery of affordable housing, should extend beyond the headline number of homes, and may include:
- Tenure
 - Unit size and type
 - Affordability
 - Deliverability and fundability
 - Management
 - Design
 - Linkages and opportunities to relate to wider initiatives and policy objectives
 - Delivery of mixed and balanced communities
 - Timing
 - Certainty
 - Value for money
96. The way in which these translate practically is considered below.

Optimising Outcomes: The Opportunities

97. The immediate opportunities are planning applications. They have an active promoter and therefore can reasonably be considered to be viable and deliverable. The benefits able to be secured through s106 should be viewed as public funding and investment – ‘currency’. Critically, new planning applications should not be considered in isolation. There is scope to extend a creative approach to unimplemented consents, schemes in the pipeline, existing homes and to look to linking the subsidy that may be expected from a new application with new or alternative opportunities to facilitate housing delivery. There are also opportunities to question whether s106 agreements of stalled sites, part implemented but facing difficulties for example due to lack of grant which was assumed, could also be considered.

98. Resourcing is key. Local authorities have existing initiatives, spanning different service area, job roles and budgets. Most local authority staff resources are already stretched. There is scope for authorities to challenge the promoters of new development to utilise their resources, through the planning application process, to identify potential opportunities for discussion and consideration. This may bring with it wider benefits as there is scope to draw on a wider range of experience and skills extending to other projects.
99. Consideration has been given to where these opportunities may present themselves. The diagram below in figure 4 develops these areas and illustrates how they relate to different aspects of planning delivery – enabling consideration of how these may be encouraged to be brought together to optimise outcomes. Some schemes are optimised by investing across a range of opportunities.



Figure 4 Optimising Outcomes

100. To be able to meaningfully consider these opportunities we need to be better informed. By considering affordable housing delivery earlier in the application process we can build a picture of the issues and opportunities not only of the site but those which relate to the wider neighbourhood. This process can also identify change that is happening and, critically, the elements which are needed but are not coming forward. This can help shape the scheme, facilitate joint working between the public and private sector and which, with trust and transparency, can open up a wide range of solutions.
101. There is potential for a marked differential in affordable housing outcomes between how we approach affordable housing negotiation and delivery today and what we could be achieving. As discussed in Part 2, the present focus is to use viability to evidence that the proposed on site affordable housing represents maximum reasonable affordable housing without any consideration of whether this represents value for money or good investment of what is effectively public resources. Supporting information may then be provided on a 'tick box' basis i.e. to demonstrate that regard has been given to policy, minimum levels have been achieved and thresholds have not been exceeded. We are trying to achieve a 'pass' but there is no incentive to exceed the 'minimum'. Affordable Housing Statements, which form part of the planning application submission documentation, often lack content, consideration and analysis. Viability submissions lack analysis and consideration of other options.
102. There is increasing pressure for the process to become more formularised with greater emphasis on viability delivering definitive answers to enable case officers to report definitively to members. This fails to reflect the increasing responsibility that authorities have for finding creative local solutions with less resources and represents a different direction to that which is encouraged by the NPPF - 'planning must be a creative exercise in finding ways to enhance and improve the places in which we live our lives' (Ministerial Forward). By introducing value for money and recognising what can be achieved through partnership, together we can make a real difference.
103. The starting point is properly to understand the context of new development proposals. This information is available but needs to be compiled and will require discussions with planning, regeneration, property, housing (enabling, management and regeneration), social services, education, community services etc. Examples of the information that should be drawn upon includes:
 - Socio economic and demographic characteristics i.e. unemployment, income levels, age

- The local housing offer i.e. tenure, price, affordability and quality
- The existing housing stock i.e. incidences of Right to Buy, new lettings, empty homes, specific needs, investment programmes, estate regeneration
- Pipeline development and unimplemented consents/stalled sites
- Wider initiatives and priorities specific to the area or the issues faced
- Grant funding initiatives and opportunities – this may extend to TIFs etc.
- The local requirements, strategy and investment plans of other departments i.e. adult and social services, libraries, education, community, retained or arms length managed housing stock, regeneration teams etc
- Underutilised and surplus land and buildings – including those owned by the public sector
- Corporate priorities: Is there scope to link the opportunity to the authority's strategic objectives and corporate priorities to assist with delivering the long term aspirations of the Council including their financial plans which may include benefiting from or contributing to their borrowing potential, funding gaps etc. to understand how opportunities may relate to the bigger picture and the move to financial localism.

104. On to this we need to overlay the wider challenges and consider what alternatives may be available and whether this will deliver better outcomes such as:

- Value for money: What affordable housing can be delivered on site and how much subsidy is required to facilitate its delivery – per unit and per habitable room? Does this represent good value for money?
- Tenure, size and type: Are there specific local needs, issues and priorities and are these along with other priority needs being met either directly or indirectly? Do the measures being used best report outcomes?
- Viability: What impact do sensitivities on costs and values have in respect of the overall potential to deliver affordable housing?
- Affordability: Is affordability being optimised having regard to the local housing offer? Are potential occupiers getting a good deal on first and subsequent

lettings/sales? Are the proposals fundable¹¹? What is the impact of improving or decreasing affordability and what may this mean in terms of additional funding and/or potential for value creation?

- Funding: Have options for securing funding 'in' or realising funding 'out' alongside other initiatives such as equity share been explored?
- Management: Are the homes able to be efficiently and effectively managed by an appropriate Affordable Housing Provider? Are there potential issues/concerns either short or long term i.e. estate service charges, quality of design and associated costs of long term maintenance? Do service charges represent value for money for occupiers i.e. are they a higher than normal proportion of housing costs – could the purchaser be acquiring more equity?
- Design: Does the inclusion of affordable housing compromise the wider design and is this having a wider impact on viability, management, affordability, future proofing etc.?
- Linkages: Are there deliverable opportunities beyond the red line boundary of the planning application to extend benefits of the planning application to the wider community – this could include local lettings, linking housing to wider initiatives such as employment, as well as investment? Has the development pipeline been considered – including sites stalled, public assets and land, existing stock etc.? Has consideration been given to the wider circumstances, initiatives, proposals and priorities to identify whether risks and/or opportunities are being identified and positively responded to them?
- Timing: How quickly can homes be delivered and occupied by those households that need them – could there be potential for quicker or more timely delivery?
- Certainty: What risks are there that delivery may be delayed or may not happen at all – can reassurances and alternatives provide comfort that there are deliverable solutions?

105. It is important to be realistic. A more rigorous approach should not be assumed to be appropriate for every site. But it is important that where there is an opportunity and a willingness, that there is the potential to engage and facilitate delivery of better

¹¹ The term fundable is used to refer to ensure that tenures, terms and restrictions are acceptable to lenders and also potentially to the HCA/GLA where there may be recourse to grant funding – simple terms, following standardised processes and protocols are important as anything new or unusual risks being unacceptable to lenders

outcomes, more joined up development and to capture value creation if that is evidenced to be in the public interest.

Optimising Outcomes: The Key Players

106. The planning profession and what it achieves is rarely viewed positively. Day to day rhetoric refers to planning as being a ‘system’, a ‘function’ and a ‘process’ even a ‘battier’ – there is a tendency for planning to be viewed as compliance, tick boxing and hitting minimum thresholds. Planning has the potential to be much more – and needs to be.
107. Whether there is appetite and willingness to work planning harder depends on the attitude of key players and stakeholders. The diagram below in figure 5 illustrates the extent of influences that may be required to input if the approach taken is to extend beyond seeking to achieve the minimum and instead moving towards delivering policy plus.



Figure 5 Better Outcomes

108. There will be different agendas, opinions, priorities and approaches – we need to work to identify shared priorities and objectives. Compromise is inevitable but this can be minimised by having transparent engagement, early – rather than pre-determined solutions.

Optimising Outcomes: The Process – Putting it into Practice

109. Whilst there is an inevitable role for planning policy to be part of the change given that our planning system is 'plan-led' system any change considered to be 'material' is required to follow the appropriate local plan protocols and procedures. Despite attempts to speed up plan-making the process is often slow, requiring extensive supporting evidence and is local authority led.
110. Any changes to policies which are viewed as providing additional flexibility or which could be perceived as providing a positive opportunity for developers will inevitably be subject to widespread scrutiny with the fear of 'loop holes' always being prevalent. Furthermore, without belief and evidence at the local level of deliverability and benefits, change is unlikely to materialise. If we are to change our mind-set, we are best doing this on a manageable level, with a view to scaling upwards, rather than trying to promote change strategically and risking failure.
111. The added benefit of starting small is that, as results are delivered, funds are released which begin to build a critical mass, in turn enabling more change, releasing wider opportunities, facilitating increased delivery and so on. In the wake of significant funding cuts and as financial 'localism' gets closer and authorities are increasingly empowered to take control of finances, the identification of new funding streams, opportunities for innovation and delivery of efficiency and value for money across all service areas will be critical.
112. The process below (figure 6) illustrates how with better information at the outset, asking the right questions early on and considering different opportunities the outcomes may be on site delivery, or could extend to include release of funding to facilitate delivery as part of wider investment decisions. The money available for investment may be supplemented by income from other schemes which have been through the same process i.e. receipts from sales of homes as part of off site solutions, financial payments from other application sites, recycled grant, equity released from sites where risk was shared, payments via review mechanisms triggered etc. Specific investment decisions may also be supplemented with external funding for specific opportunities from the HCA, through investment of CIL to assist with delivery of key infrastructure etc.

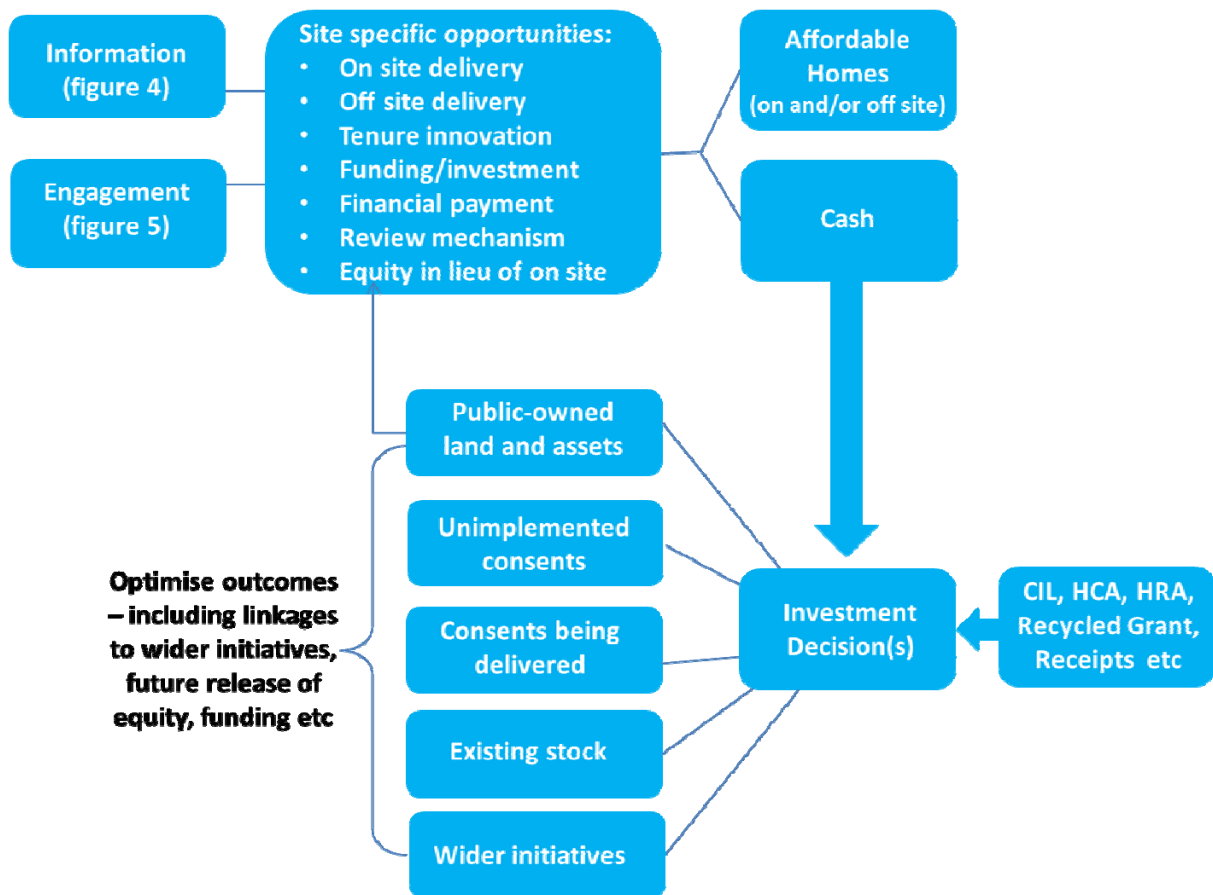


Figure 6: Optimising Outcomes the Process

113. The application of the process, potential opportunities, complexity of the solution and the scope for additionality will vary from site to site.

Summary

114. It is right that not every site coming forward needs a different solution to the delivery of affordable housing, a different approach may not be appropriate in every case but where there are opportunities to deliver better outcomes and achieve policy plus this should be enabled. To date the benefits delivered through s106 agreements, including affordable housing, have not been viewed for what they are - as public 'funds' or 'investment'. They should be. There is little or often no consideration given to whether deliverables represent good value for money. This is unacceptable. We have a system which risks being satisfied with mediocrity when it comes to affordable housing delivery but in the context of wider change this is the time when we can be, and should be, looking beyond headlines and trying harder to use planning to deliver meaningful and positive change.

115. Implicit in the acute housing shortfall that faces the nation is an equally significant affordable housing shortfall. Irrespective of whether this has been fuelled, at least in part, by sustained under-delivery of market housing, there is no reasonable prospect of redressing the imbalance by simply increasing overall housing delivery in the foreseeable future. Continued delivery of affordable housing will remain a policy priority. The focus of discussions will be around how we can deliver more affordable housing with less resources.
116. Whilst we are looking at development to deliver more, presently this focuses on further squeezing viability to try and extract more subsidy without considering whether this risks frustrating overall delivery and hence worsening the problems which policy is intended to help remedy. Viability has an important role in planning but should not be pushed to the limit – it is informative as part of a wider series of considerations.
117. The challenges set out in Part 1 are inviting a positive response which increases the overall supply of new homes in the places where demand and need is greatest – in the context of affordable housing planning can help respond to all of the challenges being faced, including:
- Increase the number of affordable homes delivered.
 - Improve accessibility to new homes – including improved affordability and assisting those to access market housing where feasible.
 - Helping to facilitate more efficient and effective use of existing social housing – realising this will always be resource-intensive to deliver new.
 - Offering scope to invest in the existing housing stock.
 - Planning for the changing housing needs of our population – the right homes are required to meet this and they require joined-up solutions.
 - Use available funding efficiently and effectively – being smarter with our assets and finances to make them go further.
 - Find opportunities for cross-cutting solutions joining up local authority services areas.
118. The NPPF encourages planning to use creativity to find positive solutions and, whilst authorities are required to plan to meet housing needs, the resulting planning policies are aspirational and undeliverable. The only way we can achieve the desired good news political headlines on affordable housing delivery is to direct the limited funding available to less affordable homes. Investment is no longer being directed to the

most affordable subsidy intensive tenures i.e. social rent despite the important welfare role that these homes have in our communities. Under current central government plans, the existing social rented stock will diminish as social rents are encouraged to be converted to affordable rent, Right to Buy schemes extended etc. Meanwhile, local authorities will continue to try and deliver new affordable homes at social rent levels as a response to perceived priority needs and statutory housing duties. We need to use what we have got more efficiently and effectively – both in terms of the existing housing stock and funding (at a time when the money available is limited, whether this is from grant funding, Registered Providers, private investors or through s106). There are many different opportunities for joined up solutions which planning has the potential to be the catalyst to deliver. How far you go with this depends on the type of developers, opportunities, authority and the vision and ambition of members and officers.

119. A lot will depend on the mindset of all involved and their willingness to change and do things differently, even if this is only for a single scheme. Recognising the attitudes of key stakeholders, and critically the local authority, will be central to considering the scope and potential of the range of possible areas for discussion, for example:
 - a. Resistor: Using tools available to delay or constrain – reluctant to comply looking to do less than the minimum with little regard to authority/applicant relationship.
 - b. Do minimum: Will do what need to but unlikely to positively engage beyond this – looking for expedience, likes the formality of a standardised process.
 - c. Enabler: Keen to engage where this will help to make things happen but only where this does not require significant investment of time and resources, thinking outside the box when a do minimum approach may have been acceptable.
 - d. Exemplary: A desire to making the best things happen, to improve on the minimum, to facilitate and engage in debate around potential opportunities and to strive to ensure the outcome is not only compliant, but it is the best that could have been achieved. Consensus building and relationships are important.
 - e. Trailblazer: Big ambitions, potential high rewards but often high risk – requires significant financial and wider resource commitment to take through to delivery.
120. The new world needs champions who comprise a mix of enablers, exemplars and trailblazers – there will always be resisters and those who want to do minimum and planning policies and development control must still be structured in a way which works for those who do not see any benefit in embracing change. We need to

challenge the presumptions which were established over 15 years ago and realign our objectives and aspirations with the funding and opportunities which face us today.

121. Criticisms, concerns and problems are inevitable, for example:
 - a. Presume that one off success cannot be replicated more widely
 - b. Risk to creation of mixed and balanced communities
 - c. Affordable housing will be increasingly concentrated in areas of existing affordable housing reinforcing poor areas and creating enclaves of exclusive private homes
 - d. Adds complication to the process
 - e. Risk to delivery
 - f. Political timeframes 3-5 years mean the bigger picture may change
 - g. Procurement restrictions limit what can be achieved
 - h. Local authorities are not resourced to be able to deliver
 - i. Need to get best value from sale of public sector assets
 - j. Only works in high value locations or is London-centric
122. There are solutions to all of these potential criticisms.
123. One final note. The potential of the opportunity is significant but even relatively small changes could deliver meaningful improvements in housing delivery nationally. In terms of scale of opportunity, to make a meaningful difference would require every local authority to enable completion of just an additional 30-35 homes per annum - this would be equivalent to nearly 10% increase on overall housing delivery – c. 11,000 additional homes. To deliver 30 flats site(s) of c. 0.25 – 0.5ha would be needed or c. 0.75 -1ha if houses. If half of these authorities could enable completion of c. 70 affordable homes per annum the overall increase in delivery would be c. 16,500 additional homes per annum. This is important when you consider that the latest government statistics evidence that whilst private housing starts have increased 33% compared to a year ago affordable housing starts have dropped and affordable housing completions have fallen 25% compared to the same period last year.

124. The opportunity is significant. S106 is public funding and investment – a currency which can enable and deliver not just positive change but also better outcomes whilst ensuring more efficient and effective use of limited assets and resources. By challenging our presumptions, making more informed decisions over publicly owned assets and land rather than simply selling to the highest bidder through traditional disposal processes and by considering this as part of a bigger opportunity, delivered in partnership, we have the potential to make a real difference, to positively contribute to growth and localism.

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