Housing & Planning Policy: Making Housing Affordable

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CASE Themed Series
The Coalition’s Social Policies: Early Directions & Distributional Impacts
9th February 2011
The Planning & Affordability Story

- Why land use planning: some general principles
- The UK land use planning system
- Constraints on development and unaffordable housing
- S106 and the provision of affordable housing
- The Coalition approach to planning – and housing
- Initial evaluation
Land use planning: Objectives

From point of view of the economist the role of planning is to:

• Take account of market failures – particularly external costs and benefits - so as to generate a socially efficient mix of land uses and urban structure;

• Help ensure that there is an equitable distribution of land for housing, enabling all groups to find adequate affordable housing;

• Big tension between whether land use planning replaces the market to achieve social objectives or whether planning is complementary to the market
Efficiency, distribution or constraint?

- All planning systems are fundamentally systems of constraint in that they are regulating the market to ensure that outcomes are different from those which would happen under individual decisions;
- Moreover they are regulatory systems - so benefits and costs lie where they fall - so the effect of constraint is to generate both gainers and losers; gainers may need to be taxed and losers compensated if distributional objectives are to be achieved;
- But good planning decisions can improve the economy and the quality of life for all - it does not have to be a zero or negative sum game.
The Impact of planning on prices and land supply
Implications of general principles

• Good planning increases prices; bad planning increases prices – but the amount and location of land used is different!

• Distributional outcome depends on income distribution and offsetting measures

• These include land allocation for the use of affordable housing; taxation of land values; and subsidies to consumers and/or suppliers
The UK Land Use Planning System
The starting point:
The Town and Country Planning Act 1947

• Nationalisation of development rights – so separation of ownership and rights to use land;
• Planning permission required for change of use;
• Development control based on density, dwelling types, amenity, access to transport etc – not on economic variables as such and not on tenure;
• In addition building regulations and codes
• Important aim was to limit urban sprawl and improve the use of infrastructure; maintain farm land and countryside; enable regeneration/stop hollowing out – ie the efficient use of land and infrastructure;
• But main emphasis was on ensuring access to housing for all – with large scale public sector building (own land/give permission/build)
Policy development since 1947

Planning

- The basics of the 1947 Act have remained almost unchanged – still permission required for individual developments; still accepted by almost all politicians

- 1990 Town and Country Planning Act introduced local plans – now called Local Development Frameworks – within which local authorities were required to allocate enough land for housing and other purposes. However these plans are indicative - did not give the right to develop if that development conforms to the plan; - many see this as having increased constraint very considerably

Housing

- Shift away from local authority provision on own land to capital grants to Housing Associations who required a means of acquiring land on which to build

- 1990 Act made affordable housing a material consideration. Section 106 enabled local authorities, if they identified housing need through a housing needs assessment, to contract with developers to provide a proportion of housing in the form of affordable housing - a distributional offset to constraint?
Top down approaches to ensuring provision in the 21\textsuperscript{st} Century

Basic approach - national guidance based on household projections and estimates of unmet need

- Predict and provide based on demographics and quantities required
- Plan, monitor and manage based on market dynamics or really predict and provide?
- Shift to affordability as a measure of pressure - defined in terms of price/income ratios - based on Baker Review
- National Housing and Planning Advisory Unit a central provider of evidence based advice on national targets and regional allocations
- Throughout the period 2000 – 2007 output levels remained below household growth
- Thereafter fell precipitously as result of financial crisis
### The Planning process

#### STRATEGIC PLAN-MAKING

**FUNCTIONS**

<table>
<thead>
<tr>
<th>NATIONAL LEVEL</th>
<th>REGIONAL LEVEL</th>
<th>LOCAL LEVEL</th>
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<tbody>
<tr>
<td>National planning policy guidance, circulars</td>
<td>Regional planning guidance</td>
<td>Unitary and district-wide local development framework</td>
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<tr>
<td>Household projections</td>
<td>Regional projections</td>
<td>Five year housing land supply</td>
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<tr>
<td>NHPAU national target</td>
<td>Regional housing market and need assessments</td>
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#### DEVELOPMENT CONTROL FUNCTIONS

<table>
<thead>
<tr>
<th>Local housing market and need assessments</th>
<th>Determination of planning applications</th>
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<tr>
<td>Quotas / targets for affordable housing</td>
<td>Planning obligations</td>
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<tr>
<td>Allocation of sites for housing</td>
<td>Production of development briefs for large sites</td>
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<tr>
<td>Environmental quality and density controls</td>
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Real house price growth, av. 70–06 (BIS)
What would house prices in average English LPA be if…

- Predicted real house prices in average English LPA
- Prediction with refusal rate set to zero
- - and share developed set to zero
- - and elevation range set to zero
- - and earnings assumed constant

House prices in 2008 pounds


House prices:
- 226k
- 147k
- 124k
- 117k
- 112k
S106 and the provision of affordable housing: principles

- Planning permission generates an increase in value over and above current or next best use;
- That value can be ‘taxed’ to provide for community benefits – including affordable housing;
- The greater the constraint the larger the opportunity for planning gain;
- If the rules are certain and transparent, land values will fall to take account of the obligation – so the land owner pays;
- The site has to remain viable which sets a limit on what can be charged - although always also issues of timing;
- From 1990 S106 available for affordable housing – transfer from landowner to lower income households.
How successful has S106 been?

• Took a long time to bed down and concerns about uncertainty over requirements and delays;
• Became the main source of land for affordable housing;
• But affordable housing provision tied to the provision of market housing;
• Incentives to developers to provide smaller units and units for the intermediate sector;
• Has strongly supported the mixed communities agenda;
• Has depended on Housing Associations for the delivery of the affordable housing element
S106 as proportion of new affordable homes
(source: DCLG)
### Total value of obligations
(excluding land contributions and county councils)

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</thead>
<tbody>
<tr>
<td>Total Non Affordable Housing Obligations</td>
<td>£700 m</td>
<td>£970 m</td>
<td>£1,350 m</td>
<td>93%</td>
<td>39%</td>
</tr>
<tr>
<td>Affordable Housing (rounded)</td>
<td>£1,200 m</td>
<td>£2,000 m</td>
<td>£2,600 m</td>
<td>117%</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>£1,900 m</td>
<td>£2,970 m</td>
<td>£3,950 m</td>
<td>108%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Crook et al (2010), Valuing planning Obligations, DCLG (grossed up sample)
Proposed Alternatives/Supplements to S106

- A tariff or roof tax? – a required financial payment for infrastructure (Milton Keynes)
- Community Infrastructure Levy – a proportion of the value of any development to be paid towards infrastructure provision based on infrastructure plan (Labour & Conservatives)
- Local incentives to provide affordable housing through supplements to council tax revenues (Conservatives)
Where were we in 2010?

- House prices had risen very rapidly to 2007 worsening affordability
- Recession meant very little building and most based on the stimulus package
- But it had not reduced prices to affordable levels especially given lack of mortgage funding
- Targets were not being achieved
- Resistance to top down targets at local level and little buy in to development of any kind
- Many existing sites not financially viable so little potential for affordable housing through S106
The Conservatives’ approach pre-election

- Removal of national and regional housing targets;
- Removal of regional layer of government except London and maybe North East;
- Local plans to be agreed with central government – implicit contract;
- Maintain local housing needs assessment plus 5 year supply of land;
- Rights to develop within the plan but third party rights to object where significant costs;
- S106 restricted to site specific remediation and affordable housing
- CIL uncertain
The Core Issue?
Local Incentives/Disincentives

• Under existing system little or no tax benefit to local authority from enabling more housing – business rate unaffected; tiny, dampened, change in grant from population increase
• But real costs to the authority and the community in terms of physical and social infrastructure and loss of amenity
• ‘Insiders’ benefit from constrained supply; ‘Insiders’ have vote
• Neighbours of new development lose out most
• S106 a partial recompense. Tensions between affordable housing and public realm/infrastructure
The Coalition Approach to Planning: the Localism Bill

• Removal of national and regional housing targets;
• Removal of Regional Spatial Strategies except in London; Local development frameworks remain in place but Inspector cannot challenge
• Maintains local housing needs assessment plus 5 year supply of land;
• Parish level right to give planning permission – other aspects unclear?
• S106 restricted to site specific remediation and affordable housing;
• CIL to remain but some to go to neighbourhoods rather than infrastructure
## The New Planning process

### NATIONAL LEVEL
- Simplified national planning policy guidance, circulars
- Household projections

### LOCAL LEVEL
- Unitary and district-wide local development framework
- Local housing market and need assessments/Five year housing land supply
- Determination of planning applications
- Quotas / targets for affordable housing
- Determination of CIL – including allocation to neighbourhoods
- Planning obligations
- Allocation of sites for housing - plus parish level
- Production of development briefs for large sites
- Environmental quality and density controls - optional
Impact on the New Housing Pipeline

Source: Glenigan
The New Homes Bonus

- £200m 2011/12; £250m p.a 2012-15; rest from Formula Grant
- Based on net new additions
- Per unit payment equal to the national average for the relevant council tax band for 6 years (around £650)
- Enhancement for affordable homes of £350 p.a (including ‘affordable rent’ homes)
- 80% to lower tier in 2 tier systems
- Bringing empty homes into use and traveller sites to benefit
### New Homes Bonus: DCLG worked examples

#### Local authority A

<table>
<thead>
<tr>
<th>Type of delivery</th>
<th>Units</th>
<th>Gross Incentive</th>
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</thead>
<tbody>
<tr>
<td>Net additions</td>
<td>1,800</td>
<td>£12.5m</td>
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<tr>
<td>- of which are affordable homes</td>
<td>500</td>
<td>£1.1m</td>
</tr>
<tr>
<td>Empty homes bought back into use</td>
<td>20</td>
<td>£0.1m</td>
</tr>
<tr>
<td>Gypsy and Traveller sites</td>
<td>10</td>
<td>£0.1m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>£13.8m</strong></td>
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#### Local authority B

<table>
<thead>
<tr>
<th>Type of delivery</th>
<th>Units</th>
<th>Gross Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net additions</td>
<td>400</td>
<td>£3.3m</td>
</tr>
<tr>
<td>- of which are affordable homes</td>
<td>40</td>
<td>£0.1m</td>
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<tr>
<td>Empty homes bought back into use</td>
<td>10</td>
<td>£0.1m</td>
</tr>
<tr>
<td>Gypsy and Traveller sites</td>
<td>40</td>
<td>£0.2m</td>
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<tr>
<td><strong>Total</strong></td>
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<td><strong>£3.6m</strong></td>
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Incentives

• Hypothecated funding
• Larger grant for larger homes
• Easiest for greenfield/large sites

Disincentives

• Net additions not new build – will not be known for some years?
• Reducing Nimbyism - how are benefits to be linked to those who suffer from the development
• And is the scale of the payment adequate?
Related Housing Changes: Supply Subsidies and ‘Affordable Rents’

- Within social sector shift for capital grants to revenue funding
- ‘Affordable rents’ for new build at up to 80% of market
- The subsidy cost to be transferred away from capital grant to Housing Benefit
- Impact of welfare and property size caps
- No funding directly identified for regeneration
Conclusions: What May Happen in Planning

- Removal of national targets and regional layer, together with local determination of needs reduces the pressures to allocate land (HBF evidence) – but was the top-down approach really working?
- LDF remains in place but Inspectors have no capacity to force change
- Lack of guidance (so far) on local needs assessments likely to produce lower estimates of requirements
- Right to neighbourhood planning at parish level appears to be pro-development – but how will it work?
- Part of CIL expected to go to neighbourhoods leaving infrastructure costs uncovered?
- ‘Chickened out’ on presumption in favour of sustained development but also on ‘third party rights’
- So general incentives appear to reduce land allocation except for New Homes Bonus
- New Homes Bonus will work in some circumstances but in others too small; too uncertain; too late; too untargeted at those who suffer?
Conclusions: Distributional Implications

- Lower land supply, higher house prices and increased rents unless incentives can be made to work
- Loss of Formula grant if do not build – is the NHB and loss of grant enough to overcome Nimbyism/Bananaism?
- Differential incentives between types of area – shifting development into poorer areas?
- But major implications come from shift from ‘residual’ capital grant for affordable housing to revenue based development
- Will make regeneration more difficult; increase the risks for social landlords; and shift incentives towards housing intermediate market households
- Big spatial redistribution towards South? – but will localities be prepared to build?
- And there are still the cuts and the recession to cope with!
Thanks

to Christian Hilber for permission to copy slides 11 and 12 from


to the House Builders Federation for permission to copy slide 23 from
*New Housing Pipeline* quarterly report December 2010;

To David Lunts HCA for figures on the impact of the stimulus – presentation will be available on LSE London website -
[www.lse.ac.uk/collections/LSELondon/events/lenttermseminars/](http://www.lse.ac.uk/collections/LSELondon/events/lenttermseminars/)

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