Senedd Cymru Local Government and Housing Committee Inquiry into Social Housing Supply: Response to Call for Evidence

Introduction

This is a response the Senedd Cymru Local Government and Housing Committee's ('the Committee') call for evidence in relation to its inquiry into social housing supply. It has been prepared by Dr Edward Shepherd, Senior Lecturer in Planning and Development at the School of Geography and Planning, Cardiff University.

Dr Shepherd holds a PhD in Land Economy from the University of Cambridge and has 11 years of experience conducting research on planning, land value taxation, land value capture, the politics of housing supply and the housebuilding industry.[1] He is currently leading a three-year Economic and Social Research Council-funded project on the politics of land value capture policy in England (grant reference ES/W001675/1).

Terms of Reference

Given the author's background and expertise, this document will address the below issues from the Committee's Terms of Reference with a particular emphasis on the first item:

1. The potential for increasing income from land value capture mechanisms to invest in social housing.
2. How effectively the planning system is supporting social housebuilding.

Definitions

Social housing

Although social housing is not defined in the Terms of Reference, for the purposes of this consultation response it shall be taken to mean homes for social rent, intermediate homes for rent and shared ownership. To be more consistent with terminology used in planning practice, these tenures will here be collectively referred to as 'affordable housing'.

However, the Glossary to the Welsh Government's *Technical Advice Note 2: Planning and Affordable Housing*[2] also includes equity sharing schemes within the definition of affordable housing, although this tenure does not form part of the government's current commitment to deliver 20,000 low carbon homes for rent in the social sector for the current government term.

Land value capture

Land value capture can be defined as any mechanism that enables the state to collect a proportion of land value, either via a recurring tax or event-based instruments. Therefore, at its broadest, land value capture tools could include

[1] A list of Edward Shepherd's publications is here: https://profiles.cardiff.ac.uk/staff/shepherde6
[2] https://www.gov.wales/technical-advice-note-tan-2-planning-and-affordable-housing

property taxes currently charged in Wales, including council tax, non-domestic rates, Land Transaction Tax, as well as capital gains tax and inheritance tax on property.

While there may be potential to more effectively tax property wealth in Wales to fund public services and infrastructure (including affordable housing)[3], for the purposes of this consultation response land value capture shall be assumed to predominately refer to a more limited set of event-based tools that are embedded within the planning system.

Such tools target the land value uplift that is crystallised by the grant of planning permission for a more valuable use. Depending on the value of the land in its existing use and the nature of the proposed development, the uplift can be very significant. There are two such mechanisms currently in use in Wales: planning obligations (otherwise known as Section 106 agreements) and the Community Infrastructure Levy.

Planning obligations are used by local planning authorities in Wales to seek to secure a proportion of affordable housing from developers and landowners via policy-based negotiation. Contributions can either be in cash or in kind (although the latter tends to be preferred). Where new affordable housing is provided directly by a private developer, these are usually sold to a Registered Social Landlord (at a discount compared with market homes) who will then own and manage the homes. Planning obligations are also used to secure contributions intended to mitigate site-specific impacts of development and thereby render development proposals acceptable in planning terms.

The Community Infrastructure Levy (CIL) was introduced in 2010 and is used to secure contributions from new development for the provision of infrastructure. According to research by Planning Resource magazine, as at April 2023 only Rhondda Cynon Taf, Merthyr Tydfil and Caerphilly had adopted CIL, with a further six councils having started the process towards adoption.[4] Although optional to introduce, once adopted, CIL is non-negotiable.

Although generally thought of as being a means for local authorities to secure contributions from private (for profit) developers and landowners, CIL and planning obligations are also used in relation to Registered Social Landlords (RSLs) and local authorities should they engage in development. Indeed, RSLs in Wales are increasingly seeking to deliver their own developments, which can include a proportion of market housing to improve viability (Williams et al., n.d.).

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[3] The Welsh Government has signalled it is interested in the potential for local land value taxation to replace council tax and non-domestic rates, and this was the subject of a technical assessment published in 2020 (ap Gwilym et al., 2020).

[4] https://www.planningresource.co.uk/article/1212817/mapped-community-infrastructure-levy-updated-12042023

Summary of Available Statistical Data on the Supply of Affordable Housing in Wales

Appendix A sets out some of the key available data regarding the supply of affordable housing in Wales. These data suggest that:

- Registered Social Landlords (RSLs) provide the vast majority of additional affordable housing each year (80%-90% per year between 2018 – 2022, with a drop to 70% in 2023).

- ‘Other providers’ (including private developers) have accounted for by far the smallest proportion of new affordable homes at 2%-3% per year between 2018 and 2022 (with an increase to 9% in 2023).

- Most of the new affordable housing delivered by RSLs is for social rent. This provides an indication of the overall trend given RSLs deliver most additional affordable housing.

- Planning obligations have accounted for between 23-30% of new affordable housing over the last five years (reaching closer to 35% prior to this). These data include planning obligations entered into by RSLs and local authorities (rather than solely by private developers).

- The number of affordable homes delivered by ‘other providers’ (including private developers via planning obligations) as a proportion of new dwellings completed by private enterprise has consistently been around 2%-3% in the period 2015-2022, although rose to 7% in 2022-23. Although there are problems with these data (see Appendix A for details) and they should be interpreted in conjunction with data on financial contributions towards affordable housing, they do suggest that private developers may be consistently providing a proportion of affordable housing on their schemes that are below policy requirements.[5]

- The number of affordable homes *granted consent* via planning obligations is consistently higher than the number of affordable homes *delivered* via planning obligations. This suggests potential viability issues impacting schemes following planning permission. It also indicates the importance of maintaining an adequate supply of planning permissions.

- Local authorities are finding it difficult to spend funds paid to them for the provision of affordable housing in the form of financial contributions via planning obligations. This has resulted in a growing total of such funds reaching around £27 million in 2022-23. This could be because of difficulties

[5] Note that these data do not take account of other financial contributions via planning obligations or CIL that may be made by private developers in addition to those specifically for affordable housing.

in sourcing suitable development sites and/or existing homes for tenure conversion and lack of expertise in development.

- Although local authorities appear to be finding it challenging to spend financial contributions, they are increasingly making land available for the provision of affordable housing through new build schemes or through the purchase, leasing or conversion of existing units. Public sector land is making a significant and growing contribution to new affordable housing as a proportion of overall additional affordable housing supply, rising from 22% in 2021-22 to 40% in 2022-23.

The data suggest that land value capture in the form of contributions towards affordable housing via planning obligations (from private developers, RSLs and local authorities) is making a significant contribution to the overall provision of affordable housing in Wales. However, there is also evidence that private developers may consistently be making affordable housing contributions on their schemes that are below policy requirements. To understand why this may be the case, it is important to consider:

- the nature of development land markets and land supply;
- the development viability mechanism;
- the role of viability in affordable housing negotiations;
- viability guidance and Benchmark Land Value; and
- Wales viability policy.

Each of these shall now be considered in turn.

Development land markets and land supply

Planning obligations and CIL (collectively referred to here as 'developer contributions') are considered forms of land value capture because, in theory, the payments made by these mechanisms are capitalised into development land prices. In theory, when a speculative private housing developer negotiates with a landowner to purchase a development site, they review local planning policy and seek to reflect the cost of meeting policy requirements in the price of the land. In terms of land value capture, these costs could include CIL payments, payments to mitigate site-specific impacts and an affordable housing contribution.[6]

However, in practice, because landowners have the final say in releasing development land[7], and planning obligations are negotiable, the real land market does not always operate according to theory. Private landowners will not usually sell their land for development unless they can make what they consider a sufficient financial gain, which will usually be considered in terms of the degree of land value

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[6] Affordable housing contributions can be reflected in a lower total value for the scheme (because affordable housing commands a lower financial value than market housing) or higher development costs via a financial contribution to the local authority.

[7] The exception to this is in cases where the land is purchased compulsorily via a Compulsory Purchase Order. This tool exists precisely to overcome unwillingness to sell. The circumstances in which it can be used are, quite rightly, tightly controlled.

uplift from the value of the land in its existing use (e.g. farmland if a greenfield development). For residential development land, landowner expectations are influenced by conditions in the housing market (because house prices influence land values) and in the development land market (because the availability of land and prices paid for similar land also influence land prices).

Market conditions, planning policy and the expectations of landowners therefore work together to set a minimum threshold for land prices that, if not met by developers, will result in them not being able to secure development sites. Therefore, although the supply of planning consents is an important factor in the supply of development land, so are the expectations of landowners and their willingness to sell land.

Developers need development sites to stay in business, and so may be incentivised to agree prices for land that do not fully reflect policy requirements on affordable housing on the expectation that they can engage in a viability negotiations with the local authority. Furthermore, if market or regulatory conditions change between relevant local planning policy being adopted, agreeing a land price with a landowner and submitting a planning application, this can also prompt viability negotiations.

The development viability mechanism

Development viability is now a central consideration in plan-making and development management in Wales. At its simplest, viability is assessed by calculating the total predicted value of the development and then subtracting from this all the costs associated with delivery. If the total costs (including payments to the local authority in the form of developer contributions plus the landowner's return and the developer's profit) do not exceed the value of the development, then the scheme is considered viable.

Paragraph 4.2.20 of Planning Policy Wales Edition 12[8] requires that financial viability of housing sites is "assessed prior to their inclusion as allocations in a development plan". The Development Plans Manual Edition 3[9] provides guidance regarding this. The intention is that allocated sites should be able to viably deliver policy required developer contributions, including affordable housing.

The Development Plans Manual therefore seeks to ensure that development sites are allocated only if they are viable while delivering the 'broad levels' of affordable housing required by the local planning authority. Paragraph 3.51 of the Development Plans Manual therefore states: "Further viability testing at the planning application stage should only be required on an exceptional basis." However, in practice, viability negotiations at application stage do frequently happen.

This is because there is only a finite amount of value from a development that can be divided between the landowner, the developer and the local authority (in the form of developer contributions) once all the other costs of development have been covered.

8 https://www.gov.wales/planning-policy-wales
9 https://www.gov.wales/development-plans-manual-edition-3-march-2020

Therefore, if any of the following affect a residential development, it can be perceived to negatively impact viability:

- Build costs have increased (e.g. due to inflation caused by geopolitical events).
- House prices have decreased (e.g. due to lack of mortgage availability).
- The cost of finance has increased.
- The regulatory environment has changed resulting in higher build costs (e.g. fire safety, building regulations relating to energy efficiency).
- There are exceptional costs to delivery e.g. significant infrastructure or ground remediation costs.

These are just some of the issues that can negatively impact viability. Clearly, spatial variation in local house prices, the specifics of a particular development scheme and site-specific ground conditions and infrastructure requirements mean that there can be spatial variation in the viability of development projects.

For example, an undeveloped greenfield site on the edge of an existing settlement in an area with relatively high house prices is likely to be more viable (and therefore able to provide more developer contributions) than a previously developed brownfield site with complex ground conditions in an area with lower house prices.

This, of course, means that the potential for land value capture varies by local market area and specific development site. The potential for land value capture is greatest in areas where there are high property values and development sites that do not have complex and costly delivery requirements.

Where viability is challenged, a developer may seek to either cut costs, maximise value (or both) in order to improve viability. If this is not possible, the development is unlikely to proceed.

The role of viability in affordable housing negotiations

Although all the assumptions going into a viability calculation are important, for the purposes of calculating viability for planning there are two fundamental necessities. In the words of the Development Plans Manual (para 3.47) these are that the development provides "an adequate profit margin for the developer and a meaningful uplift in value for the land owner".

The rationale for this is that the developer needs to be sufficiently incentivised to take on the risk of the development and the landowner needs to be sufficiently incentivised to sell their land. The implication is that unless these conditions are met, the development will not be delivered and the site will stall. Indeed, research conducted by Arcadis for the Welsh Government has shown that viability has been a significant factor on stalled sites in Wales (Thompson, 2020).

In such cases, applicants may submit a viability calculation that seeks to demonstrate that the development cannot make policy-required contributions *while also delivering an 'adequate profit margin' for the developer and a 'meaningful uplift' in land value for the landowner*. Therefore, in viability negotiations of this kind, the assumed ‘adequate profit margin’ and ‘meaningful uplift’ in land value (otherwise known as the Benchmark Land Value) is crucial because increases or decreases in these will result in more or less value being available for developer contributions such as affordable housing.

Indeed, research conducted by Arcadis for the Welsh Government on viability in planning found that there were a “high level of instances at which [sic] affordable housing requirements are negotiated down on the back of a variety of factors affecting site viability (ranging from abnormals such as ground conditions *through to agent demands for land value*)” (Arcadis, 2018: 14 – emphasis added). The 2020 Arcadis report on stalled sites further states: “The combination of *high expectations from landowners in terms of land value*, combined with high development costs…and relatively low sales values make sites either marginally viable or unviable in many parts of Wales” (Thompson, 2020: 22 – emphasis added).

This is obviously why RSLs and local authorities can typically provide more affordable housing as part of their schemes – they have very different requirements to private market actors regarding financial returns. If a local authority contributes land to a development, they may be able to so at much less than ‘market value’. If a (not for profit) RSL delivers a development, they can do so without requiring market rates of developer profit. This means there is more value that can flow towards providing affordable housing.

Viability guidance and Benchmark Land Value

In England, the mechanics of the development viability calculation have been the subject of significant controversy on the basis that developers and landowners were exploiting weaknesses in the viability model and laxity in the English planning guidance on viability (Crosby & Wyatt, 2016; McAllister, Street & Wyatt, 2015; McAllister, 2017; Grayston, 2017). There was evidence that some developers were successfully arguing that they could not provide policy-required levels of affordable housing because they had been compelled by landowners to pay prices for land that did not fully price these in (Crosby & Wyatt, 2019).

This, in effect, meant that the Benchmark Land Value was higher than it should have been in some viability negotiations. Landowners had grown used to achieving prices that did not fully reflect policy requirements, and developers were willing to pay such prices on the expectation that they would be able to successfully negotiate with the local planning authority. This resulted in a so-called ‘circularity problem’, whereby the market had normalised lower than policy-required levels of affordable housing in land prices, and this market evidence was then used by developers to successfully negotiate sub-policy required levels of affordable housing in subsequent planning consents (Crosby, 2018; Sayce et al., 2017).

This resulted in the government making adjustments to the English viability guidance in 2018.[10] These adjustments were aimed at minimising the scope for developers

[10] https://www.gov.uk/guidance/viability

and landowners to reduce affordable housing contributions via the process described above. In particular, this involved:

- specifying that "under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan";
- requiring that Benchmark Land Value should be calculated based on existing use value plus a premium (rather than simply being based on what similar sites have sold for in the market) and should be based on market evidence that has been adjusted to reflect full policy compliance;
- introducing a requirement that viability assessments be made publicly available other than in exceptional circumstances.

What the English experience demonstrates is the importance of the viability calculation to the levels of affordable (and social) housing that are delivered via planning obligations. It also demonstrates the importance of having clear policy that can guide the market and planners such that expectations of providing policy-levels of affordable housing are priced into the land market where possible.

However, *under the present land value capture regime* it is also essential to recognise that, where housing (and affordable housing) is delivered by market actors, policy on affordable housing tends to seek to leave enough value with the landowner and the developer to incentivise them to engage in the development process.

In London, where property values can be very high relative to, say, Cardiff, there was enough 'headroom' in land values for these to cover more tightly enforced policy. Clearly, Wales as a whole has a very different pattern of property and land values to London. Therefore, the extent to which there is potential to secure more developer contributions via land value capture in Wales presently depends in large part on local land and house prices, the level at which contributions are set in policy as well as the expectations of landowners. However, it should also be emphasised that these expectations can change in response to policy as well as changes in market conditions.

Wales viability policy

Compared with English planning policy, Wales has less detailed guidance concerning the calculation of development viability. However, the Development Plans Manual contains useful high-level guidance for plan-making purposes. The guidance on Delivering Affordable Housing Using Section 106 Agreements guidance (2008)[11] and guidance update (2009)[12] provides other detail, although this is now over 15 years old. Many local authorities in Wales are now using a Development Viability Model produced by surveying firm Burrows Hutchinson Ltd for plan-making and, in some instances, for determining viability at planning application stage.

[11] https://www.gov.wales/delivering-affordable-housing-using-section-106-agreements-practice-guidance
[12] https://www.gov.wales/delivering-affordable-housing-using-section-106-agreements-guidance-update

However, the existing policy does not provide specific and detailed guidance regarding the issue of Benchmark Land Value as well as other procedural issues. Furthermore, there is no existing requirement to make viability calculations publicly available, despite the 2018 Arcadis research on viability in planning recommending that: “Viability assessments prepared to accompany planning applications should be available in the public domain in order to promote greater transparency” (Arcadis, 2018: 34).

Benchmark Land Value in Wales

Regarding Benchmark Land Value, Table 24 (Viability Modelling Considerations) of the Development Plans Manual states: “Evidence of prices paid for comparable land will be a suitable starting point, adjusted where necessary to take account of any difference between past and proposed planning policy and / or infrastructure requirements”. However, the guidance is less unequivocal than the English guidance regarding the need to ensure that Benchmark Land Values that are used for viability negotiations at planning application reflect full policy requirements.

Furthermore, the approach to Benchmark Land Value set out in the Development Plans Manual still potentially leaves open the possibility of landowner expectations of land prices based on out-of-date policy being used to set (and potentially limit) new policy requirements for affordable housing, given that market evidence of prices paid for land are the starting point.

Indeed, a letter from Savills dated 15 July 2020 in Appendix 3 to the *Bridgend Local Development Plan 2018-2019 Plan-Wide Viability Assessment 2021*[13] states that, in their view, the Benchmark Land Values originally proposed for plan-making were too low “based principally on information from minimum price clauses within option agreements” (among other evidence)[14]. This advice resulted in the changes to Benchmark Land Values shown in Table 1, along with the multiples from agricultural land value (assumed at £18,000 per hectare)[15]. Multiples range from 28-42 in the higher value areas based on the revised BLVs. The originally proposed BLVs for the same areas still produced very high multiples of 22-33.

This use of evidence from minimum agreed land prices in option agreements will have presumably reduced the value headroom available to support the delivery of affordable housing within the local authority. It is unclear why prices previously agreed between landowners and developers without the involvement of the local planning authority should necessarily be catered to in policy at the expense of higher

[13] https://democratic.bridgend.gov.uk/documents/s25795/Appendix%2032%20-%20Plan-Wide%20Viability%20Assessment%202021.pdf

[14] Option agreements with landowners are one means by which housebuilders access development sites. Terms vary, but they usually involve the housebuilder promoting the site through the planning system and then purchasing the land once planning permission has been granted. The purchase price is usually determined via a third-party valuation, with a pre-agreed minimum land price to protect the landowner should market conditions change.

[15] The agricultural existing use value and resultant multipliers in Table 1 are only a broad indication. In reality, the existing use value of specific sites will vary. For example, if the development site is in industrial use, this is very likely to have a higher existing use value than agricultural use, and so the multiple will be lower.

levels of affordable housing when there is also the option to seek to manage landowner expectations via policy setting. There is a need for further research to systematically investigate the setting of Benchmark Land Values for plan-making in Wales and the role Benchmark Land Values play in affordable housing viability negotiations at application stage.

Table 1: Adjustments to Benchmark Land Values (BLV) for plan-making in Bridgend (2021)

Market area	Original BLVs (£ per net developable hectare)	Multiple of Original BLVs based on agricultural land value (£18,000 per hectare)	Adjusted BLVs (£ per net developable hectare)	Multiple of Adjusted BLVs based on agricultural land value (£18,000 per hectare)
Porthcawl	600,000	33	750,000	42
Bridgend / Pencoed	500,000	28	620,000	34
Pyle / Valleys Gateway	400,000	22	500,000	28
Valleys	200,000	11	250,000	14

***Notes**: Data and assumptions taken from Bridgend Local Development Plan 2018-2019 Plan-Wide Viability Assessment 2021, pp. 110-111.*

Conclusion

Affordable housing secured via planning obligations accounts for a significant proportion of overall additional affordable housing supply. However, the data suggest that most of the affordable homes secured via planning obligations are provided by RSLs and local authorities and that private developers may be consistently providing less than policy-required levels of affordable housing (although further research is needed given problems with the data).

This may be due to adverse market and site conditions that negatively impact viability and prevent sites from coming forward (including for affordable housing), as suggested by previous research by Arcadis. This is more of a risk in areas of Wales that have lower house prices relative to other areas. It is certainly, in part, due to the financial return requirements of private developers and landowners. It may also be that lack of clear policy guidance regarding development viability negotiations could be inflating landowner expectations in some circumstances, thereby exerting downward pressure on developer contributions (although further research is needed).

In the short term, there is therefore an opportunity to provide more detailed policy guidance regarding viability for planning, with a particular emphasis on developer profit and benchmark land value. This should be aimed at seeking to ensure that full policy requirements are reflected in land prices as far as reasonably possible and that policy requirements determined via plan making are not unduly limited by the ‘sticky’ financial expectations of landowners.

This new guidance should ideally be adopted as formal national policy which all plan making and planning applications must follow. Development viability calculations and associated reports submitted as part of planning application negotiations should also be made publicly available in the interest of transparency and to enable research to be conducted on the assumptions embedded within them and how these may be impacting affordable housing delivery.

However, given that there is a finite amount of development value to cover all costs of development, including developer profit and the cost of land (reflecting financial returns to landowners over and above existing use value), there is a limit to the degree private sector-led schemes will be willing contribute to affordable housing via land value capture tools. The real opportunity to significantly scale up the number of additional affordable housing *via the planning and development process* is therefore for RSLs and local authorities (and other public sector authorities) to be enabled to play an even larger role.

Assuming these entities can secure land (or use more existing public sector land) they are in theory in a position to deliver significantly higher proportions of affordable housing on sites than will be delivered via private sector led developments, regardless of adjustments made to development viability planning guidance. This would also assist in enabling local authorities to deploy their accumulated unspent financial contributions for affordable housing.

This suggests that the public sector should take a more active role in releasing its own land for affordable housing development and assembling development sites for affordable housing. Indeed, the *Independent Review of Affordable Housing Supply* (Pammet et al., 2019: 7) recommended that the Welsh Government should establish an arms-length body to “act as a hub for public sector land management and professional services”.[16] Furthermore, the recent Competition and Markets Authority report on housebuilding (Wales summary) suggested that: “The Welsh Government could therefore look to increase their delivery of publicly-funded housing by local authorities or housing associations” (CMA, 2024: 20).

However, a key barrier to the public sector or RSLs acquiring new land is the price expectations of landowners and the fact that new development sites may need to be sourced in competition with private developers. The *Levelling Up and Regeneration Act* (2023) introduced powers to enable acquiring authorities to compulsorily purchase land at prices that do not reflect hope value (i.e. the prospect of securing planning permission for a more valuable development) in some circumstances, including where the development is for affordable housing.

Although these powers are not yet used in Wales, they could present an opportunity, although the circumstances in which they can be deployed are very limited. Furthermore, compulsory purchase can be a highly adversarial, slow and costly process. Nevertheless, adjustments made to the compulsory purchase regime to enable land to be acquired at prices that would enable the supply of more affordable housing could serve as a fall-back position in negotiations with landowners and could, in time, influence land prices.

At the heart of land value capture is the long-recognised injustice of individual landowners benefitting from extraordinary windfall gains merely as a result of owning

[16] The government’s support for Unnos and the delivery ambitions of the government’s Land Division are a step in the right direction.

land that increases in value as a result of state decisions and the efforts of the wider community (George, [1879] 1935).[17] Furthermore, there is a fundamental contradiction between land owned privately as a financial asset, the expectations of private landowners of financial windfalls, speculative private sector-led housing development and the provision of adequate numbers of new affordable homes under the current model.

Therefore, however it is achieved, the overarching policy objective should be to regulate the financial returns extracted from land and the development process to enable more public benefits to be delivered via development and to facilitate the delivery of public-sector or RSL-led development schemes that are best placed to increase the supply of affordable housing.

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[17] It is, of course, no less of an injustice that individual homeowners should benefit from extraordinary windfall gains merely as a result of owning a home that goes up in value through no effort of their own.

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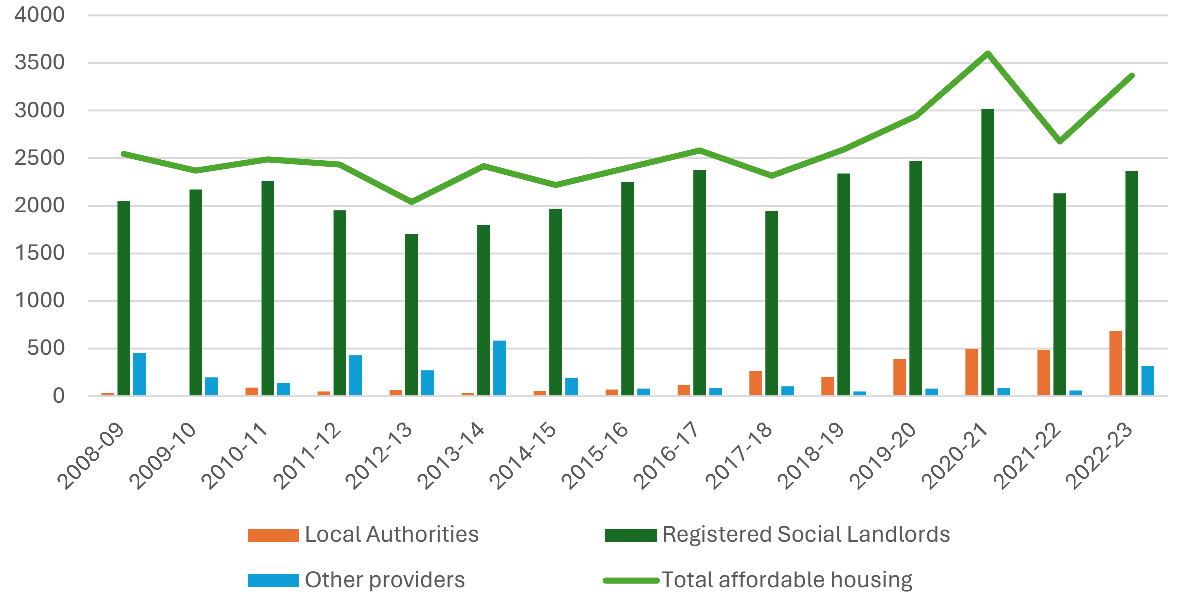
Appendix A: Available Statistical Data on the Supply of Affordable Housing in Wales

Supply of affordable housing in Wales

Figure 1 shows additional affordable housing provision in Wales since 2008 (including shared equity homes).[18] It shows that Registered Social Landlords (RSLs) consistently deliver the vast majority of such housing in Wales, having accounted for between 80%-90% per year between 2018 – 2022 (with a drop to 70% in 2023). The proportion of new affordable housing delivered by local authorities (LAs) has been steadily increasing and has accounted for between 8%-20% per year since 2018 . 'Other providers' (including private developers) have accounted for by far the smallest proportion at 2%-3% per year between 2018 and 2022 (with an increase to 9% in 2023).

Figure 1: Additional affordable housing provision by provider and year in Wales, 2008 - 2023



***Notes**: StatsWales "Additional affordable housing provision by provider and year" (HOUS0311). Note that these data include shared equity homes which are outside of the definition of social housing adopted for this response to the Committee's call for evidence. However, this level of detail is available for RSLs only via StatsWales dataset HOUS0312. This shows that over the last five years, shared equity has accounted for between 4%-5% of total additional affordable homes delivered by RSLs.*

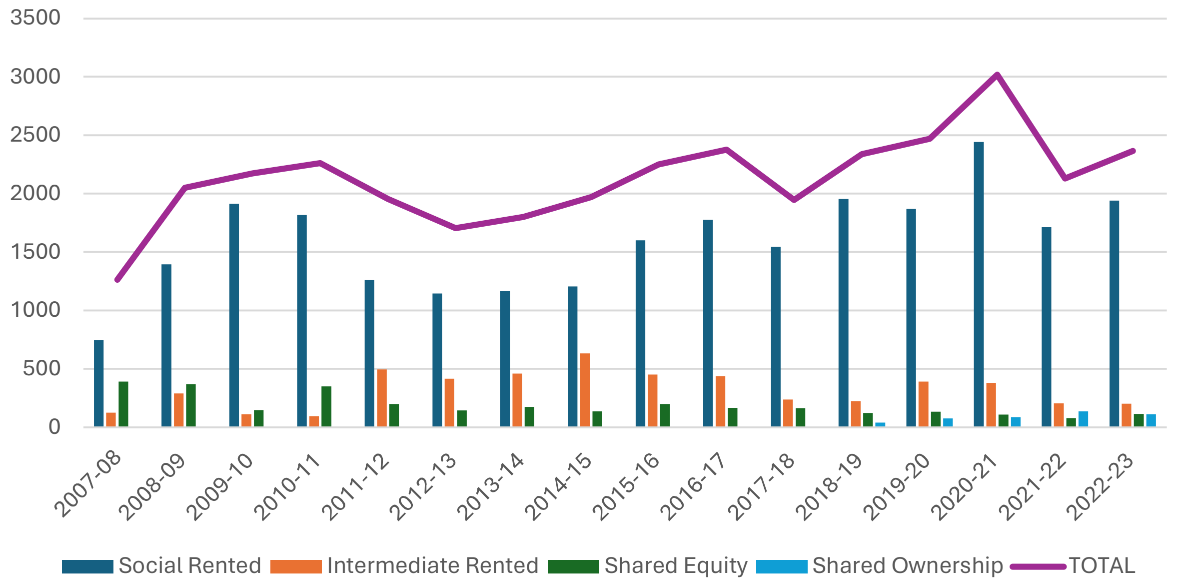
Supply of affordable housing in Wales by tenure (RSLs only)

Unfortunately, the data in Figure 1 do not segment by tenure. However, these data are available for RSLs (see Figure 2). These show that social rented homes account for the majority of new affordable homes delivered by RSLs each year[19], comprising between 71%-84% since 2015. In the same period, intermediate rent has comprised between 8%-20%, shared equity between 4%-9% and shared ownership between

[18] These data include new build schemes as well as the purchase, leasing or conversion of existing units.
[19] These data include new build schemes as well as the purchase, leasing or conversion of existing units.

2%-6% (see notes to Figure 2). Although these data only apply to affordable homes delivered by RSLs, given RSLs have delivered the largest proportion of such homes since data have been available, they provide an indication of overall trends, suggesting that social rented tenure dominates new supply (unlike in England, where it has been gradually eroded). However, on private sector-led schemes where a proportion of affordable homes are secured via planning obligations, social rented tenure is unlikely to account for the majority.

Figure 2: Additional affordable housing provision by RSLs by tenure in Wales, 2007 - 2023

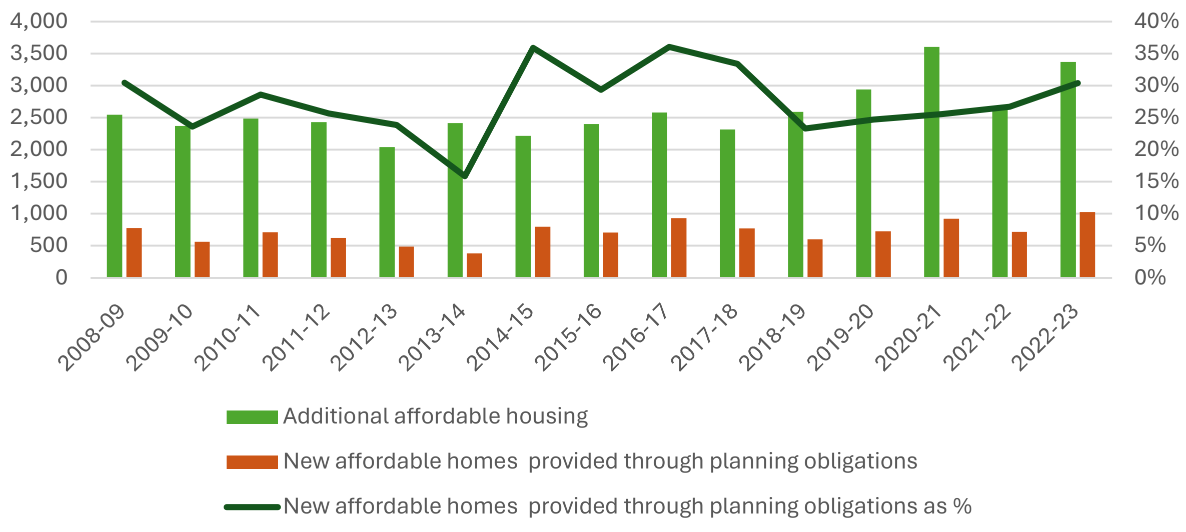


***Notes**: StatsWales "Additional affordable housing provision by registered social landlords only, by location, tenure and funding" (HOUS0312). Shared ownership Wales was introduced in February 2018. Prior to this, shared ownership housing may have been included under 'shared equity'.*

Supply of affordable housing via planning obligations

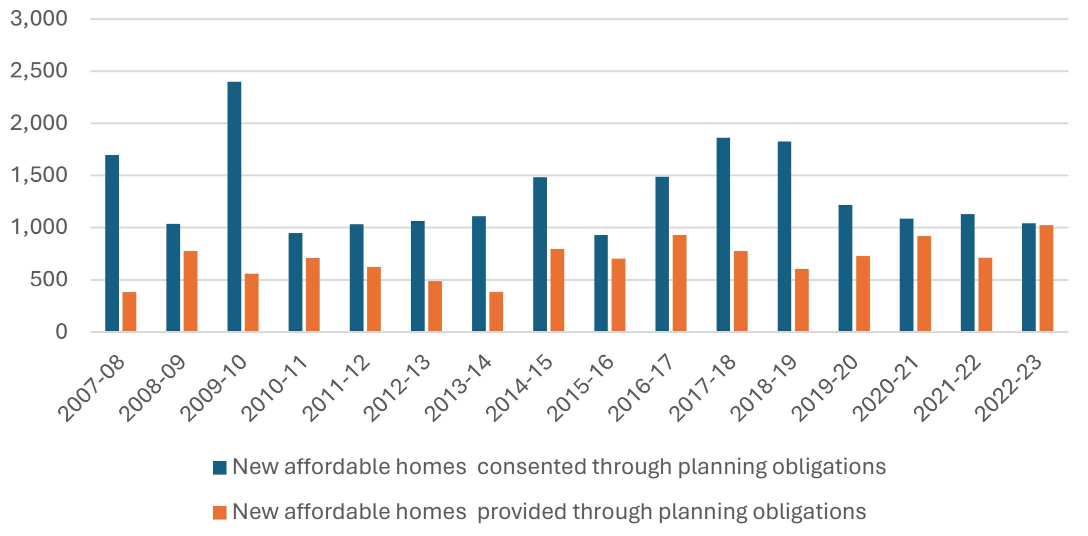
Figure 3 shows new affordable homes provided through planning obligations as a proportion of new affordable housing. This shows that planning obligations have accounted for between 23-30% of new affordable housing over the last five years (reaching closer to 35% prior to this). These data include all homes delivered via planning obligations, including those by RSLs and local authorities (as well as private developers). The number of affordable homes granted permission via planning obligations are consistently higher than those delivered (see Figure 4). This could reflect the general time lag of development, as well as sites that are stalled due to viability issues.

Figure 3: New affordable homes provided through planning obligations as a proportion of new affordable housing, Wales 2008-2023



***Notes**: StatsWales "Provision of affordable housing through planning obligations and on exception sites by authority, measure and planning type" (HOUS0313) combined with "Additional affordable housing provision by provider and year" (HOUS0311).*

Figure 4: New affordable housing units granted permission and delivered via planning obligations Wales, 2007 - 2023



***Notes**: StatsWales "Provision of affordable housing through planning obligations and on exception sites by authority, measure and planning type" (HOUS0313).*

Data on proportion of affordable housing provided via planning obligations by private developers

Although the data on planning obligations do not segment by type of provider, the 'other providers' data in Figure 1 include additional affordable housing delivered by private developers via planning obligations.[20] These data can be compared with data on new dwellings completed by private enterprise in order to arrive at a *very rough* indication of the number of affordable homes provided by private developers via planning obligations as a percentage of overall new homes delivered by private developers.[21] Figure 5 shows that this has consistently been around 2%-3% in the period 2015-2022, although rose to around 7% in 2022-23. However, these data should be read in conjunction with those in Figure 6 below (financial contributions towards affordable housing) to get an overall rough indication of the developer contributions for affordable housing being made.[22]

Furthermore, it must be emphasised that the data in Figure 5 are only a rough indication because the 'other providers' data are an aggregate for all providers other than RSLs and local authorities and so could include providers other than purely private enterprise. Also, the new dwellings completed by private enterprise data are likely to include homes provided on sites where no planning obligation was required e.g. on small sites below the density threshold that triggers the requirement for affordable housing. In addition, StatsWales warns that the tenure data for new dwellings should be treated with caution (see note to Figure 5).

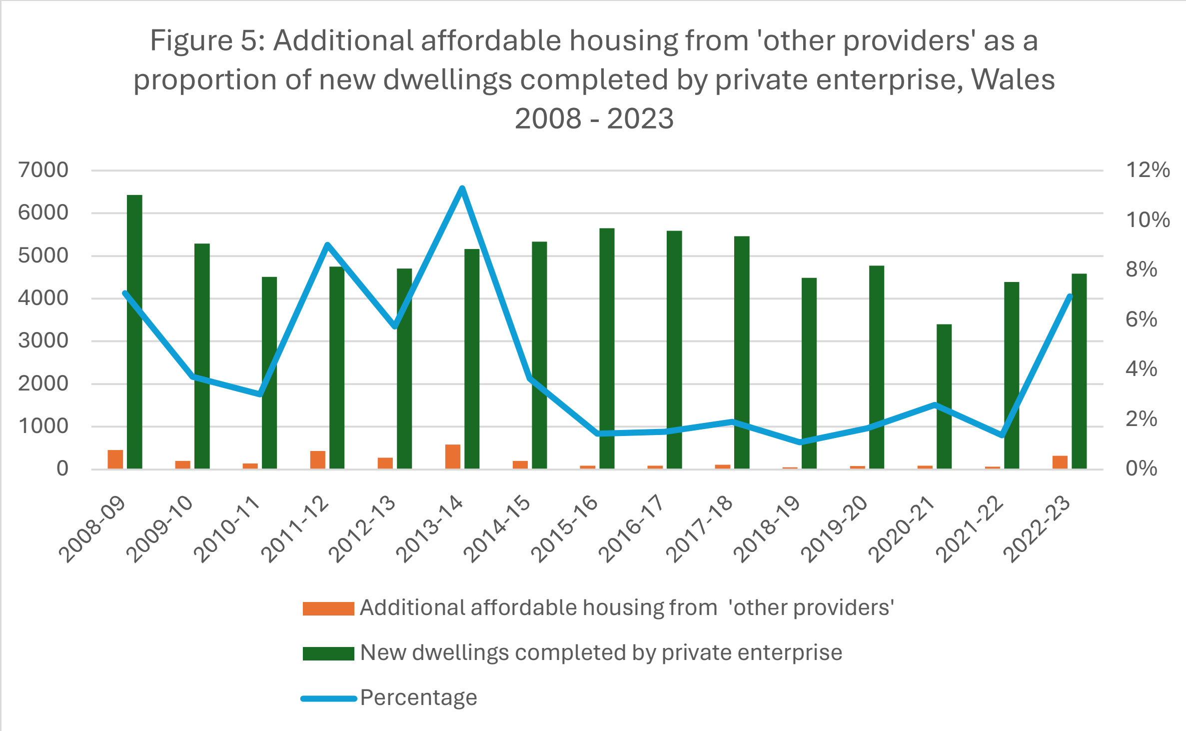
The data in Figure 5 should not therefore be taken as entirely precise. However, these are the best data we have at aggregate level regarding approximate proportions and trends in the affordable housing provided on private developer-led schemes. Further research is needed to determine actual total overall annual levels of affordable housing being delivered by private developers via planning obligations.

The affordable housing requirements set by (and within) different local council areas vary significantly (e.g. they can vary between, say, 10% in some parts of Swansea and Conwy, 15% in some parts of Flintshire, 20%-30% in Cardiff, 35% in some parts of Conwy, 40% in some parts of Flintshire and 50% in some parts of The Gower). This reflects differences in local market conditions and property values. Therefore, despite the caveats for the data shown in Figure 5, the data do suggest that private developers may be consistently delivering affordable housing contributions towards the lower end of this range. However, these data do not take account of other financial contributions to mitigate the impact of development via planning obligations or CIL that may be made by private developers in addition to those specifically for affordable housing.

[20] The government's 2023 release states: "The remaining 318 units (9%) were delivered by other providers and included additional affordable housing units delivered directly by private developers through the planning system via Section 106 agreement" (Welsh Government, 2023).

[21] It is here assumed that the new dwellings completed by private enterprise data include affordable homes delivered as part of planning obligations. However, if such homes are, in fact, not included in these data (and are reflected in the numbers for RSLs) then this would mean that the rough estimates of the number of affordable homes provided by private developers via planning obligations as a percentage of overall new homes delivered by private developers is even lower than suggested above.

[22] Ideally, these financial contributions data would be converted to an approximate number homes, but this is challenging given the range of methodologies and data used by local authorities to calculate commuted sums.

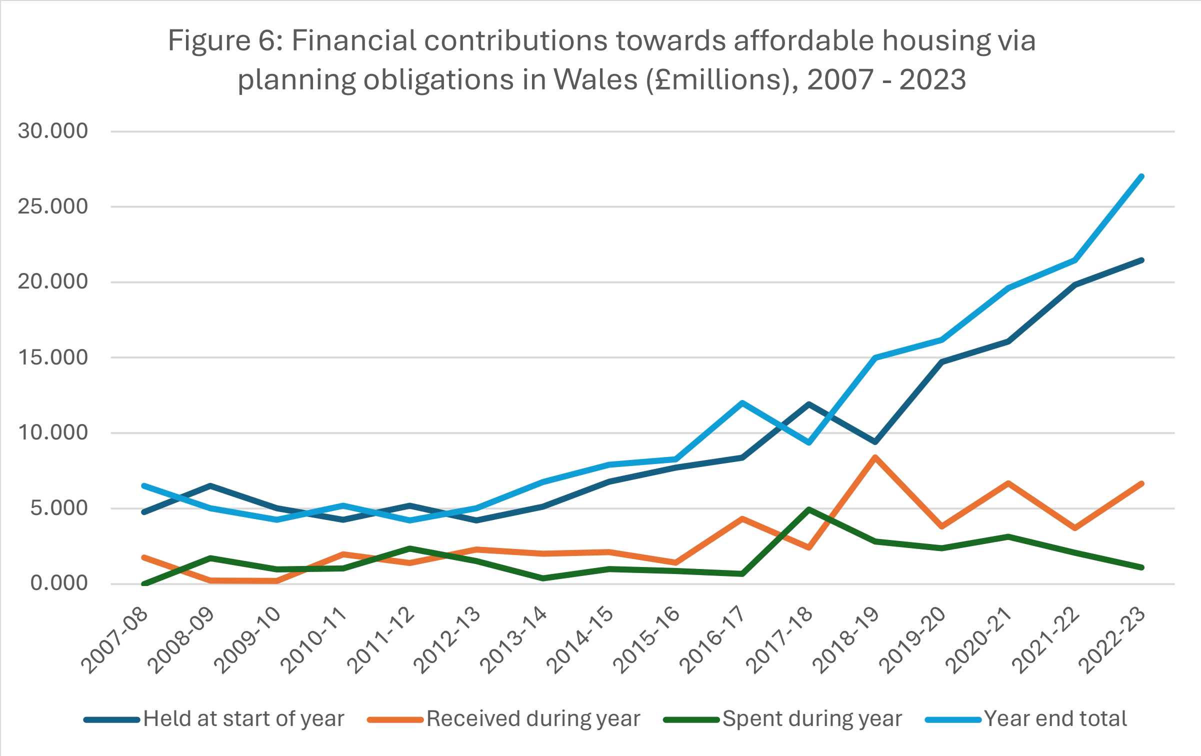


***Notes**: StatsWales "New dwellings completed by period and tenure" (HOUS0702) and "Additional affordable housing provision by provider and year" (HOUS0311). Note that the affordable housing data include shared equity. The summary information accompanying the HOUS0702 data states: "Figures on housing completions are from records kept for building control purposes. It is sometimes difficult for building control officers and NHBC to identify the intended final tenure of the property (the basis for the tenure information). This may lead to an under-count of social sector new house building and an over-count for the private sector. Within the social sector it may also lead to an under-count of local authority new house building and an over count for the RSL sector. Therefore the tenure data should be treated with caution."*

Data on financial contributions towards affordable housing made via planning obligations

The data on the financial contributions made towards affordable housing by developers in the form of planning obligations show that local council spending on the provision of affordable housing has not kept pace with this income (see Figure 6). This has resulted in a growing running total of such funds that reached around £27 million in 2022-23. Although there may be potential to increase financial income from land value capture mechanisms to invest in affordable housing, a more pressing issue appears to be difficulty in spending existing income. As research by the Home Builders Federation has shown, this is a significant issue in England as well (HBF, 2023).

There is no research of which the author is aware that systematically investigates the reasons for this. However, one important potential explanation for the accumulation of unspent funds *could be* difficulties in securing land for the provision of new affordable housing (due to the price expectations of private landowners) and engaging with suitable partners for delivery, combined with difficulties in securing existing properties for tenure conversion.



***Notes**: StatsWales "Financial contributions towards affordable housing via planning obligations by local authority and amount" (HOUS0314). Shows the amount and changes to developer financial contributions received by planning authorities in each year towards the provision of affordable housing via planning obligations.*

Public sector land

Although local authorities appear to be finding it challenging to spend financial contributions made by developers towards the provision of affordable housing, Figure 7 suggests that councils are increasingly making land available for the provision of such homes through new build schemes or through the purchase, leasing or conversion of existing units. The data show that public sector land is making a growing contribution towards the provision of additional affordable housing, with a particularly marked increase since 2020.

***Notes**: StatsWales "Additional affordable housing provision by provider and year" (HOUS0311) and 'Provision of affordable housing on land made available in last 5 years by location and period' (HOUS0315). Note that these data include shared equity homes which are outside of the definition of social housing adopted for this response to the Committee's call for evidence.*