

# A cascade of building possibilities

Affordable housing is mostly achieved via section 106 agreements but public subsidy also has a role. By Paula Ghosh

- Although affordable housing is a priority for the government it is not very keen to pay for it
- A grant from a public subsidy, such as the Housing Corporation, will be minimal
- Cascades provide different tenure mix options that can be triggered at specific stages

The government wants to increase the supply of affordable housing but is less keen to pay for it. More than 50% of affordable housing is delivered through section 106 agreements and the government is keen for the private sector to continue to fund this. So what role do public subsidies, such as a Housing Corporation grant, play?

The starting point for section 106 affordable housing schemes is that no grant will be available. Where a need can be demonstrated, the grant will still be at a level where developers will be required to subsidise the affordable housing element of a development. This is reinforced by the Housing Corporation's approach, namely that funding should add value to developer contributions and should be available only where it will bring additional benefits.

A developer's subsidy is usually discounted land and/or a financial contribution. However, developers must ensure that their schemes are financially viable and a large affordable housing contribution could negatively affect this. In a falling market, it may be difficult for a developer to generate sufficient value in the scheme to subsidise the affordable housing, ultimately leading to withdrawal of the scheme.

## Grants and section 106

How will grant funding affect section 106 agreements? Agreements often include a restriction on the use of grants to fund affordable housing. The restriction usually provides that the price for the land and/or construction must be at a level that does not require Housing Corporation grant or other public subsidy. This is intended by the local authority to prevent grant funding from inflating the value of the development land, as opposed to its purpose of subsidising the affordable housing.

The restriction essentially means that the affordable housing land and/or the build price has to be funded in whole or in part by

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other means, such as a developer subsidy or loan finance taken out by the registered social landlord (RSL) or other affordable housing provider.

The required funding could also come from the RSL's own reserves. Often, a grant funding restriction will be coupled with a provision that allows an RSL to pay the developer from loan finance or its own funds.

Traditionally, the RSL sector has been able to borrow at good rates and an established number of lenders and products have been available. However, the credit crunch has caused some lenders to withdraw finance from the social housing market and to raise interest rates. A fall in the availability of finance and/or a rise in the cost of borrowing will inevitably affect the amount of subsidy an RSL can invest in schemes.

## Use of cascades

If a scheme is not financially viable, developers and RSLs will need to negotiate with the local authority in order to achieve a higher value tenure mix. Where grant funding is clearly necessary, there may still be some uncertainty as to whether the RSL will receive a grant allocation. Section 106 agreements increasingly include a solution to deal with this uncertainty; a mechanism called a cascade.

Cascades provide different tenure-mix options that are triggered at specific stages. The aim is to set out the principles of affordable housing provision on a site if it transpires that grant funding is unavailable. For example, the affordable housing is social rented but the developer is unable to contract with an RSL to buy such units by a specific date or development stage – the affordable housing could comprise a social rented and intermediate housing mix.

If neither the local authority nor the developer can procure an RSL to enter into a contract for this mix, the developer could dispose of the affordable housing to a party other than an RSL. Cascades are frequently used with large-scale (often phased) or complex developments that will be rolled out over a long period.

The issue of section 106 affordable housing schemes and grant funding is complicated, involved and evolving. One simple message that emerges is that all stakeholders to a section 106 affordable housing scheme need to discuss the availability of grant funding and tenure-mix options fully and from the outset. They should also look at using cascades as a solution to the problem of no, or uncertain, grant funding. Successful delivery of much-needed affordable housing may depend upon taking these steps.

*Paula Ghosh is an associate at Lewis Silkin LLP*