

# CONSTRUCTION COST CONTROL IMPLICATIONS FOR THE PLANNING APPLICATION PROCESS

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In recent years a series of Governmental reports, including, Latham (1994), *Constructing the Team*, Egan (1998), *Rethinking Construction* and Rogers (2000), *The Urban Task Force Report*, have focussed on various aspects of optimizing working relationships and controlling costs within the construction sector. Hitherto, the focus had primarily been in the fields of improved communications, value engineering, buildability and waste reduction. In parallel there has been a series of White Papers and revised Planning Policy Guides produced by Government broadly aimed at fostering the concept of 'sustainability'. It is postulated that these strands come together in the planning application process and that public policy frequently finds expression as planning agreements. These translate as costs to the construction sector. Whereas, for example, it can be shown that control of waste is subject to a 'law of diminishing returns' relationship, the costs of planning agreements are both difficult to predict at the outset of a project and are not necessarily proportional to the value of the project.

Results of an empirical pilot study, conducted as part of an ongoing research project, have revealed that the majority of the sample of developers surveyed had no strategy for approaching planning agreement negotiations. It is contended that a more significant, but highly variable, return on investment is potentially attainable by developers from the effective management of planning negotiations than may be achievable through waste reduction measures.

Keywords: cost control, cost savings, property developers, local authority, planning process

## INTRODUCTION

This paper presents the results of an empirical pilot study into aspects of the relationship between Local Authorities (LAs) and Property Developers (PDs). Specifically it focuses on the strategy, or lack of it, around the negotiation of planning agreements, also known as 'section 106 agreements', and their importance as a source of significant concomitant construction costs. It will be argued that in neither the case of LAs nor PDs is there a majority amongst them with a policy, and hence strategy, for the approach to such negotiations. Furthermore, the responses to a pilot questionnaires reveals a fundamental divergences of opinion as to there being 'a problem' per se, with planning agreements, the duration of the negotiation process and the effects on the working relationship. It will further be argued that the relationship is currently one that can be compared to an intelligence war where the protagonists each seek advantage, one over the other rather than co-operate to mutual advantage in seeking some shared beneficial goal.

The rationale behind the pilot questionnaires will be explored, prefacing the presentation and discussion of the results of the pilots. Points arising from the

administration of the instruments and their application to the design and implementation process of the main survey instruments will then be discussed in the context of taking the project forward.

## BACKGROUND

In a previous paper, Reaney *et al.* (2000) the proposition was advanced that the purchase of land with favourable planning terms was crucial to determining in large measure the ultimate costs of construction projects. Developing the line of argument it was noted that the process of the negotiation of planning agreements, linked to the granting of planning permissions, had been criticized on the twin grounds of moral and legal validity. Thus it was sought to establish a link between the planning application process and the nature of the relationship between Developers and Planners, set against the background of the activity being at the very nascence of the construction process. The objective of this paper is to further develop the notion of the process of the negotiations being intrinsic to planning applications and establish them as a source of manageable implicit costs.

It may be axiomatic that Latham (1994), Egan (1998) and more recently Rogers (2000), taken together, have been responsible for shaping the UK construction sectors present state of awareness of a panoply of issues around operating relationships, cost optimization and sustainability. Prior to Rogers (2000) it may be averred that discussion of issues of cost commenced downstream of the securing of planning permission. Rogers (2000) and the expanding debate about the meaning and impact of sustainability seems to be fixed on the impact of what may be conveniently termed 'green issues'. It is contended that this has in fact had the side effect of moving the scope of attention upstream in the process to encompass planning negotiations since these green, or sustainability, issues are a subset of the range of topics routinely addressed by them. It can be posited that Egan (1998), at least in part, has influenced and underscored the development of The Construction Best Practice Programme's Key Performance Indicators (KPIs). Egan (1998) sought to stress the need to control and reduce construction costs and hence enhance UK competitiveness, the construction costs KPI, it is suggested, is intended to furnish the sector benchmarks. In essence it acts like the familiar Retail Price Index (RPI) where a static 'basket of goods' is regularly priced and indexed against a periodically revised baseline. Where the KPI differs from the RPI is that there is no static 'basket of goods' or say, well defined, universal, 'notional' building against which to conduct periodic cost calculations. Costs of previous 'similar' buildings are what is compared, the obvious conclusion that may be drawn is that the concept is fundamentally flawed since like / nearly like comparisons are implicitly less rigorous than for like / like. This concept, nor the questioning of such an approach and its true utility, is not unique to the UK as Vermande and Van Mulligen(1999) writing about the problems of benchmarking costs between European Union states from a Dutch perspective attests. Perhaps most importantly such indices do not provide such a good indicator of an organizations own cost control measures as would a comparison of savings achieved (or costs avoided) against the cost of the measures taken to secure them.

On the other hand it can be argued that the cost economies derived from the successful conduct of planning agreement negotiations, and the 'gearing' over the cost of their conduct, can be more directly and transparently evaluated as a performance indicator. Simply this may be taken to be the result of the computed cost of the LAs opening

gambit minus the computed cost of the agreed obligations, divided by the aggregated costs of negotiations.

Cost savings to developers arising from better optimized negotiation strategies are more likely to be attainable and sustainable in the long term than those to be found from waste and loss reduction since the latter are inevitably subject to the 'Pareto' or 'law of diminishing returns' effect. Savings from more effective negotiations are more likely to be proportional in some way to the effort expended in optimizing their outcome.

Initial interviews suggest that the preparation undertaken by some developers is very sophisticated and may reveal an ongoing information 'war' where the advantage is, counter-intuitively, with the developer. There appears to be little in the literature about the strategies adopted by developers in approaching negotiations with planners and their potential for optimization. Intuitively, the success of any set of negotiations lies, in some measure, in the extent and thoroughness of the preparation made for them, and in the composition and attributes of the team members. Latham(1994) and more recently Rogers (2000) have stressed this idea, the latter particularly effectively revisiting a very old debate about the composition of the LAs planning team. Schuster (1950) is still relevant today and is closely echoed by Rogers(2000) when they collectively opine that the LAs team needs to be composed of members drawn from diverse disciplines to effectively deal with the current range and depth of issues, and if the town planning function is to develop effective strategies to meet them.

The ongoing project of which this paper is a product therefore seeks to understand the relationship between the costs of planning agreements in the construction process, the strategies adopted by the protagonists for their negotiations and the scope for improving their working relationship and hence the process as a whole. The current division of the roles of developers and planners in realizing development plans and urban regeneration is arguably a relatively recent phenomenon, as is the term Private Finance Initiative (PFI) and reliance on European Union or central government funding. Yet arguably, historically the PFI concept was the norm, as was the implied public / private partnership, and a measure of flexibility in the division of roles within the partnership to achieve a successful outcome was essential. Attempts have been made in the form of Urban Development Corporations (UDCs) to recapture the principle but have been seen as imposed solutions and have been heavily criticized. A model of a process in which the PFI approach and local ownership are brought together may provide a blueprint where historical performance of activities is replaced with a more flexible and effective one where activities are performed appropriately within a given project. The results for the local authority may be more closely matched attainments with plans and for developers reduction in costs and uncertainty all within a less turbulent operating environment.

The contribution to knowledge that this project is likely to yield lies in 3 key areas:

- Knowledge of the contribution that planning agreement related costs make to the overall project costs and the opportunities for their management and reduction;
- Documentation of successful strategies adopted by developers to negotiate planning agreements and the development of a conceptual model for their wider application;
- Possible conceptual model(s) for a more partnership oriented development / urban plan implementation process providing significant cost, risk and effectiveness advantages for all parties.

## **SURVEY METHOD**

### **Sampling Strategy**

It is intended to pursue two linked survey streams, PDs and local LAs. Pilot questionnaires will be followed by surveys with a larger sample size. The purpose of the pilots is to act as a quality check on the questionnaires as drafted and to provide a measure of confidence in the direction of the project. The size of the pilot questionnaire to LAs is 40 and that of the PDs 56. 100% of English planning departments and approximately 200 PDs, containing a cross section of developer types, commercial and industrial as well as housing, will be surveyed.

The results of the surveys will provide information in the following broad areas:

- the contribution to the costs of projects made by planning agreements;
- information about the seniority and qualification of planner's and developer's negotiators;
- the strategies used by negotiators;
- the perceptions of the relationships between negotiators.

Complimenting the questionnaires will be a series of structured interviews designed to probe the responses of PDs and LAs and to assemble a small number of detailed case studies. It is expected that the questionnaire responses will identify a sufficiently varied sample of respondents willing to grant subsequent interview access. The combination of case studies, questionnaires and interviews will provide essential triangulation. It is hoped that a minimum of approximately 5 in depth interviews with LAs and 5 with PDs will take place.

### **The Local Authority Pilot**

The main survey sample (sample frame) of local authorities can realistically be comprised of all English planning authorities since these are readily determinable, approximately 380, and fall into three strata, county, district and single tier (unitary), see Duxbury (1999). For the purpose of the main survey instrument the then current number of LAs will be derived from a database culled from several directories and official publications. If it is assumed that there is no fundamental difference in behaviour between types and geographical location of authority then the pilot sample size of 40, representing an approximately 10% sequential sample, should be adequate to prove the design, without unduly prejudicing the size of the main survey. If there transpires to be little or no difference between the pilot and main questionnaires then the samples could legitimately be combined.

### **The Property Developer Pilot**

The sampling of PDs presents particular problems both in terms of ultimate sample frame and the difficulty in identifying appropriate representative sample size and composition of strata. In terms of numbers because there is a low economic threshold of entry into construction. Undertakings exist ranging in size from one person businesses through to major international operations and may number as many as one million. In terms of strata identification because the definition of construction (development) is so wide and classifications so enormously varied. Together these factors make the identification of a sample population difficult, hence various forms of probability and non-probability sample strategies are actively being explored including internet based delivery survey instruments.

The pilot survey of PDs was sent to the 56 members of the House Builders Federation, Yorkshire And Humberside Branch, for three reasons:

It was a fishing trip: the objective being to achieve a measure of “confidence” that the questions were addressing the right issues;

The sample was the right sort of size: in terms of cost and process(ability);

They were part funding the research and would be motivated to assist.

There are various valid points of criticism to such a sample of convenience, however, the exercise did lead to a reassurance that the project was on the right track and that some useful points of detail to feedback into the design of both the main instruments, and to the pilot to LAs which was conducted after that to PDs. Such an approach is not without its supporters, for as Henry (1990,24) and De Vaus (1999, 77) advocated that, in the early stages of research and where application of findings to the larger population are not the immediate objective, it is the patterns or ‘qualitative’ aspects that are revealed, that are important. Sapsford (1999, 36) also recognizes the imperative of balancing scale and cost of projects against the need to design projects that will deliver useable results, the ‘perpetual tension’.

### **Questionnaire Design Issues**

Analysis of the pilots generated a number of minor presentational points including:

dispense with a covering letter: include details of contacts on the questionnaire;

‘watermark’ logos don’t reproduce well, looks like a smudge;

don’t continue response options over page breaks. They get overlooked;

The number of responses expected needs to be made clearer somehow.

The basic design constraints seem to have worked well, one folded A3 sheet, multiple choice questions where possible, no more than 25 questions and ‘chunking’ related questions into blocks. There are 4 blocks of questions corresponding to the 4 basic areas of investigation (at present):

the number and duration of planning agreement negotiations (as distinct from applications);

the costs of negotiating planning agreements;

is the use of planning agreements a cause for concern;

some general questions about the authority and team members.

Work on the use of internet based survey instruments has emerged as a promising alternative to paper based surveys, or less usefully as an option available to recipients, which seems to offer the potential to address some important issues, for example:

missed questions, countered by the use of default answers;

multiple entries where one response is required e.g. use ‘radio buttons’;

reduction in transcription errors and automatic coding of answers, by writing responses directly to a database compatible file;

access to a potentially open ended PDs sample size without incurring prohibitive, potentially fixed, processing costs.

## **RESULTS AND DISCUSSION**

Some 21 responses were received to the 56 questionnaires sent to PDs, representing a response rate of 37.5%. The figure for LAs was 12 from 40 representing 30%, both

response rates being relatively typical for postal surveys and achieved without follow-up measures. It is not proposed to examine all the questions contained in the pilots in favour of concentrating on the key issues.

Responses in Table 1 to a question relating to the use of a policy when approaching negotiations revealed that 41.7% of LAs and 28.6% of PDs have no policy and that a further 33.3% and 57.1% respectively seek the best deal they can get. It is not clear whether together this represents an absence of preparation or a pragmatic and open approach to negotiations, it is an area of importance and to be expanded on in the full surveys to discriminate between policy and preparation.

**Table 1. Planning Policy**

Question	Response	Local Authority	Property Developers
Does your Authority/Organisation have a policy for conducting planning agreement negotiations?	No	5	6
	Yes, Related to the value of the development	1	1
	Yes, a target contribution is decided (PDs - maximum cash ceiling decided)	0	0
	Yes, obtain the best deal based on the merits of the case	4	12
	Yes, in accordance with detailed policy/guidelines	4	N/A
	Yes, do not enter into them as a matter of policy/principle (PDs - resist LAs proposals on principle)	0	1
	Other, please specify	3	1

Table 2 contains the responses to questions on the perception of there being a problem with planning agreements, the severity of the problem and which aspects of them give rise to concern. Whilst 100% of PDs perception is that there is a problem only 41.7% of the LAs share their view, this would seem to be a highly significant divergence notwithstanding the small sample sizes. The LAs who responded 'yes' were asked to rate the severity of the problem, the earlier pilot to PDs did not contain this question, tending to rate it slight to moderate. There were problems with some of the responses not being in the expected form and this provided some impetus to explore electronic forms and submission in an attempt to validate forms at the point of completion rather than at subsequent coding and keying of data. The linked question, again only addressed to those answering yes to there being a problem, exploring the aspects of agreements giving rise to problems is revealing in that LAs exhibit a spread of topics whilst PDs have marked concerns, delays 100%, cost 61.9%, reasonableness 71.4% and legitimacy 57.1%. It is suggested that there is a clear and definite imbalance and disparity in the perceptions of PDs and LAs as to the existence and focus of problems with planning agreements.

Within Table 3 it is clear that the both PDs and LAs assessment of the quality of the working relationship is 100% neutral or better with 91.7% of LAs and 71.4% of PDs rating it good or very good. However, the assessment of the effect of negotiations on the relationship is poles apart, 91.7% of LAs felt the effect was neutral or positive (50%) whilst 85.7% of PDs felt the effect to be neutral (52.3%) to negative (23.8%). A possibility to explore further is that there are mechanisms at play for PDs to manage and mask the apparent effects from LAs as part of their negotiation stance or strategy.

**Table 2:** Aspects of and severity of concerns with planning agreements

Question	Response	Local Authority	Property Developers
Does your Authority/Organization think that the use of planning agreements by LAs raises any grounds for concern?	Yes	5\$	21#
	No	7	0
	Note: # includes 1 No interpreted as Yes in light of dependent question being answered		
	Note: \$ includes 2 No interpreted as Yes in light of dependent question being answered		
What degree of severity does your Authority attach to its reservations about the actual or potential use of planning agreements?	Negligible	0	N/A
	Slight	2	N/A
	Moderate	1	N/A
	Serious	1	N/A
	Severe	0	N/A
	Note: 1 respondent did not reply to the question, PDs were not asked the question		
What particular aspects of planning agreements are the source of most actual or potential concern to your Authority / Organization?	Delays to the project	N/A	21
	Their Cost	N/A	13
	Their necessity	2	5
	Their relevance to the project	3	7
	Their reasonableness	3	15
	Legitimacy of the process	2	12
	Other	1	1

**Table 3:** The quality of and effect of planning agreements on the relationship

Question	Response	Local Authority	Property Developers
How would you characterize your organization's working relationships with Planners/Developers generally?	Very good	3	3
	Good	8	12
	Neutral	1	6
	Poor	0	0
	Very Poor	0	0
Do you feel that negotiations about planning agreements in any way affects the relationships you have with Planners / Developers?	Very positively	0	1
	Positively	6	1
	No Effect	5	12
	Negatively	1	5
	Very negatively	0	1
	Note: 1 PDs response was invalid and was therefore excluded		

Together the responses to the questions in Table 4 again reveal problems with question structuring, prima facie it is one of multiple choices being recorded when only one is required however, it may be interpreted as revealing something about the

way that the teams are in fact structured. Overwhelmingly it is clear that LAs draw their teams from professional town planners, whilst there is a strong presence of them in PDs teams (38.1%) it is equally clear that their teams are from more disparate backgrounds. Further exploration is required into whether this reflects the demands of a career structure and a 'norming' process at work or a form of rigidity of approach in LAs. Of equal interest will be the reasons for town planners presence in PDs teams, this may simply be 'gamekeeper turned poacher' (sic) or a drift to matching the characteristics of the opposing team and the role of resource / cost constraints in the phenomenon.

**Table 4:** The lead negotiators seniority and professional discipline

Question	Response	Local Authority	Property Developers
At what level in your organization do the planning agreement negotiations with LAs / Developers usually take place?	Chairman/Proprietor (Planning Committee member)	0	1
	Director (of Planning)	2	5
	Divisional or group manager	0	1
	Regional manager (Planning section/team head)	3	2
	Project manager (Senior planner)	3	6
	Team Member	3	0
	Other	0	3
Note: 3 PDs and 1 LAs response were ambiguous therefore excluded			
What professional discipline or capacity does your organization's lead or chief negotiator normally work in?	Engineer	0	2
	Architect	0	4
	Manager	0	3
	Lawyer	1	0
	Accountant	0	0
	Town Planner	11	8
	Surveyor	0	0
Other	0	2	
Note: 2 PDs responses were ambiguous therefore excluded			

A question was included within the pilot seeking an estimate of the average cost of negotiating a typical planning agreement. Notably there were insufficient responses from LAs, unavailability of the information being cited and the question being left blank, to make a valid comparison with PDs. Replies from those PDs that did supply an estimate were highly variable and appear not to be related to estimates of average overall project costs. In consequence the group of questions around costs are to be redesigned to seek project specific information and to discriminate between fixed, or baseline, costs and those attributable to individual projects i.e. legal fees, staff costs and the specific activities required by the planning agreement etc.

## FURTHER WORK

It is clear that the pilots, though successful in their intent to provide reassurance as to the general thrust of the project, have identified shortcomings in the survey instrument. The questionnaires require revision and expansion in several areas, specific topics to address include:

project specific resource (cost) information;

more information about the strategies used and team resources available; minimization of the sources errors in responses and data entry.

The immediate priority is to undertake detailed design and testing of an internet based questionnaire format and the associated software to capture responses directly into a database compatible form, based on prototypes already developed for other projects. Though the sample frame of LAs is modest and readily identifiable, that of PDs is not. Detailed consideration needs to be given as to the delivery mechanism to be used for the questionnaires i.e. how the survey instrument is to be introduced or made known to the respondent. For example there is an issue around whether such a survey electronically mailed direct to individuals would be regarded as unwelcome 'spam' or merely well targeted. More challengingly will be the strategy for delivery to PDs, one possibility is to make the internet location of the questionnaire known in a suitable trade press vehicle and invite responses.

The subsequent step will then be to corroborate or triangulate the quantitative survey approach by developing an interview outline and protocol and to then negotiate access to a number of respondents to the surveys who have indicated a willingness to be interviewed. It should then be possible to assemble a picture of the composition, goals and negotiating strategies of the respective teams before attempting to formulate a strategy of mutual advantage.

## **CONCLUSIONS**

Recent years have seen a number of influential reports, culminating in Rogers (2000), which have done much to sensitize the industry to the issue of construction costs within an overarching philosophy of sustainability and best practice. It has however been argued in this paper that throughout the burgeoning of activity in the sphere of cost management and control, in its many guises, the negotiation of planning agreements has remained unrecognized as a significant source of construction costs. These costs would seem not on the whole to be amenable to expression in a straightforward mathematical relationship to other construction costs, prima facie they are potentially substantial, but highly variable. Furthermore, the process of their negotiation, it appears, is not routinely conducted with a clear strategy or goals in mind. It is suggested that they take place with the protagonists holding diametrically opposed perceptions of the problems and with the focus on maximizing the gain to the respective organization to the detriment of the working relationship and wider benefits.

The immediate next step in the project is to expand, refine and translate the pilot into an internet delivered survey instrument with the potential to reduce the processing time and errors attending transcription into a database accessible format. This will be followed by the design of an triangulatory interview strategy and protocol.

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