

# Lambeth Local Plan 2015

## Draft Supplementary Planning Document

## Development Viability

November 2016





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This draft Development Viability Supplementary Planning Document (SPD) has been published for public consultation. The consultation runs for two months, from 12 December 2016 to 13 February 2017.

Further information regarding the SPD and this consultation is available on the Lambeth Council website [insert link].

Responses can be submitted by email or post as follows:

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Post: Lambeth Planning Policy Team, 1<sup>st</sup> Floor Phoenix House, 10 Wandsworth Road, London SW8 2LL.

# 1. Introduction

## The purpose of this Supplementary Planning Document

- 1.1 Since the publication of the National Planning Policy Framework (NPPF) in 2012 viability has become a central part of the planning system, both in terms of plan making and in determining planning applications. However, there has been considerable variation in how viability matters are dealt with in the planning process. There are a range of methodologies and guidance relating to viability nationally, which has led to diversity in approach and no clear view on what constitutes best practice. There is potential for significant variations in the outcome of viability assessments depending on the inputs assumed. There is also concern that viability assessments may be put forward to local planning authorities showing an artificially low surplus from a development proposal (for example through undervaluation of sales values and/or inflated construction or finance costs), with the result that a reduced amount of affordable housing or other planning obligations secured through section 106 legal agreements<sup>1</sup> is proposed. This has resulted in growing recognition of the need for greater consistency in the approach to viability, a need to ensure that viability appraisals are formed of inputs that are supported by robust evidence, and greater transparency in the viability process.
- 1.2 Where the public do not have access to viability evidence they are unable to reach their own view of whether the information is reasonable and robust. This has the potential to undermine confidence in the planning system. The Environmental Information Regulations (EIR) apply a presumption in favour of information disclosure; the exceptions are limited and even then, in most cases, it is necessary to decide whether the public interest is best served by the information being disclosed. The importance of the principle of disclosure of viability information in planning cases has also been emphasised in various recent decisions of the Information Tribunal.
- 1.3 In July 2016 the council adopted its revised Local Application Requirements (LARs), a document which specifies the council's local information requirements for applications for planning permission and other consents. The LARs make clear that financial viability assessments in relation to affordable housing should be provided without redaction unless there are justifiable grounds not to do so. In submitting financial appraisals applicants will do so in the knowledge that the information may be made publicly available alongside other application documents.
- 1.4 This Supplementary Planning Document (SPD) has been developed in the light of the above issues. Its purpose is to support relevant policies in the Lambeth Local Plan 2015, particularly affordable housing policy but also in respect of any other development plan policies (comprising the London Plan and the Local Plan) where viability is a consideration. It also reflects the approach set out in the Lambeth LARs

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<sup>1</sup> Planning obligations under Section 106 of the Town and Country Planning Act 1990, commonly known as section 106 agreements, are a mechanism for securing, through the planning process, provision of some form of infrastructure or other item (whether in money or in kind) that makes a development acceptable in planning terms.

document. The aim of the SPD is to provide additional guidance to developers, the public, and other stakeholders, on the approach to assessing viability through the planning process. The guidance addresses the information requirements for viability appraisals and the basis on which these will be assessed and shared publicly in Lambeth. While SPDs cannot establish new planning policy they are a material consideration and have weight in planning decision-making.

### **What is development viability?**

- 1.5 For development to take place it has to generate a return that reflects the risks developers take and also generate a land value that incentivises landowners to release their sites for development. The value generated from the development must exceed the costs of undertaking that development. There are a number of factors that determine both value and cost, and the calculation of these defines whether a development proposal is economically viable. A development is viable if the value generated exceeds the cost of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken. Viability is therefore a key factor in determining whether a development proceeds or not. If developments do not generate reasonable returns for developers and landowners, sites will remain in their existing use, or be sold for other types of development.

### **How viability is currently dealt with in Lambeth**

- 1.6 Viability is assessed and examined in two key stages in planning; as part of the plan making process and in taking decisions on individual planning applications.
- 1.7 One of the key requirements of the NPPF is that Local Plan policies should encourage a context in which development will be 'economically viable' and in which developers and landowners can have a reasonable prospect of obtaining 'competitive returns'. In accordance with national policy, viability testing was undertaken when the Lambeth Local Plan was produced. The main purpose of this was to test the cumulative impact of the council's planning policy requirements on development viability, to ensure that the local plan is deliverable. The NPPF requires that "the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened"<sup>2</sup>. The Draft Lambeth Local Plan Viability Assessment 2013 confirmed that the planning policy requirements were set at a level that would be sustainable for most developments, and the Inspector was satisfied on this point during the examination of the Local Plan.
- 1.8 Decision-taking on individual applications does not necessarily require consideration of viability. However, where the deliverability of the development may be compromised by the scale of planning obligations and other costs, a viability assessment may be necessary. In the assessment of individual planning applications, financial viability appraisals are mostly associated with major schemes which trigger

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<sup>2</sup> National Planning Policy Framework, paragraph 173.

affordable housing requirements. Policy H2(d) in the Lambeth Local Plan 2015 defines the circumstances in which financial viability appraisals regarding affordable housing are required:

*“A financial appraisal will be required if the affordable housing provision is less than the specified policy requirements or where the proportions of social / affordable rented and/or intermediate housing are not in accordance with policy.”*

- 1.9 The main purpose of the financial viability appraisal is to determine what a development can viably provide as compared with the ‘target’ requirements of relevant development plan policies. Development plan policy may itself reflect the possibility that the level of provision by a development will be different from the ‘target’ requirements because of viability constraints. The council, or consultants acting on the council’s behalf, then assesses whether the submission prepared by the developer or the developer’s adviser is fair and reasonable and whether the residual land value (i.e. the development value minus the development cost) produced bears fair reflection alongside the site’s benchmark land value, allowing for the provision of affordable housing, other planning obligations and a CIL contribution. Where it can be shown through a financial viability appraisal that it would not be economically viable to comply fully with development plan policy requirements, this could, for example, in some cases mean a variation in tenure mix of the affordable housing, an adjustment to the overall quantum delivered by a scheme, or a combination of both. This will be discussed with individual applicants.
- 1.10 In accordance with Policy H2(d), provisions for re-appraising the viability of schemes following the grant of consent may form part of section 106 planning agreements where the financial appraisal demonstrates that the maximum amount of affordable housing that a scheme can reasonably support is below the policy target (see section 6 of the SPD).
- 1.11 As set out above, the council’s recently revised LARs document (July 2016) states that financial viability assessments in relation to affordable housing should be submitted without redaction. In submitting financial appraisals applicants will do so in the knowledge that the information may be made publicly available alongside other application documents. If the applicant considers that disclosure of any specific element of a viability appraisal would cause harm to their commercial interests and should therefore be kept confidential, full justification will be required in relation to each and every specific element that is proposed to be withheld. The SPD supports and gives further weight to this approach (see section 4).
- 1.12 Financial viability appraisals may also be a requirement where a proposed development departs from other planning policy requirements due to viability (see paragraph 2.1).
- 1.13 See section 3 for further guidance relating to the submission of financial viability appraisals as part of the planning application process.

## 2. Policy context

- 2.1 As set out above, the role of the SPD is to provide further guidance to support the implementation of relevant policies in the Lambeth Local Plan 2015. Together with the Mayor's London Plan, the Lambeth Local Plan forms the statutory development plan for the borough. Key relevant local plan policies are:
- Policy D4 Planning obligations
  - Policy H2 Delivering affordable housing
  - Policy H4 Housing mix in new developments
  - Policy H7 Student housing
  - Policy ED3 Large offices
  - Policy ED6 Town centres
- 2.2 Planning obligations are agreements entered into between the council and owners of land and others with an interest in land, usually in conjunction with the granting of planning permission. They attach to the land, binding it and whoever owns or has an interest in it. They are also known as Section 106 Agreements. In Lambeth, the common uses of planning obligations are to secure affordable housing, and to secure financial contributions over and above the Community Infrastructure Levy (CIL) to provide or fund local improvements to mitigate the impact of a development and/or additional facilities and requirements made necessary by the development (for example, on-site provision of infrastructure, local public realm improvements, highways and traffic works). Planning policy relating to seeking planning obligations is set out in Local Plan Policy D4.
- 2.3 The NPPF is clear that the scale of obligations and policy requirements that are set out in local plans should not be so high as to threaten development viability. In the context of achieving sustainable development, NPPF paragraph 173 states that: "To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable".
- 2.4 National Planning Practice Guidance (PPG) sets out general guidance relating to viability and how this should be considered and assessed in taking decisions on individual applications. It states that decisions must be underpinned by an understanding of viability, ensuring realistic decisions are made to support development and promote economic growth. Where the viability of a development is in question, local planning authorities should look to be flexible in applying policy requirements wherever possible. The guidance set out in this SPD reflects these core principles.

- 2.5 Current London Plan policy states, among other things, that negotiations on sites should take account of their individual circumstances including development viability, the availability of public subsidy, the implications of phased development including provisions for re-appraising the viability of schemes prior to implementation, and other scheme requirements<sup>3</sup>. At paragraph 3.71 the London Plan advises, “developers should provide development appraisals to demonstrate that each scheme provides the maximum reasonable amount of affordable housing output” and directs boroughs to “evaluate these appraisals rigorously, drawing on the GLA development control toolkit and other independent assessments which take account of the individual circumstances of a site, the availability of public subsidy and other scheme requirements”.
- 2.6 The London Housing Supplementary Planning Guidance (SPG) March 2016 contains further guidance on development viability. The SPG notes that all plans adopted post NPPF should be considered viable – negotiations to reduce obligations based on site specific viability considerations should only be necessary where the site circumstances suggest exceptional or abnormal costs that will make policy compliance unviable. Development appraisals should be provided to establish the maximum reasonable level of affordable housing for each development. Specific guidance is provided in relation to methodology and appraisal inputs, including that site specific justification should be provided by applicants relating to their assumed profit levels. The Mayor supports the ‘Existing Use Value plus’ approach, considering this to be the most appropriate for planning purposes. The guidance also makes clear that the Mayor encourages the transparency of information to increase public trust in the planning process and asks developers to keep confidential information to a minimum. The London Plan and SPG also provide support for the use of contingent obligations and review mechanisms. The GLA intends publishing further guidance on viability for consultation in autumn 2016.
- 2.7 The London Borough Viability Group<sup>4</sup> has produced a draft, non-statutory, Development Viability Protocol to provide additional advice on the information requirements and approaches to be applied by London boroughs when assessing viability. The protocol was subject to public consultation between 22 February and 20 March 2016. The content of the protocol is supported by Lambeth and much of its guidance is reflected in this SPD.

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<sup>3</sup> London Plan March 2016, Policy 3.12

<sup>4</sup> The London Borough Viability Group was formed in 2014 in response to the increasing emphasis placed on development viability in the planning process. The Group draws together planning, housing and surveying officers from councils across London to consider best practice in the assessment of viability.



### **3. Submission of financial viability appraisals as part of the planning application process**

- 3.1 The Lambeth Local Plan, Policy H2, requires the submission of a financial appraisal if the proposed affordable housing provision is below the applicable target level of provision (i.e. 50% where public subsidy is available or 40% without public subsidy) or where the proportions of social and affordable rented and intermediate housing are not in accordance with policy. In accordance with this policy and London Plan Policy 3.12 developers are required to supply viability information where necessary to demonstrate that a scheme is maximising affordable housing.
- 3.2 Applicants should submit a draft financial viability appraisal at **pre-application** stage where a proposal is likely to trigger a requirement to provide affordable housing or where viability is likely to be a relevant consideration in respect of achieving planning policy compliance.
- 3.3 As set out in Lambeth's Local Application Requirements 2016, a full un-redacted financial viability appraisal is required for all **planning applications** where the affordable housing provision or payment in lieu is less than the Local Plan specified policy requirements or where the proportions of affordable housing tenures are not policy compliant.
- 3.4 Financial viability appraisals are also required where a proposed development is said to depart from other planning policy requirements due to viability. This includes, but is not limited to, where the change of use or redevelopment of large offices is proposed (Local Plan Policy ED3), where major redevelopment proposals would result in the loss of small shop premises that are not intended to be re-provided on affordable terms (Local Plan Policy ED6), where student housing proposals are required to provide an element of affordable student accommodation (London Plan Policy 3.8) and where a development proposal does not deliver required carbon dioxide emission savings or other sustainability measures (Local Plan Policies EN3 and EN4, London Plan Chapter 5).
- 3.5 All financial viability appraisals should be accompanied by a fully working Argus Developer software model that can be tested. The council may accept alternative models (e.g. Microsoft Excel based appraisals) provided they explicitly show the calculations and can be fully interrogated and the inputs varied.
- 3.6 An executive summary setting out the key findings and conclusions of the financial viability appraisal should be submitted alongside the financial viability appraisal. This should clearly explain why it would not be economically viable for the proposed development to comply fully with Local Plan policy requirements.
- 3.7 A revised appraisal should be submitted where there is a material change in circumstances or changes are made to a proposal prior to determination that could affect viability.

- 3.8 Where an application made under **section 73** of the Town and Country Planning Act 1990 to vary or remove conditions associated with a planning permission has the effect of increasing the number of residential units and/or varying the tenure mix, and in any other case where the council considers it is warranted, the applicant will be required to submit an updated viability appraisal for the whole scheme to assess any further uplift in the provision of planning obligations, unless the proposed development as amended complies fully with planning policy requirements. The need for updated viability appraisals where section 73 applications relate to developments with no residential element will be considered on a case by case basis.
- 3.9 Financial viability appraisals will be reviewed by the council or may be referred to appointed assessors for independent assessment. Applicants will be expected to meet the reasonable costs, as specified by the council, associated with reviewing financial viability appraisals. Applicants will also be required to meet the costs of any subsequent reviews that may be needed, including where the application is subject to an appeal.

## 4. Transparency

- 4.1 Information relevant to plan-making and the planning application process is publicly available. This is consistent with the NPPF which places a requirement on local authorities to facilitate community involvement in planning decisions<sup>5</sup>. The PPG states that transparency of viability evidence is encouraged where ever possible<sup>6</sup>. The Mayor of London also encourages the transparency of viability information to increase public trust in the planning process, and asks developers to keep confidential information to a minimum<sup>7</sup>.
- 4.2 The Environmental Information Regulations 2004 ('EIR') cover access to 'environmental information' held by public authorities including local planning authorities. 'Environmental information' for these purposes includes information relating to development viability. Under the EIR there is a presumption in favour of disclosure of environmental information. The EIR recognise that there are certain circumstances ('exceptions') where environmental information may fall not to be disclosed. In most cases, a balancing exercise has to be carried out to decide whether the exception should outweigh the presumption in favour of disclosure.
- 4.3 The availability of information submitted as part of the planning process is important to ensure public participation, confidence in the planning system and the accountability of those undertaking the assessments. The council's starting point is that information submitted as part of, and in support of, a viability assessment should be treated transparently and be available for wider scrutiny. As reflected in Lambeth's Local Application Requirements 2016 in relation to affordable housing, viability appraisals should be submitted without redaction. In submitting information, applicants do so in the knowledge that this may be made publicly available alongside other application documents. Revised or updated appraisals will similarly be treated in accordance with the principles set out in this section with regard to publication.
- 4.4 In deciding whether there is any reason why the submitted viability information should not be published alongside other planning application documents, the council will draw on the principles of the EIR. The council will depart from the starting point identified above only where there is a convincing case, in relation to specific elements of a viability assessment, that one or more of the exceptions to disclose as contained in the EIR would apply so as to outweigh the public interest in disclosure of that information. Where an applicant requests that only a redacted version of the development viability appraisal be made public, robust and proper justification for confidentiality will be required.
- 4.5 If an applicant wishes to make a case for an exceptional circumstance in relation to the withholding from publication of any part of their viability assessment, they will need to identify exactly what material they would wish to be withheld and provide

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<sup>5</sup> NPPF paragraphs 66 and 69

<sup>6</sup> PPG Viability Paragraph 17

<sup>7</sup> London Housing SPG, March 2016, para. 4.2.2

full justification. This should take the form of a schedule or a table clearly identifying the relevant information, together with a marked up copy of the appraisal document. The council will consider the specific circumstances of the case in the light of the principles of the EIR. The council may decide not to accept the applicant's request that information should not be disclosed to the public.

- 4.6 Where a review of an applicant's financial viability appraisal is carried out on behalf of the local authority, requests for disclosure of that review will be considered by the council as and when received and will be informed by the approach taken in relation to the submitted appraisal.
- 4.7 Irrespective of whether viability material is published alongside other application documents, the material may be made available to Members of the council's Planning Applications Committee, or to Members of the council more generally, in accordance with the arrangements for disclosure of information as provided for in the council's constitution.
- 4.8 The council may also need to make information available to a third party organisation where that body has a role in determining an application (e.g. the Mayor of London), has statutory consultee or other duties, is providing public subsidy or is fulfilling their own duties under the EIR and freedom of information legislation.
- 4.9 In the event a request from a third party is received for disclosure of viability information which has not been published online and which falls outside the scope of paragraph 4.8, for example where the request is made by a member of the public, the council will have regard to the matters arising from the application of paragraphs 4.4 to 4.6 when applying the EIR to the request.

## 5. Viability appraisal methodology

### *Overview*

- 5.1 A development is deemed to be viable if the value generated exceeds the costs of the development and also provides sufficient incentive for the land to come forward and the development to be undertaken. The residual land value approach is most commonly used for assessing development viability.

### *Benchmark land value*

- 5.2 In the majority of circumstances the council will require that the benchmark land value is derived from existing use value plus an appropriately justified site-specific premium as an incentive to encourage the landowner bring the land forward for development. This is supported by guidance provided by the GLA<sup>8</sup>.
- 5.3 The principle of this approach is that a landowner should receive at least the value of the land in its 'pre-permission' use, which would normally be lost when bringing forward land for development. A premium is added to provide the landowner with an additional incentive to release the site.
- 5.4 An existing use value should be fully justified with reference to comparable evidence, which excludes any 'hope value' associated with development on the site or alternative uses. Market transactions used to justify an existing use value must be comparable to the application site, and should relate to sites and buildings of a similar condition and quality.
- 5.5 An acceptable premium above existing use value will vary on a case by case basis, depending on the circumstances of the site and its owner, any extant planning permissions and policy requirements.
- 5.6 A benchmark land value based on an Alternative Use Value (AUV) will be acceptable only if it is demonstrated the alternative use would fully comply with development plan policies and it can be demonstrated that the use could be implemented on the site in question. Where an applicant intends to rely on an AUV, information should be provided to enable the council to determine whether the scheme is capable of securing consent, a viability assessment for the alternative use, and demonstrate that there is market demand for the alternative use.
- 5.7 The council will not have regard to site purchase price if it cannot be demonstrated that this has taken full account of planning policy requirements and that the inputs to the appraisal adopted to arrive at that price are consistent with those adopted in the applicant's viability submission.

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<sup>8</sup> London Housing SPG, March 2016

### *Development value*

- 5.8 Assumptions relating to development values should be justified with reference to up to date transactions and market evidence relating to comparable new build properties within a reasonable distance of the site and of similar specification and type of building. Further specific details should be provided for any units with characteristics which justify higher values.
- 5.9 Affordable housing values should reflect discussions with and offers made by Registered Providers.

### *Development costs*

- 5.10 Build costs should be based on a detailed specification of the proposed development and supported by evidence from cost consultants. These figures should be benchmarked against publicly accessible information. The council may appoint a cost consultant to review build costs. The applicant will be required to pay the consultant's fee.
- 5.11 Cost details should generally be provided based on Gross Internal Area, clearly apportioning costs to different elements of the development (i.e. commercial, market, residential, affordable housing etc).
- 5.12 The council will expect a clear correlation between the development's specification, assumed build costs and development values, and for there to be consistency with comparable sites. The council may not accept elevated development costs attributed to very high specification and/or bespoke designs that command higher build costs, where this impacts on development viability and the delivery of affordable housing.
- 5.13 Any site-specific abnormal costs should be identified at the pre-application stage and supported by robust evidence (including contractor costs).
- 5.14 A relationship between professional and marketing fees and development values should be evident.
- 5.15 A standardised approach will generally be adopted to finance costs, which should be justified according to the specific proposal, reflecting varying interest costs (if applicable) throughout the development period.
- 5.16 In line with PPG, appraisals should normally be based on current day costs. In particular, these should not include build cost inflation where current day values are assumed. For medium and longer term schemes future changes in costs should only be reflected where projected changes in values based on relevant market data have also been incorporated.
- 5.17 If a viability appraisal assumes changes in development values and build costs, this should be accompanied by a full and detailed justification including evidence of long-term new build trends, current market conditions and market expectations. Profit levels should be fully justified.

- 5.18 If an applicant chooses to rely on growth forecasts a viability review will be necessary to assess actual changes in value and costs.
- 5.19 Likely section 106 planning obligations and applicable CIL charges should be included as a development cost. Lambeth and Mayoral CIL instalment policies and phased payments should also be reflected in the assumed timing of payments.

#### *Developer profit*

- 5.20 In accordance with PPG the council will avoid a rigid approach to profit levels. Evidence should be provided from applicants and lenders to justify proposed rates of profit taking account of the individual characteristics of the scheme, a development's risk profile and comparable schemes. Profit levels should be appropriate to current market conditions and reflect the scale, complexity, and risk profile of a particular development. The council will expect applicants to provide evidence to explain why a particular return requirement is appropriate having regard to the scheme's risk profile and those of genuinely comparable schemes. Profit requirements for affordable housing for rent or ownership should reflect lower levels of risk (typically around 6%). Sensitivity testing of differing profit levels may also be required to demonstrate a scheme's viability with a lower developer profit to reflect any future change to financial models or access to capital investment.
- 5.21 The council will normally consider profit as a factor of gross development value (GDV) and/or gross development cost (GDC). An 'internal rate of return' (IRR) approach to measuring profit, which is associated with a long-term development programme and assumed growth in values and build costs, is sensitive to the timing of costs and income. If IRR is relied on a full justification must be provided for the assumed development programme, the timing of cost and value inputs and the target IRR. Where IRR is used as a measure of profit, the council may also consider profit as a factor of GDC/GDV.

#### **Approach to specific development types**

##### The private rented sector

- 5.22 The economics of purpose built schemes for long-term private rent can differ from build for sale and will be determined on a case by case basis. To help ensure these schemes remain viable while improving the diversity of housing to meet local needs, PPG states that local planning authorities should consider the appropriate level of planning obligations, including for affordable housing, and when these payments are required<sup>9</sup>. The council may use planning obligations to secure these schemes for a minimum period of time (as set out in the Mayor's Housing SPG). Such planning obligations will be enforced in the usual way. Review mechanisms may also be included in section 106 agreements for such schemes (see section 6).

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<sup>9</sup> Planning Practice Guidance, paragraph 26

## **6. Review mechanisms**

- 6.1 Development values adopted within viability appraisals are typically determined based on current day values at the point of the grant of planning permission. However, there is usually a time lag between the planning stage and delivery of the development, with developers normally having up to three years to implement a scheme and the construction period further delaying the point at which values are realised.
- 6.2 Review mechanisms address economic uncertainties which may arise over the lifetime of a development proposal. They can be used to maximise affordable housing output by putting in place provisions for re-appraising the viability of schemes or phases in order to capture any uplift in value due to a delayed planning implementation and/or a phased build-out of a major scheme or other changes affecting financial viability.
- 6.3 As set out in Local Plan Policy H2, provisions for re-appraising the viability of schemes may form part of section 106 planning agreements where the financial appraisal demonstrates that the maximum amount of affordable housing that a scheme can reasonably support is below the policy target. Review mechanisms will be used to determine whether a development is capable of providing additional affordable housing.
- 6.4 In accordance with the Mayor's Housing SPG and current practice, reviews may be sought on phased and non-phased schemes. Triggers will be agreed having regard to the specifics of the proposed development and this will be determined through the assessment of the application.
- 6.5 The council will normally require viability reviews to take place at the following stages:
- On all schemes requiring a review where the council considers there is likely to be a delay in starting on site and/or it is necessary to incentivise delivery, a pre-implementation review will be required. Pre-implementation reviews will normally be triggered in the event construction does not commence within 12 months of the grant of planning permission.
  - At an advanced stage for all schemes requiring a review. This will ensure that viability is accurately assessed and up-to-date. The trigger for the review will usually be 75% of occupation of market units. An occupation clause is likely to be required which would prevent full occupation of the development until the review is completed and any additional affordable housing is delivered or a commuted sum is paid.
  - On phased developments an additional viability review may be required prior to substantial completion of development phases (mid-term review) to secure any uplift on subsequent phases.



- 6.6 Any contribution arising from a review of viability would be capped by relevant policy requirements (i.e. in the case of affordable housing, to the equivalent of 40% (without public subsidy) or 50% (with public subsidy)). Where a viability review demonstrates an improvement in a scheme's viability, a percentage split of the increase in the scheme's value between the developer and the council will be agreed on a case by case basis. This will typically be: 20% of the increase in the scheme's value returned to the developer and 80% to the council, up to the level that would be required for a policy compliant scheme. Additional surplus profits will pass to the developer in their entirety.
- 6.7 Where reviews take place prior to or at an early stage of development the council's priority will be for the delivery of additional on-site affordable housing. Where reviews take place at a later stage, the practical implications of delivering additional affordable housing on site may mean that off-site affordable housing or a commuted sum will be sought. Off-site provision must be fully justified and any costs met by the developer (e.g. design, professional / legal fees etc.)

## 7. Financial viability appraisal proforma / checklist

Indicative outline of what to include in a viability assessment, adapted from RICS Guidance – Viability in Planning 2012

<b>Proposed scheme details</b>
Floor areas: – commercial: gross internal area (GIA) and net internal area (NIA) – Residential: GIA and net sales area (NSA)
Residential unit numbers and habitable rooms including the split between private and affordable tenures
<b>Gross development value (GDV)</b>
Any existing income that will continue to be received over the development period
Anticipated residential sales values and ground rents (and supporting evidence including deductions for incentives)
Anticipated rental values and supporting evidence
Yields for the commercial elements of the scheme and supporting evidence
Details of likely incentives, rent-free periods, voids
Anticipated sales rates (per month)
Anticipated grant funding for affordable housing
Anticipated value of affordable units (with supporting evidence/explanation of how these have been valued and assumptions)
Deductions from commercial GDV to reach NDV (Stamp Duty Land Tax (SDLT), agents, legal + VAT)
<b>Costs</b>
Expected build cost (a full QS cost report also showing how costs have been estimated)
Demolition costs
Historic costs (as reasonable and appropriate)
Site preparation costs
Vacant possession costs
Planning costs
Construction timescales, programme and phasing
Any anticipated abnormal costs
Rights of light payments/party walls/oversailing rights
Details of expected finance rates
Professional fees, including: – Architect – Planning consultant – quantity surveyor – structural engineer – mechanical/electrical engineer – project manager – letting agent fee – letting legal fee
Benchmark Land Value (not acquisition cost)
Other costs
<b>Additional details for future phases</b>
Expected sales growth

Expected rental growth
Expected cost inflation
Credit rate
<b>Development programme</b>
Pre-build
Construction period
Marketing period
Viability cashflow
Income/value/capital receipt
Costs
Phasing (where appropriate)
<b>Benchmark viability proxies</b>
Profit on cost
Profit on value
Development yield
Internal rate of return (IRR)
<b>Planning application details</b>
Plans/sections/elevations (as relevant)
Design and access statement
<b>Sensitivity Analysis</b>
Two way sensitivity analysis
Scenario analysis
Simulation analysis
<b>Accompanying Report (basic outline)</b>
Executive summary
Contents outline
Introduction and background
Description of site location
Planning policy context
Description of scheme
Market information summary
Build cost and programme
Methodology and approach
Outputs and results
Sensitivity analysis
Concluding statement