



Draft Development Viability SPD

November 2015

Consultation details

We welcome your comments on the Draft Development Viability SPD.

The Draft Development Viability SPD has been:

- Approved for consultation under individual decision making authority by the Cabinet Member for Regeneration and New Homes, Councillor Mark Williams; and
- Is available to the public for consultation from 24 November 2015 to 16 February 2016.

SPDs are not subject to independent examination under the Town and Country Planning (Local Planning) Regulations 2012.

The following supporting documents provide further background information on this SPD. You can also put in representations on any of these supporting documents:

- Development Viability SPD Equalities Analysis
- Development Viability SPD Strategic Environmental Assessment Screening and Statement of Reasons
- Development Viability SPD Habitats Regulations Assessment

Key contacts

Representations should be made in writing either by letter or email. Please send all correspondence to Philip Waters.

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Tel: **020 7525 0146**

What we will do with your representation

When we receive your representation we will:

- Acknowledge your response by email (or by post if no email address is provided)
- Publish your representations and our officer responses when we take the SPD forward for adoption.

Adoption timetable

After consultation closes on this document, we will review the representations we receive and consider whether we need to make any amendments to the SPD.

If the SPD is to proceed, we will then take the final SPD and the representations made on the SPD with the officer comments to our council's Cabinet for adoption. The table below sets out the important consultation and adoption dates.

Consultation Timetable	
Consultation on Draft Development Viability SPD	24 November 2015 to 16 February 2016
Consideration of responses and amendments to the Draft Development Viability SPD	From 17 February 2016
Adoption of the Development Viability SPD	15 March 2016

Help with your comments

If you would like a member of planning policy to attend a community meeting to discuss the draft SPD, please contact Philip Waters or the planning policy team using the contact details on page 2.

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Foreword



Southwark has a strong record of securing new affordable homes from developments, along with a wide range of other benefits for local people. We also know that public support and understanding of the development process is equally important, and this development viability SPD sets out how we will make the process more transparent.

In Southwark there is a desperate need for homes of all kinds, but especially new affordable homes. This is why we have the most ambitious council home building programme in the country, but we know that to meet demand we also need to secure as many new affordable homes from developments as possible and this is why we have a policy that all new developments should provide at least 35% affordable housing. We want to work with housebuilders and developers in a straightforward, efficient and clear manner to attract investment into our borough

Viability is playing an increasingly pivotal role in the development plan process. We have tried to take account of viability in both our development plan and in setting the Community Infrastructure Levy. Development will only go ahead where a scheme provides acceptable returns. As such, where a proposed scheme faces genuinely challenging finances, we may negotiate on certain planning policy requirements, where this flexibility will allow development to proceed, provided the proposed scheme is of a high quality and makes a positive overall contribution for our borough and our residents.

Flexible application of our planning policy is a risk to the sustainable development of our borough and will *only be acceptable in exceptional circumstances*. For this reason we need to provide clear guidance to applicants regarding the viability assessment process and the standard of proof and quality of evidence we will require to consider viability as a justification for any departure from our Development Plan. This SPD does just that. It shows when a viability appraisal is necessary to support an application, what information is required, when it is required and how it will be assessed. This provides clarity to applicants and ensures our residents have confidence that we apply our policies consistently and impartially. Where an application does not provide policy compliant affordable housing then the full viability assessment will be published ahead of that application being determined. Simply demonstrating viability is not enough. We will still want to be satisfied that the proposal makes a real contribution to the future of the borough. We look forward to receiving comments on this SPD during the public consultation.

Councillor Mark Williams
Cabinet Member for Regeneration and New Homes

1. Introduction

1.1 Purpose of the Draft Development Viability SPD

The role of this Supplementary Planning Document (SPD) is to provide clear guidance on the information requirements for viability appraisals and the basis on which these will be assessed and made public. This will ensure that all applications are dealt with efficiently, consistently and with transparency. A viability appraisal must be submitted for planning applications which do not meet our affordable housing policy requirements before the application will be validated.

SPDs are a material consideration of significant weight which can be used to inform decisions on planning applications. SPDs cannot establish new planning policies. The role of an SPD is to set out detailed guidance to provide clarity over how we will implement the relevant policies of our Development Plan. Our Development Plan includes the London Plan (2015) (consolidated with alterations since 2011), the Core Strategy (2011), the saved Southwark Plan policies (2007) and adopted area action plans.

Section 2 of this SPD provides detailed implementation guidance on the following Development Plan policies:

London Plan (2015)

- Policy 3.8 Housing choice
- Policy 3.9 Mixed and balanced communities
- Policy 3.10 Definition of affordable housing
- Policy 3.11 Affordable housing targets
- Policy 3.12 Negotiating affordable housing on individual private residential and mixed use schemes

Core Strategy (2011):

- SP5 Providing new homes
- SP6 Providing homes for people on different incomes
- SP8 Student homes
- SP14 Implementation and delivery

Saved policies of the Southwark Plan (2007)

- Policy 2.5 Planning obligations
- Policy 4.4 Affordable housing
- Policy 4.5 Wheelchair affordable housing

Emerging New Southwark Plan

- DM1 Affordable homes
- DM65 Southwark CIL and planning obligations

This SPD should be read alongside Southwark's Affordable Housing SPD (2008), the draft Affordable Housing SPD (2011), the Section 106 Planning Obligations and Community Infrastructure Levy SPD (2015) and the Mayor's draft Interim Housing SPG (2015). Taken together these documents provide detailed guidance on the implementation of Southwark's affordable housing policies and the use of planning obligations to secure planning policy requirements. Applicants should also refer to policies and guidance in the area action plans and other SPDs and SPGs that are relevant to a proposed development.

This SPD also sets out how we will undertake to meet the planning policy objectives of the Government, as set out in the National Planning Policy Framework (NPPF) (2011) and the Planning Practice Guidance (PPG).

All Local Plan documents are available on our website:
www.southwark.gov.uk/planningpolicy

The London Plan (2015) is available on the GLA's website:
www.london.gov.uk/priorities/planning/london-plan

1.2 When to use this SPD

We will use this SPD to inform decisions on all planning applications where there is a policy requirement to provide affordable housing¹. This includes applications for new-build, change of use, conversions and mixed use developments. The principles of this SPD will also apply to development proposals which otherwise seek to depart from the Development Plan for reasons of viability².

1.3 Why do we need the SPD?

We are required by the National Planning Policy Framework (NPPF) (paragraph 47) to plan to meet our objectively assessed housing needs through our Local Plan. Our Strategic Housing Market Assessment (2014) shows that Southwark has a net additional housing requirement for 1,472 to 1,824 units per year over the period 2013-2031 and approximately half of that need is for affordable housing. On 1 April 2015 there were 12,720 households on Southwark's housing register. Further inflation in house prices and private rents could exacerbate this need over the coming years. In order to meet our local housing needs we must maximise the provision of new affordable homes wherever possible.

We have fully considered the cumulative impact of our planning policy requirements on development viability as part of the Examination of our Core Strategy (2011) and CIL Charging Schedule (2015). More recently the council commissioned an

¹ There is a policy requirement to provide affordable homes when housing schemes (including live-work units) create 10 or more homes, or the development is over 0.5 ha (whichever is smaller). Student housing schemes which create 30 or more student bedspaces, or the development is over 0.5 ha (whichever is smaller) must provide affordable homes.

² Such as where there is a policy requirement to contribute towards local infrastructure.

independent viability study to test the viability of our proposed housing policies for the emerging New Southwark Plan. The study concluded that affordable housing policy requirements were set at a level that would be sustainable for most developments. Since land should have been purchased having regard to these policies it should be rare that there is a need, for viability reasons, to argue for a departure.

The NPPF (2012) (paragraph 173) states:

Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, 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. 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.

As such, viability has become an increasingly important consideration in the development plan process.

The prospect of achieving planning consent relates to the level of compliance with the Development Plan. Section 38(6) of the Planning and Compulsory Purchase Act (2004) requires planning applications to be determined in accordance with the Development Plan unless material considerations indicate otherwise. Affordable housing provision, when required by policy, is a material consideration of significant weight. However, there are many other important considerations which will be taken into account when determining a planning application.

In order to maximise affordable housing delivery we will require a viability appraisal for development proposals which do not propose a policy compliant level of affordable housing. Where we are satisfied that a viability appraisal demonstrates a proposal could not viably meet our affordable housing policy requirements we may grant planning permission, subject to other material considerations. In such circumstances we will require a late stage viability review to ensure any subsequent uplift in scheme viability will allow for an improved contribution towards affordable housing up to the policy compliant level.

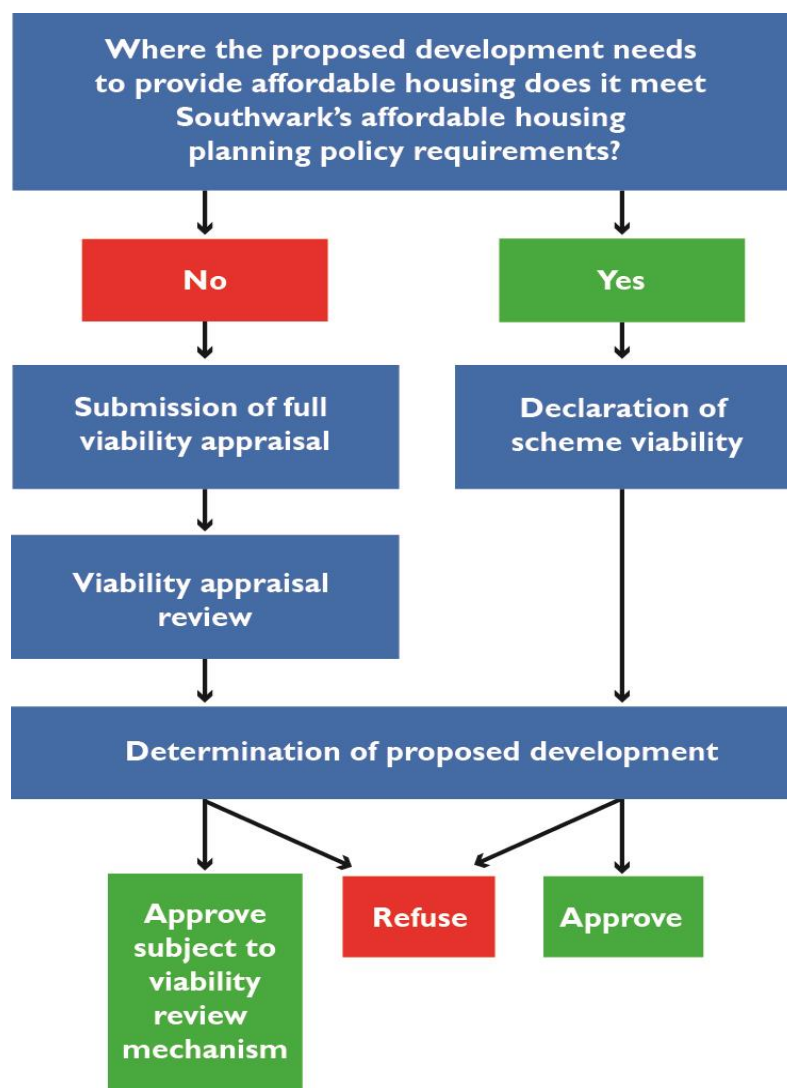
There are a range of approaches which can be used to assess the viability of a development proposal. Viability appraisals are extremely sensitive to minor changes in inputs and variations in methodology. Where viability is cited as a barrier to development we must be able to effectively analyse viability appraisals to ensure the maximum viable level of affordable housing is secured whilst also enabling development to proceed. This SPD sets out a standard, consistent methodological approach for how to prepare acceptable viability appraisals. This ensures elected

members of the Planning Committee, who make decisions on planning applications³, and the officers advising them, base these decisions on information that is accurate, robust and clear.

1.4 Summary of SPD content

Section 2 of this SPD provides detailed guidance on the implementation of our affordable housing policy requirements and the circumstances under which we may require evidence, in the form of a viability appraisal, to justify any proposed departure from our development plan. Where no viability appraisal is deemed necessary we will require the applicant to sign a declaration that the proposed scheme is viable with the proposed level of affordable housing. The following figure summarises the two alternative routes under which we will assess development proposals for which there is a requirement to provide affordable housing.

Figure 1: Assessment of proposed development



³ Note: In some circumstances planning decisions may be taken by council officers under delegated authority.

Section 3 sets out the broad information requirements we will expect applicants to provide to inform pre-application discussions and, in the case of full applications, as a prerequisite to validate the application.

Section 4 sets out the standards of transparency and probity which we will expect applicants to adhere to when developing in our borough. In order to uphold public confidence in the planning system it is essential that all evidence used to influence a planning decision is available for public scrutiny.

Section 5 sets out the methodological approach which should be followed in preparing a viability appraisal to support a planning application.

Section 6 provides detailed guidance about the information requirements and standard of evidence required to enable us to assess viability appraisals.

Where planning permission is granted for a scheme which departs from our affordable housing policy requirements, we will require a later stage viability review. This ensures that any improvement in scheme viability following the granting of consent can help to make up any shortfall between the level of affordable housing permitted and that which would have been required in a policy compliant scheme.

A summary of development viability guidance (DVG) is provided at the start of each section or subsection.

2. Does your development proposal require a viability appraisal?

2.1 When will we require a viability appraisal?

Guidance Summary

DVG 2.1 A full viability appraisal will be required for all proposed development which do not meet Southwark's affordable housing policy requirements.

We will require a full viability appraisal, which has been prepared in accordance with the guidance set out in this SPD, for all proposed development which does not provide a policy compliant level of affordable housing.

2.2 Definition of affordable housing

We define affordable housing in the Core Strategy (2011) as housing that meets the 'needs of households whose incomes are insufficient to allow them to buy or rent decent and appropriate housing'. This definition is consistent with the London Plan (2015) definition (Policy 3.10 Definition of affordable housing) and the NPPF. The NPPF (2011) identifies three types of affordable housing; social rented housing, affordable rented housing and intermediate housing. These definitions are provided in Table 1.

Table 1: Definition of affordable housing

Social rented housing	Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime ⁴ . It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.
Affordable rented housing	Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable rented housing is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).
Intermediate housing	Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

⁴ Maximum social rented housing rent levels, known as formula rents, must be set in accordance with the DCLG guidance 'Guidance for Rents on Social Housing (April 2015)'.

To qualify as social rented housing, service charges and rents must be affordable to households with a gross household income of £18,100 or less per year. To be affordable, these costs must not exceed 30% of net household income. Access to social rented housing is based on need and it must be available on a long-term basis, typically in perpetuity.

Intermediate housing should be affordable to households on incomes lower than the locally set income thresholds⁵ and it must be affordable to households on lower incomes than the intermediate housing income caps set by the Mayor of London⁶, as set out in table 2. Annual housing costs, including rent and service charges, should be no greater than 40% of the net household income⁷.

Table 2: Intermediate housing affordability income levels

	1 Bed	2 Beds	3 Beds	4 Beds
Southwark intermediate income thresholds ⁸	£18,100 - £39,087	£18,100 - £46,148	£18,100 - £53,612	£18,100 – £60,801
GLA intermediate income cap ⁹	£18,100 - £71,000		£18,100 - £85,000	

2.3 What are our affordable housing policy requirements?

Guidance Summary

DVG2.2 Across most of the borough, development which creates 10 or more homes will be policy compliant where at least 35% of homes are affordable. Of the minimum 35%, at least 70% should be social rented and up to 30% intermediate tenures. Affordable housing requirements may vary in action areas and opportunity areas.

DVG2.3 To be considered policy compliant affordable housing must be provided on-site. Development proposals which include off-site provision or a payment in lieu will be required to provide a viability appraisal.

⁵ As set out in the Draft Affordable Housing SPG (2011) and updated annually.

⁶ As set out in the London Plan and updated annually through the Mayors Annual Monitoring Report.

⁷ Net household income is assumed to be 70% of gross household income.

⁸ As updated on the council's website (figures provided relate to January 2015).

⁹ As updated annually in the GLA AMR (figures provided relate to April 2015).

Our affordable housing requirements are set out in our Core Strategy (2011) (SP5, SP6 and SP8), the saved policies of the Southwark Plan (2007) (Policy 4.4) and our area action plans for Aylesbury (2010), Canada Water (2015) and Peckham and Nunhead (2014) (see Table 3). The emerging New Southwark Plan policy DM1 updates our affordable housing planning policy requirements (see Table 4). Affordable homes should be provided when housing schemes (including live-work units) creates 10 or more homes, or the development is over 0.5 ha (whichever is smaller). Student housing schemes which create 30 or more student bedspaces, or the development is over 0.5 ha (whichever is smaller), must also provide affordable homes (Core Strategy policy SP8).

Affordable housing requirements will be calculated in sqm as a proportion of the entire Gross Internal Area (GIA) of the residential element of the proposed development. Calculating affordable housing requirements as a proportion of GIA avoids the need to ensure that different tenure homes within a development have appropriately comparable space standards.

Table 3: Affordable housing requirements where proposals include 15 or more homes (Southwark Plan (2007) and Core Strategy (2011))

Policy Area	Minimum affordable housing requirement (% of scheme) (15 homes or more)	Social rented to intermediate ratio
Aylesbury Action Area	50	75:25
Elephant and Castle Opportunity Area	35	50:50
Camberwell Action Area	35	50:50
Peckham and Nunhead Action Area	35	50:50
Elsewhere in the borough	35	70:30

Table 4: Affordable housing requirements where proposals include 10 or more homes (emerging New Southwark Plan (excluding Aylesbury Action Area and Peckham and Nunhead Action Area))

Market housing (10 homes or more)	Affordable housing (10 homes or more)	
Up to 65%	A minimum of 35%	
	Intermediate housing	Social rented housing
	Up to 10.5%	A minimum of 24.5%

Saved Southwark Plan policy 4.4 'Affordable housing' sets out the policy requirement for all schemes capable of providing 10, 11, 12, 13 and 14 dwellings, shown in Table 5. The emerging New Southwark Plan proposes that the same affordable housing requirements will apply to schemes providing between 10 and 14 homes as that for schemes providing 15 or more homes.

Table 5: Affordable housing requirements for proposals including 10 to 15 homes

Number of homes	10	11	12	13	14
Proportion of affordable homes	10%	18%	25%	31%	35%

We follow a sequential approach to securing affordable housing. There is a presumption that affordable housing will be provided on the development site, in line with London Plan Policy 3.12 (Negotiating affordable housing on individual private residential and mixed use schemes). Where affordable housing is not provided on-site, any affordable housing offer will not be considered policy compliant and a viability appraisal will be required. Off-site provision will only be acceptable in exceptional circumstances. Where off-site provision cannot be agreed an in lieu financial contribution will be required. Affordable housing should be provided at the same time as private housing. This applies to on-site provision, off-site provision and an in lieu payment.

On-site affordable housing provision

We expect all affordable housing to be provided on the development site. Affordable homes should share access arrangements with market homes where practical and the physical integration of affordable housing among market housing (otherwise known as pepper-potting) is encouraged. However, we recognise that pepper-potting can cause difficulties in managing and servicing properties as this can lead to service charges and maintenance costs which result in the affordable homes failing to meet our definition of affordable.

Applicants must justify why affordable housing cannot be physically integrated amongst private housing. Integration is often challenging in the development of flats. In these circumstances we suggest that market and affordable housing could be vertically grouped to keep housing costs affordable. There should be no difference in the appearance of affordable units and private units. Affordable and private tenants should have equal access to communal facilities such as shared gardens and parking areas. Affordable housing should be carefully designed so it can be easily maintained.

Example: On-site provision

Proposal for GIA 10,000 sqm of residential floorspace:

- Private housing: 6,500 sqm (65%) (on-site)
- Social rented housing: 2,450 sqm (24.5%) (on-site)
- Intermediate housing: 1,050 sqm (10.5%) (on-site)

Off-site affordable housing provision

In exceptional circumstances, such as where it is possible to secure a higher level of provision, (London Plan 2015 paragraph 3.74) we may allow affordable housing to be provided off-site. An applicant must clearly demonstrate why it would not be feasible to provide the affordable housing on-site. In these circumstances we will require the provision of affordable housing on another site, or sites. We have a preference for off-site affordable housing in the locality of the proposed development. The floor area of the main development site which is private housing must account for no more than 65%¹⁰ of the combined floor area of the main development site and any off-site provision.

¹⁰ Or 50% in the Aylesbury Action Area or as set out in Table 5 for schemes providing 10 to 15 homes.

Example: Off-site provision

Proposal for GIA 10,000 sqm of residential floorspace:

- Private housing: 10,000 sqm (on-site) (65%)
- Social rented housing: 3,769 sqm (off-site) (24.5%)
- Intermediate housing: 1,615 sqm (off-site) (10.5%)

To calculate the amount of affordable housing that should be provided off site, divide the floor area of private housing by the maximum provision allowed for a policy complaint scheme (10,000 sqm = 65% of 15,385 sqm). The additional floorspace is the affordable housing requirement (15,385 sqm – 10,000 sqm = 5,385 sqm).

In lieu affordable housing payments

In very exceptional circumstances we may allow a financial contribution in lieu of direct provision of affordable housing. The appropriate value of the financial contribution will be calculated by following two stages of calculation.

Firstly, we will use the viability appraisal for the policy compliant scenario and the proposed scheme to identify the difference in gross development value (GDV) between a policy compliant scheme and the proposed scheme. This identifies the financial benefit to the applicant in not providing on-site affordable housing.

Secondly, we will determine how many habitable rooms could be provided if the level of on-site floorspace required for affordable housing was provided for affordable housing. We will do this by applying the affordable housing floorspace requirement to a policy compliant unit mix using the national minimum space standards. We will then multiply the number of habitable rooms that would have been provided on site by £100,000¹¹. The draft Affordable Housing SPD sets out that a £100,000 contribution per habitable room is an appropriate contribution to ensure that any shortfall in affordable housing can be delivered by the council.

Whichever figure is higher will be the in lieu payment we require. This ensures there cannot be a financial advantage to not providing affordable housing on-site or off-site. Applicants are encouraged to deliver off-site affordable housing in preference to an in lieu contribution. However, an in lieu contribution will be required where off-site affordable housing is not provided prior to the occupation of the main development.

¹¹ The £100,000 will be indexed from 2011 using the Land Registry Index.

Example: In lieu affordable housing payment

Proposal for 10,000 sqm of residential floorspace:

- Private housing: 10,000 sqm (on-site) (100%)
- In lieu affordable housing payment: £x

There are three stages to calculate the value of an in lieu affordable housing contribution (£x).

Stage 1 calculates the benefit to the scheme value of not providing a policy compliant amount of affordable housing. This is derived by deducting the GDV of a policy compliant scenario (£b) from the GDV of the proposed scheme (£a).
($\text{£x}(1) = \text{£a} - \text{£b}$)

Stage 2 calculates the policy compliant amount of affordable housing provision that would be required in habitable rooms. First the affordable housing requirement is calculated in sqm (as per the 'off-site' calculation above). The floor area is then applied to a policy compliant scheme to identify how many habitable rooms would be produced if the homes were built to the Nationally Described Internal Space Standards. The number of habitable rooms is then multiplied by £100,000 (the cost per habitable room).

Stage 3 identifies whether the required in lieu contribution should be determined using the output of Stage 1 or Stage 2. Whichever is higher will be the value of the required financial contribution.
($\text{£x} = \text{if } (\text{£x}(1) > \text{£x}(2), \text{£x}(1)[\text{true}], \text{£x}(2)[\text{false}]$)

2.4 How will we secure affordable housing?

As set out in Core Strategy policy SP14 and saved Southwark Plan Policy 2.5, Section 106 planning obligations will be used to address negative impacts of a development. They are legally binding and comprise either an agreement between a council and an applicant or a unilateral undertaking made by an applicant. We will use Section 106 agreements to specify the portion of housing to be affordable, the tenure split within the affordable housing and the value and timing of any in lieu payments.

We will require a later stage viability review for all schemes which cannot viably provide a policy compliant level of affordable housing. Where the viability of a scheme improves, as demonstrated through a viability review, there will be a requirement to make a financial contribution towards meeting the shortfall in affordable housing provision.

3. Viability appraisal validation requirements

3.1 Pre-applications

Guidance Summary

DVG3.1 Applicants are strongly encouraged to submit a draft viability appraisal when seeking pre-application advice where viability is likely to be a relevant consideration in a subsequent application.

We recommend all applicants who are considering developing in Southwark engage with our development management team at an early stage to ensure emerging development proposals comply with our planning policies. In accordance with the PPG (paragraph 001), we encourage potential applicants to seek pre-application advice prior to the submission of a full planning application. This is particularly important where viability may present a challenge to meeting the council's policy requirements.

We strongly encourage the submission of a draft viability appraisal at the pre-application stage where any subsequent full application is likely to rely on a viability appraisal to justify a departure from planning policy requirements. Failure to present a full viability appraisal which has been prepared in accordance with the principles set out in this SPD will reduce the quality of advice council officers are able to provide. This could affect officer recommendations for any subsequent application.

We acknowledge the level of detail that can be provided at the pre-application stage will vary from scheme to scheme and will depend largely on the scale of development and how advanced the emerging proposal is. As such, it is anticipated that the viability appraisal will act as a useful tool in developing emerging proposals prior to submission of a full application.

3.2 Full and outline applications

Guidance Summary

- DVG3.2 A full viability appraisal must be submitted prior to an application for full or outline planning permission being validated where the proposed development does not meet our minimum affordable housing policy requirements.
- DVG3.3 Applicants must meet the cost of reviewing viability appraisals, or provide a solicitor's undertaking to pay, in advance of validation.
- DVG3.4 Viability appraisals must be accompanied by an executive summary which outlines the key conclusions being drawn from the appraisal.
- DVG3.5 Viability appraisals must be accompanied by a fully testable model which explicitly shows the calculations.
- DVG3.6 All viability appraisals must present an affordable housing policy compliant scenario alongside the development proposal which is the subject of the application.
- DVG3.7 Where a development proposal meets our affordable housing requirements a signed declaration confirming the viability of proposed development must be submitted prior to an application being validated. This must be accompanied by a summary of the assumptions used for build costs, sales values, and the residual land value (RSL) arising from the proposed development, which underpin the viability of the scheme. We reserve the right to request a viability appraisal where our minimum affordable housing policy requirements are met in exceptional circumstances.

Applications which do not propose a policy compliant level of affordable housing

Where viability is relied on as a material consideration in the determination of a planning application, a full viability appraisal must be submitted before we will validate the application. Failure to submit a viability appraisal will prevent officers having sufficient information to determine the application. The viability appraisal must be prepared and presented in accordance with the guidance in this SPD.

The requirement to submit a standardised viability appraisal at the validation stage will reduce delays in processing planning applications. It will also ensure that council officers have the information necessary to effectively review viability appraisals at the outset, thereby reducing the likelihood that further evidence will be required during the application process.

Viability appraisals must be accompanied by sufficient details to enable us to understand the scheme value and valuation assumptions relied upon by the applicant (see section 6). Following a detailed review of a validated viability appraisal, we may identify a need for further justification to support the chosen inputs in the viability appraisal. Failure to provide further information we request may result in delays to the application or may affect an officer's recommendation.

Where material changes are made to a proposal prior to determination that could affect the viability of the proposal a revised viability appraisal must be submitted which corresponds to the revised proposal.

Applicants must submit a viability appraisal which demonstrates two affordable housing scenarios. Scenario One will show the viability of a hypothetical scheme where our affordable housing requirements are met. Scenario Two will show the viability of the proposed scheme. The submission of the policy compliant viability appraisal is important because it assists understanding of how a scheme might best be configured if a greater level of affordable housing provision is demonstrated to be viable following a review of the viability appraisal inputs by council officers. Furthermore, it helps applicants consider how best to accommodate affordable housing within a proposal from the outset. The policy compliant scenario will also determine the value of any in lieu affordable housing contributions which may be required following a later stage viability review.

All viability appraisals must be accompanied by a fully working Argus Developer¹² model that can be tested. We recognise that for larger and more complex schemes, bespoke financial models are often produced in Microsoft Excel. We will accept alternative models provided they explicitly show the calculations and can be fully interrogated and the inputs varied.

An executive summary of the viability appraisal which summarises the findings and conclusions of the viability appraisal for the lay reader must be submitted alongside the full viability appraisal in order for the council to validate an application. The executive summary must provide a full supporting narrative to substantiate the inputs and assumptions made in the appraisal. This should be a simplified version of the viability assessment that may aggregate costs and sales information.

All viability appraisals will be reviewed by council officers and may be referred to appointed independent assessors. Applicants will be expected to meet the costs, including and legal costs if appropriate, as specified by the council, associated with reviewing viability appraisals in advance. In the absence of a solicitor's undertaking fees must be paid prior to the validation of an application.

Applications which propose a policy compliant level of affordable housing

Where a proposed development meets our affordable housing requirements we will not require a viability appraisal but we will require a declaration that a full viability

¹² Argus Developer is an industry standard software package widely used to assess the viability of development proposals.

appraisal has been undertaken in accordance with the methodological principles and requirements of this SPD, that this appraisal supports the level of affordable housing being proposed and that this is the maximum amount that can be sustained. The template declaration¹³ is included in Appendix 1.

Under the provisions of Section 106B¹⁴, applicants have the opportunity to apply for viability reviews in relation to affordable housing contributions following the grant of planning consent. To successfully appeal affordable housing contributions an applicant must demonstrate a change in market conditions from the point at which the scheme was granted consent which has caused the scheme to become unviable with the agreed level of affordable housing. The purpose of the provision is to insulate development risk from changes in build costs or sales values which may cause a scheme to stall. The benchmark land value (BLV) will not be affected as this is set at the date of the consent. In order for the council to properly assess any Section 106B applications we must understand the build costs, sales values and the resulting residual land value (RLV) arising from the proposed scheme, which underpin the viability of a scheme¹⁵.

In addition to the signed declaration confirming the viability of the proposed scheme the applicant must submit a summary of the assumptions used for build costs and sales values which would be used as the 'starting point' in any future Section 106B application which seeks to demonstrate a change in market conditions. It should be noted that the onus is on the developer to undertake due diligence in respect of the site and title and agree an appropriate acquisition figure if abnormal costs come to light.

¹³ This declaration will restrict any subsequent requests to vary affordable housing contributions following the granting of planning permission, subject to any statutory provisions to the contrary. We reserve the right to request a viability appraisal where our minimum affordable housing policy requirements are met in exceptional circumstances.

¹⁴ The Growth and Infrastructure Act 2013 introduced additional clauses to Section 106 of the Town and Country Planning Act 1990

¹⁵ As evidenced by means of a declaration of viability, rather than a full viability appraisal.

4. Transparency and probity

4.1 Publication of viability appraisals

Guidance Summary

- DVG4.1 Viability appraisals which support pre-application discussions will be treated as confidential.
- DVG4.2 Viability appraisal executive summaries will be published at the validation stage. A revised viability appraisal executive summary must be submitted prior to determination if the affordable housing content has varied to that set out in the initial viability appraisal executive summary. This will be published prior to determination.
- DVG4.3 Viability appraisals will be published in full prior to determination for all non-policy compliant schemes.

There is an understandable public interest in viability appraisals being available for scrutiny when relied upon to secure planning permission for development proposals which depart from the policy requirements of our Development Plan. Public scrutiny strengthens public confidence in evidence used to influence the outcome of the planning process. An open book approach will enhance the transparency of the planning process and could increase public support for proposed development which fails to provide a policy compliant level of affordable housing.

We will publish the viability appraisal executive summary which is submitted at the validation stage. In cases where an affordable housing offer changes during the application process we will require a revised viability appraisal executive summary which will be published prior to determination. Viability appraisals will be published in full prior to determination for all non-policy compliant schemes.

4.2 Unviable proposals

Guidance Summary

- DVG4.4 We will not accept a higher level of affordable housing provision than the maximum which is demonstrated to be viable through a viability appraisal.
- DVG4.5 We reserve the right to ask a purchaser to show the viability analysis used to inform land purchase, so that the development plan assumptions can be examined.

Occasionally applicants have proposed schemes with affordable housing contributions which are demonstrated to be unviable through a viability appraisal. This is usually based on speculation over the extent to which market conditions are likely to improve in the medium to long term. We will not accept affordable housing contributions that are demonstrated to be unviable through a viability appraisal. Granting planning permission for schemes which provide more affordable homes than a viable level undermines the council's ability to meet its housing target, as it could cause permitted schemes to stall where market conditions do not improve to the extent required to make a scheme viable.

If an applicant chooses to take a risk on future growth in a scheme's development value and/or opportunities for costs savings, they must do so by reducing their risk-adjusted-profit level or reducing contingency costs. In such circumstances the applicant will be asked to sign a declaration that they are prepared to proceed with the scheme on this basis. Any purchaser of a site with planning permission supported by such a declaration will also need to take this into account (see Appendix 1).

5. Viability appraisal methodology

5.1 Methodological approach

Guidance Summary

- DVG5.1 Viability appraisals must follow established valuation practice.
- DVG5.2 Scheme viability will be assessed by comparing the proposed development site value with the benchmark land value (BLV). In appropriate cases consideration will also be given to the RICS Red Book market value of the site and that will be compared to the BLV.
- DVG5.3 The BLV is the value below which the current use of the site will be continued. In appropriate circumstances it may be appropriate to include an uplift within the BLV as an incentive to release the land from its current use for development.
- DVG5.4 Proposals will be considered viable when the development site value exceeds the BLV.
- DVG5.5 It is not acceptable to treat land costs as fixed costs. Where a site has been purchased at a figure in excess of the current use value (CUV) then a development site value has been assumed and the land has been released for development from its current use.
- DVG5.6 Alternative use values (AUV), including existing consents, do not constitute a reasonable BLV.
- DVG5.7 Agreement to grant consent at below minimum policy levels will require a review to identify any uplift in scheme viability between the date of consent and delivery of the scheme.
- DVG5.8 Where land is purchased unconditionally then the onus is on the purchaser to make sufficient allowance for any uncertainties in relation to planning, site conditions, title and any other relevant issues. Evidence may be required that plan policies were taken into account when purchasing the land.

To ensure development viability, the costs of any planning requirements should allow for 'competitive returns to a willing land owner and willing developer to enable the development to be deliverable' (NPPF paragraph 173). The PPG states there are a range of methodologies available to assess the viability of a scheme. In all cases site values should reflect planning policy requirements and planning obligations (PPG paragraph 023).

There are various guidance notes concerning the preparation of viability appraisals, including the RICS Guidance Note: Financial Viability in Planning (RICS GN). However, there are currently no regulations governing the process and there is limited consistency in practice. The purpose of this SPD is to ensure the process for assessing a scheme's viability is robust, clear, transparent and consistent with the NPPF and Development Plan objectives and policy.

The assessment of viability is a valuation based exercise and therefore established valuation principles must be followed, as set out in Section 5.2. The assessment of viability is a calculation based on market assumptions and should not take account of any specific inputs or assumptions required only by the applicant.

The benchmark land value (BLV) will be assessed by reference to the current use value (CUV), plus an incentive if appropriate. Please refer to Section 5.3 for more details.

The uplift in value from the CUV to the gross development value (GDV) of the proposed scheme identifies the amount available to pay for the land, the development costs, to meet the cost of providing planning obligations and for the developer's risk-adjusted-profit.

The requirement for a landowner to receive a competitive return in order to release their land for development is satisfied as they will receive a minimum of the CUV with no incentive (if the current use of the site is incurring costs), or the CUV plus an incentive (where they are either in occupation or they have an investment interest generating a revenue stream). Once this value is reached they will then be willing to sell their interest to the highest bidder.

Where a site has been purchased at a figure clearly above the BLV then development has been assumed and the land has been released from its current use at this point. The assumption in these circumstances is that the applicant carried out sufficient due diligence with regard to minimum planning policy requirements, ground conditions, rights of light, party wall matters, title issues, prevailing costs and revenues and any other relevant factors and adjusted their bid accordingly to reflect the uncertainties. In these circumstances it is not acceptable for an applicant to state that the proposed development is unviable i.e. they have purchased at a figure reflecting a development site value which is above the BLV and in the knowledge of minimum planning policy requirements. If market conditions change after the date of the purchase this is part of the developer's risk. A change may, or may not, be beneficial, but it is not acceptable, in the absence of statutory provisions to the contrary, for the planning system to mitigate the developer's risk.

Where an applicant has a conditional contract to purchase a site subject to the grant of planning consent, an appropriate amount should be agreed in the contract to reflect minimum planning policy requirements.

The viability of a development will be assessed by:

- Calculating the market value (MV) of the site assuming, firstly planning consent for a policy compliant scheme and, secondly planning consent for the

proposed scheme where this is below minimum policy requirements. The residual method of valuation should be used, but the residual land value (RLV) arising must be cross-referenced against market site comparables.

- The BLV will be assessed by reference to the CUV.

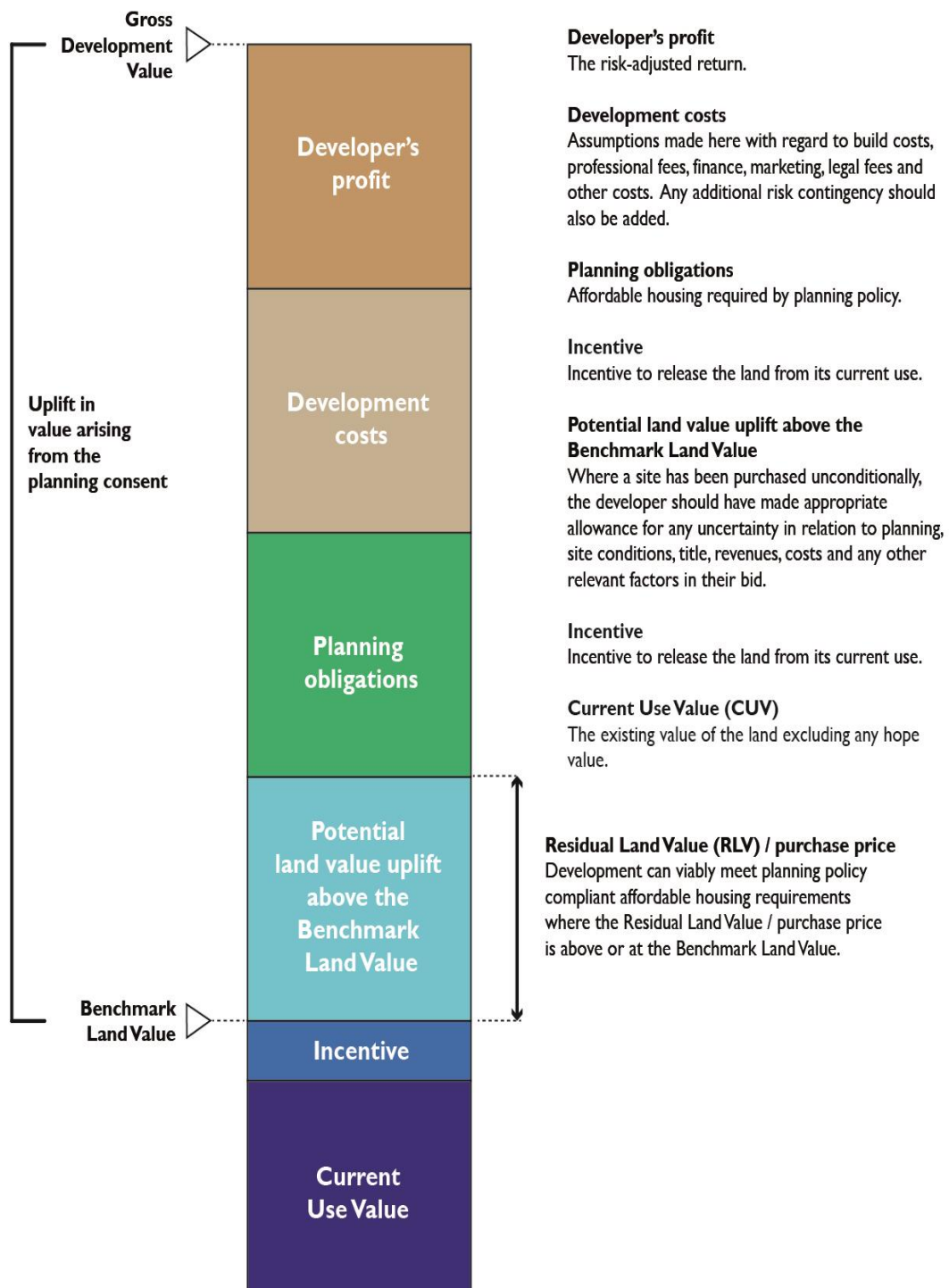
Viability will be assessed by comparing the BLV with the MV, assuming planning consent has been granted for the proposed scheme,

Where the MV of the site, assuming planning consent for the scheme, is higher than the BLV then the development is viable at the level of affordable housing assumed.

Where a policy compliant level of planning obligations is not viable and the council resolve to grant planning permission for the proposal we will require a revised viability appraisal following the substantial implementation¹⁶ of the scheme. This will ensure that improvements in scheme viability between the date of consent and delivery result in financial contributions to satisfy minimum policy requirements not possible at the date of consent.

¹⁶ Substantial implementation requires a development to have completed all ground preparation works and constructed the foundations for the core of the development.

Figure 2: Valuation of scheme viability



5.2 Valuing a proposed development scheme

Guidance Summary

- DVG5.9 Development scheme value will be assessed in accordance with established valuation practice and on the same basis as an assessment of market value (MV) using the RICS Valuation - Professional Standards (the Red Book¹⁷), assuming planning consent for a policy compliant scheme and the proposed scheme.
- DVG5.10 The residual land value (RLV) will be calculated i.e. gross development value (GDV) less realisation costs and risk-adjusted-profit.
- DVG5.11 The RLV arising must be crosschecked against values being paid for development sites. This follows established valuation practice and mitigates against the risk of costs being overstated or revenues understated in the residual cash-flow.

The assessment of development viability is a valuation based exercise and therefore the council will apply established valuation principles in its assessment. The assessment is intended to determine the market's assessment of value for the scheme and not a specific value ascribed by the applicant.

The market value (MV) for the proposed scheme and the policy compliant scheme¹⁸ will be assessed on the same basis as an assessment of MV in accordance with the RICS Valuation – Professional Standards (the Red Book) and with reference to Valuation Information Paper 12 (VIP12).

The applicant will provide residual cash-flow appraisals for both scenarios calculated to show the residual amount available to pay for the land (the residual land value (RLV)) i.e. the gross development value of the completed scheme less the costs of realisation, including developer's risk-adjusted-profit.

It is widely accepted that in calculating the RLV by using the residual valuation method there is a risk that the RLV can be significantly undervalued or overvalued given its sensitivity to a change in one or more of its inputs.

The consequence of any miscalculation of the scheme's value is that the maximum level of affordable housing is not provided.

In order to mitigate this, and in accordance with established valuation best practice, the RLV should always be cross checked against market site comparables.

¹⁷ The Red Book sets out mandatory practices for RICS members when carrying out a valuation.

¹⁸ Assuming planning consent for the policy compliant scheme and for the proposed scheme where this is below minimum policy requirements.

It is acknowledged that all sites and planning consents have different characteristics. However, an analysis is still possible which will show a trend of value which will indicate whether the applicant has overstated costs or understated values, or a combination of the two in their cash-flow i.e. whether the applicant has made cost, profit, and revenue assumptions which are not reflected by the level assumed in the market.

The relevance of market site comparables cannot be over-emphasised as they demonstrate the amount that developers are willing to pay for sites having made appropriate assumptions with regard to build costs, finance costs, contingencies, profit levels, marketing and sales costs and revenues. In most cases developers require funder support. In order to secure funding, the value paid for the site and the cost, revenue and profit assumptions made would have been approved by the funding institution on the basis of a Red Book valuation.

In circumstances where we consider that insufficient reference has been made to market site comparables then we may commission a Red Book valuation with the cost being part of the assessment costs payable by the applicant. This will be determined at validation.

Where the applicant chooses to submit a Red Book valuation as part of their viability assessment then the instructed valuer should be required to report jointly to the local planning authority and to the applicant as joint client.

5.3 Benchmark land values

Guidance Summary

- DVG5.11 Benchmark land values (BLV) will be assessed by reference to the current use value (CUV) of the site, excluding hope value¹⁹, plus an incentive uplift if appropriate (CUV+) i.e. the owner of a vacant derelict site with no revenue and incurring holding costs would not require any incentive to release the site from its current use.
- DVG5.12 The BLV is not the disposal value as clearly any owner will sell their land for the maximum amount achievable. The BLV is the value below which the land will be retained in its existing use.
- DVG5.13 Sub-optimal development site values are not appropriate benchmarks i.e. the viability of the optimal development should not be benchmarked against an alternative lower development site value.

Prior to the publication of the RICS Guidance Note: Financial Viability in Planning (2012) (RICS GN) the BLV was typically assessed by reference to the value of the site in its existing use (plus an uplift above this level where appropriate to incentivise the land owner to release the site from its current use for development (CUV+)). Below this value point the property would be retained in its existing use as development would be unviable. At this point it is appropriate to consider a reduction in planning obligations in order to increase the development site value above the value of the existing use (this may be by reducing the quantum of affordable housing or by changing the tenure mix within the affordable element).

The RICS GN is predicated on the fact that land does not transact at CUV plus an incentive and, on this basis, advocates a market value approach to assessing the benchmark, subject to the assumption that the value has regard to Development Plan policies and all other material planning considerations and disregards development which is contrary to the Development Plan²⁰.

It is accepted that land (with development potential) does not transact at CUV plus an incentive as landowners will clearly sell for the maximum achievable in the market. The CUV and the disposal figure (with development potential) may be very different figures. Clearly, the disposal figure is not the appropriate value level for determining when the site will be released from its current use.

In any event it is now widely recognised that the MV approach endorsed by the RICS GN results in a circularity of argument whereby if minimum planning policy

¹⁹ Hope value refers to any element of open market value of a property in excess of the current use value, reflecting the prospect of a more valuable future use or development. It takes account of the uncertain nature or extent of such prospects, including the time which would elapse before one could expect planning permission to be obtained or any relevant constraints overcome, so as to enable the more valuable use to be implemented.

²⁰ For the avoidance of doubt, 'has regard' means complies with planning policy requirements.

requirements have been assumed in the calculation of MV then a viable scheme will be provided. This will be subject to the MV being above the CUV. The correct basis for the benchmark is the CUV plus an incentive (if appropriate) as this is when the site will be released for development i.e. below this figure the land will be retained in its existing use.

We will therefore assess the viability of a proposed scheme of development by reference to the site's CUV. An incentive above this figure may be appropriate depending on the nature of the existing use e.g. where a site is vacant or the buildings are obsolete and holding costs are being incurred then very little, if any, incentive will be appropriate. Full details and any relevant evidence needs to be supplied to justify the CUV.

The CUV approach to ascertaining the appropriate BLV is in accordance with the view of the Mayor of London who states in the draft interim Housing SPG (2015) that existing use value (EUV²¹) plus an incentive (EUV+) is an appropriate basis for valuing sites (4.3.21). This approach clearly identifies the increase in value arising as a result of development as it allows a comparison with the position where planning permission has not been secured. This approach is also considered to comply with the NPPF requirement to provide competitive returns to a willing landowner i.e. they will only consider releasing their land for development once the CUV is reached (plus an incentive where appropriate). At this point they will sell to the highest bidder. Where the development site value is not greater than the CUV plus incentive then the land will not be released for development. Typically, the actual disposal figure is significantly in excess of the CUV.

The development site value of alternative schemes of development (the alternative use value (AUV)) will be considered by purchasers/developers when assessing their bid for the land. In a tight urban environment like Southwark, with many mixed use areas, there are often multiple alternative uses. When preparing a bid a developer will choose a scheme that creates the highest site value (having regard to minimum planning policy requirements) and maximises their chances of being the highest bidder. Sub-optimal development schemes or AUVs will be discounted by them as part of this process and will not be considered further. Moreover, AUVs are not a consideration for the landowner when considering whether to release the land from its current use for development. An AUV is a potential development site value which is below the optimum development site value. It has no relevance to an assessment of the value point below which the site will be retained in its current use and therefore, it is not an appropriate benchmark.

The site value of any extant consent is not a relevant benchmark for the same reasons i.e. it is one of a number of potential development schemes which a purchaser/developer may consider but it is not an assessment of the value below which the land will be retained in its existing use. An extant consent is one of a number of potential development site values and may or may not be the scheme that creates the highest development site value. This is a consideration for bidders when assessing their maximum bid for the land. It has no relevance to the value point below which the site will be retained in its current use.

²¹ Existing use value (EUV) and current use value (CUV) are equivalents used in this context.

6. Viability appraisal information inputs

Guidance Summary

- DVG6.1 Viability appraisal inputs should include all details deemed necessary for the council to understand the valuations submitted both for the proposed scheme of development and the current use value (CUV).
- DVG6.2 Viability appraisal inputs must be supported with appropriate comparables or other supporting documentation.
- DVG6.3 A schedule of site comparables should be provided with a fully justified analysis to enable a crosscheck of the residual land value (RLV).
- DVG6.4 There must be a clear reasoned link between the evidence and the report conclusions and executive summary.

Applicants must provide the information set out in Table 6 ‘Gross development value inputs’ and Table 7 ‘Costs inputs’, together with any other information considered necessary by the applicant to explain the inputs, assumptions and conclusions within the viability appraisal). If the level of detail provided is considered insufficient we may request further details and clarification.

Table 6: Gross development value inputs

Income from existing uses	<ul style="list-style-type: none"> • Full details of all rental income receivable pending vacant possession or throughout the proposed development.
Income from proposed uses	<ul style="list-style-type: none"> • Estimated sales values for the residential units • Anticipated rental income for any element of the scheme together with appropriate investment yield • Ground rent income for the private residential units including rent review basis and adopted investment yield • Income from any off-street car parking spaces • Any other income receivable during the cash-flow period not accounted for in the above • Details of any incentives, voids and rent free periods assumed for either the subject property or the comparables should be specified.

<p>Schedule of proposed development</p>	<p>A full accommodation schedule showing measurements for each element of the scheme (to be measured in accordance with the RICS code of Measuring Practice) is to be provided. This is to be fully reflected in the scheme cash-flow and should accord with the measurements in the planning application.</p> <p>For residential accommodation the accommodation schedule should provide the details set out in Appendix 2 and should be either fully reflected in the cash-flow or provided on a separate Microsoft Excel sheet which confirms each unit's:</p> <ul style="list-style-type: none"> • tenure (private, social rent or intermediate, or other) • capital value per sqm and per sqft (or rental yield if covenanted private rented accommodation) • location within the development, including the floor level, its orientation, the size (Net Sales Area) in sqm and sqft • number of habitable rooms and bathrooms and kitchens • exclusive amenity space (per sqm and per sqft) <p>Any circulation and common/communal areas should be identified and measured separately with a total GIA in sqm and sqft for each floor and cumulatively for the development.</p> <p>The number and location of any exclusive or shared off-street car parking spaces.</p> <p>The gross-to-net ratio should be clearly identified for both the residential and commercial elements. Where the residential element is less than 85% gross-to-net then full reasons and justification needs to be given²².</p> <p>Where residential units are included which exceed the minimum sizes stated in the residential design standards then justification needs to be provided and an appropriate premium on the sales value needs to be shown.</p>
<p>Market comparables</p>	<p>Comparable evidence should be provided to support the assumed value and yield levels. This should include sufficient detail to enable the council to understand the relevance of the comparable to the subject in terms of its</p>

²² 85% gross-to-net efficiency is considered to be a reasonable target for residential development.

	<p>physical age and construction, its condition, its location and the valuation date. A plan should be provided showing the proximity to the subject scheme. In addition contact details should be included for the source of each comparable to be relied upon and that party's involvement in the transaction. Investment yield information should include an assessment of the equivalent yield where the passing rents are not rack rented.</p> <p>The value of the affordable housing element showing assumed rent levels, management costs, the proportion of equity sales and assumptions made with regard to prevailing affordability criteria. It will be assumed that affordable housing is provided at nil grant unless declarations are provided that grant is available and will be secured for use. Unless justification can be provided a Registered Provider should be included by the applicant with details of the offer/transaction being provided.</p>
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Table 7: Costs inputs

<p>Construction costs</p>	<p>The estimated construction cost of the proposed building must be substantiated by a detailed schedule showing each element of the proposed scheme with elemental costs and total costs in per sqm and per sqft.</p> <p>There should be a clear relationship and justification between the standard/quality of the specification and the values achievable for the completed units.</p> <p>If the proposed scheme includes several buildings or is a large/complex multi-use structure you should break the scheme into clear/manageable parts with their own cost substantiation.</p> <p>The proposed scheme must be accompanied by a clear schedule of accommodation and areas and must clearly relate to the areas entered in to the cash-flow. All floor areas must be gross internal floor areas (GIFA). The GIFA of each storey must be identified along with the GIFA split between uses/functions i.e. residential/retail/circulation (along with a short narrative to explain what is included within those areas if the proposed building(s) are complex).</p>
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	<p>The construction costs need to be substantiated using the New Rules of Measurement (NRM) Order of Cost estimate format with summary sheets evidenced by the elemental measured cost plan including the measured areas/units and rates.</p> <p>Hard copy drawings, plans, schedules and other details requested will be provided directly to the council's quantity surveyor.</p>
Enabling and demolition costs	Enabling works costs, including demolition, decontamination or utilities must be stated separately.
Preliminaries	The construction preliminaries must be shown separately and be relatable to the proposed on site duration.
Overheads and profit	An explanation is required if the overheads and profit figure is to be stated separately and whether this is an average rate or would apply to all works.
Abnormal development costs	Abnormal development costs, such as any right to light, over-sailing and party wall costs need to be stated separately and will be justified by a supporting expert's report.
Contingencies	<p>Contingency allowances must:</p> <ul style="list-style-type: none"> • be accompanied by an explanation as to what they are for • be clearly identified • show how they were calculated.
Risk	<p>Risk allowances must:</p> <ul style="list-style-type: none"> • be accompanied by an explanation as to what they are for • be clearly identified • show how they were calculated.
Basis of the cost estimate(s)	You must state the basis for the estimate(s) and the drawings/specifications/quotes used.

Exclusions and assumptions	The cost plan(s) must be accompanied by a list of any exclusions and assumptions.
Construction programme	The proposed project programme must be a true representation of the expected timescales until the completion of the project on site, including all pre-construction activities. The programme should reflect the procurement route.
Design specification	The estimated construction costs must be accompanied by an elemental specification. This does not have to be detailed but must demonstrate what the elements are in order to justify their costs.
Value engineering	You must state what level of value engineering is intended before the project commences on site.
Procurement route	An explanation of the proposed procurement route (and why this route is preferred) is required. This must reflect (and be reflected within) the cost headings within the cost plan(s).
Build costs evidence	Your estimated cost plan can be accompanied by other recent projects that you have delivered in order to assist in your explanation of your proposed construction costs, however the detailed cost information for those projects may be requested for scrutiny.
Developer profit	The developer profit should be stated and justified separately. Developer's profit should be included at a rate reflected by the specific risk in the market and having taken account of other risk mitigation included elsewhere in the cash-flow costs. The appropriate metric to assess profit will depend on the scale of the scheme and its financing. We would expect schemes to demonstrate profit on cost and profit on value. The council will take Internal Rate of Return (IRR) into account if requested by the applicant, provided the development programme and timings of costs and values are fully justified. The cross-referencing exercise to market site comparables will give a good indication of the profit levels assumed in the market for schemes being built out supported by institutional funding.

Professional fees	The level of professional fees should be stated separately for each discipline included, both as a percentage and the amount. Evidence from recently delivered schemes will assist any explanation and agreement.
Finance costs	Finance costs should be included at a level which is evidenced by reference to the prevailing market rate and by evidence deduced from previous schemes dealt with by the applicant where possible. An appropriate credit rate should be included in the cash-flow.
Marketing costs	Estate agency sale and letting fees and other marketing costs should be fully justified with reference to previous schemes dealt with by the applicant.
Legal fees	Legal fees should be fully justified by reference to market rates and to previous schemes dealt with by the applicant.
Section 106 and CIL costs	S106 and CIL costs should be included at the appropriate rate to be agreed with the planning case officer.
Development programme details	In addition to the construction programme details the assumed percentage of sales to be completed at practical completion and the assumed sales rate needs to be clearly referenced and compared to comparable schemes.

Table 8: Review mechanism

Review mechanism	<p>Where planning consents are granted at below minimum policy levels the project's actual costs will be required to be evidenced.</p> <p>Developers will be required to work with the council on an open book basis to demonstrate the actual costs incurred to complete the project.</p> <p>This will require developers to keep clear financial records, invoices, labour sheets and any other information necessary so that your actual construction and project wide costs can be easily audited and ratified.</p> <p>Any costs that cannot be evidenced will be referred to an independent quantity surveyor for fair valuing.</p> <p>Developers must grant their cost manager(s) however long is required by the council to undertake the audit and clarify cost issues so that a final decision can be reported.</p> <p>Evidence of any agreed sales and lettings will be provided. Each unit is to be clearly referenced to the accommodation schedule used for the calculation of viability at the date of consent (e.g. so that plot numbers can be matched with postal addresses).</p>
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7. Viability review mechanisms

Guidance Summary

- DVG7.1 Proposals which do not include a policy compliant affordable housing contribution will be subject to a viability review. The nature of the review will depend on the nature of the scheme and may use actual costs and revised sales values, or sales values alone. The review must be undertaken prior to occupation of no more than 25% of the market element.
- DVG7.2 Where a viability review demonstrates an improvement in scheme viability, a proportion of any uplift in scheme value, up to the policy compliant level of affordable housing, will be paid to the council towards the delivery of new affordable homes prior to more than 75% of the market homes in the development being occupied. On phased schemes the review process may be tailored to allow for the inclusion of additional affordable housing in later phases.

The NPPF (paragraph 50) requires local planning authorities to ‘plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community.’ The granting of planning permission to schemes which fail to meet affordable housing planning policy requirements undermines the council’s ability to meet its objectively assessed housing need. To meet the objectives of Policy 3.12 of the London Plan (2015) (and supporting text paragraph 3.75)²³ we will seek to ensure that affordable housing provision is maximised by the use of viability review mechanisms.

The market fundamentals of a scheme can alter significantly from the point a scheme is granted planning permission to when it is constructed. All schemes which are unable to provide a policy compliant level of affordable housing for reasons of viability, but which are permitted, will be required to agree to a viability review through a Section 106 agreement in order to capture any uplift in scheme value between the date of consent and delivery on site. Viability review mechanisms ensure that a proportion of surplus profits are put towards providing a policy compliant level of affordable housing where viability improves. The applicant will continue to receive the level of profit required, as was set at the date of consent. As such, the application of a review mechanism will not increase risk for the applicant as this still allows for a competitive return.

Given the uncertainty at the early stages of scheme design it is common for estimated costs to be reduced as design is finalised (usually post-planning) and as

²³ Paragraph 3.75: In making arrangements for assessing planning obligations, boroughs should consider whether it is appropriate to put in place provisions for re-appraising the viability of schemes prior to implementation. To take account of economic uncertainties, and in respect of schemes presently anticipated to deliver low levels of affordable housing, these provisions may be used to ensure that maximum public benefit is secured over the period of the development.

the contract is tendered. Given that a small percentage change in the build cost will equate to a significant change in viability, this input to the residual cash-flow presents considerable uncertainty in the accurate assessment of the scheme's value and consequently the accurate assessment of the amount of affordable housing which is viable.

Viability reviews will be implemented following the substantial implementation of a scheme and prior to any more than 25% occupation of the market element. Between these points it is easier to identify actual costs and values. The applicant will be required to provide a financial payment, or additional housing, to bring the scheme up to a policy compliant level of affordable housing contributions. The trigger for the payment will be negotiated for each application but it will be no later than prior to occupation of 75% of the market element.

The value of the payment will be determined at the point the review is undertaken (or, in the case of phased development, at the point the review of the relevant phase is undertaken). There will only be a requirement to make a payment where a scheme generates a 'surplus' profit which exceeds the returns necessary to make a development viable. Review mechanisms cannot be used to lower an affordable housing contribution if a scheme is less profitable than forecast.

All affordable housing shortfall payments will be capped. The maximum value of the payment will be the shortfall between the level of affordable housing secured as part of the permitted scheme and the level of affordable housing that would have been secured for an affordable housing policy compliant scheme. This figure is referred to as the review dependent in lieu affordable housing payment as described in Section 2. Any improved value, up to the point where the affordable housing shortfall payment has been achieved, will be shared between the applicant and the council on a 70% to 30% split (70% in favour of the council). This provides an incentive for applicants to achieve cost savings and to maximise scheme value because the applicant also benefits from improvements in scheme viability. Additional surplus profits, after affordable housing shortfall payments have been achieved, will accrue to the applicant in entirety. The purpose of the viability review is not to enter into an open-ended profit share arrangement.

Section 106B applications

Applications to revise the level of affordable housing under the provisions of Section 106B must include two versions of a full viability appraisal²⁴. The first of which must be that which supported the initial planning application. Or, where a declaration of scheme viability was submitted in place of a full viability appraisal, a viability appraisal which uses the sales values and build cost assumptions which accompanied the declaration. The second appraisal must replace the sales values and/or build costs used in the first appraisal with present day sales values and or build costs with a full explanation of the changes. This must not include site abnormalities, which should have been factored into risk contingencies.

²⁴ Prepared in accordance with the evidential and methodological requirements stipulated in the SPD.

Basis for review:

1. Base position as agreed at the date of consent and specified in S106 for:

- GDV £
- Residential average value psf
- Commercial rent (psf) and yield
- Professional fees (quantum and %)
- Finance
- Developer's profit (quantum and %)
- Build costs (£total and psf/psm)
- £ Prelims/enabling costs/overheads and profit/contingency
- £ Abnormal costs
- Residual land value (RLV)

2. Uplift at substantial implementation

- Revised GDV
- Actual/revised average residential sales value psf
- Actual/revised rents and yields
- Actual fees
- Actual finance
- Actual build costs
- Actual prelims/enabling costs/overheads and profits
- Actual abnormal costs
- Input RLV at date of consent

Equals uplift in profit return above that shown at date of consent

Surplus to be shared 70:30 (council:developer) until a policy compliant uplift has been achieved.

Glossary

Benchmark Land Value (BLV)	<p>The CUV plus an incentive uplift where appropriate i.e. the value below which the current use of the site will be continued.</p>
Current Use Value (CUV)	<p>Market value for the continuing existing use of the site or property assuming all hope value and any value arising from any planning permission or alternative use is excluded.</p>
District Valuer Service (DVS)	<p>The DVS is the specialist property arm of the Valuation Office Agency (VOA). They provide independent professional property advice and valuations to public sector bodies.</p>
Existing Use Value (EUV)	<p>The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.</p> <p>Note: EUV is a specific definition relating to reporting values of operational business assets. It is sometimes used in a viability context to refer to the CUV.</p>
Gross Development Value (GDV)	<p>Market value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.</p>
Hope Value	<p>Hope value refers to any element of open market value of a property in excess of the current use value, reflecting the prospect of a more valuable future use or development. It takes account of the uncertain nature or extent of such prospects, including the time which would elapse before one could expect planning permission to be obtained or any relevant constraints overcome, so as to enable the more valuable use to be implemented.</p>

Incentive	Where appropriate it may be necessary to include an additional amount in the BLV above the CUV in order to incentivise the owner to release the land from its current use.
Market Site Comparable	A transaction of a development site which evidences prevailing market site values and where the price paid has either assumed an optimum development on the basis of an assessment of development plan policies or on the basis of an existing planning consent.
Market Value (MV)	The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion, subject to the special assumption that planning consent has been granted for the proposed scheme of development.
Red Book Valuation	The Red Book sets out mandatory practices for RICS members when carrying out a valuation.
Residual Cash-flow	A financial appraisal methodology used to calculate the Residual Land Value.
Residual Land Value (RLV)	The RLV is a calculation of the MV of the site assuming planning consent for the proposed scheme of development using the residual method of valuation.
RICS Red Book	Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards 2014.
Royal Institution of Chartered Surveyors (RICS)	The RICS is a professional body that accredits professionals within the land, property and construction sectors worldwide.
Substantial implementation	Substantial implementation requires a development to have completed all ground preparation works and constructed the foundations for the core of the development.

**Valuation
Information
Paper 12**

RICS paper describing the process applicable for the valuation of development land, including valuing by the comparison method and the residual method, assessing the land value and reporting the valuation.

Appendix 1: Declaration Relating to Viability²⁵

The Applicant for planning application reference: [insert reference] (the **Application**) confirms and declares the following (sign /delete as applicable).²⁶

1 [Include where no viability appraisal is submitted in support of the Application]

The development proposed in the Application is viable and is able to provide affordable housing [at a level which is compliant with the Local Plan requirement][at the level specified in the attached terms (see Annex [1])]. This is the basis on which the Council is being asked to determine the Application.

2 [Include where viability information has been submitted in support of the Application]

All viability information submitted in support of the Application has been submitted in good faith and accurately represents the Applicant's position on viability.

The Applicant's position on viability is properly represented in Annex 2²⁷.

The Applicant will not (and has not) submitted any viability information which it knows or considers to represent an inaccurate position on viability.

If the Applicant submits an application pursuant to S106 BA and/or an appeal pursuant to S106BC of the Town and Country Planning Act 1990 following the grant of planning permission for the Application, it is acknowledged that the Council will treat all viability information submitted in support of the Application as publicly available and will refer to and rely on such information in determining the S106BA application and/or defending any S106BC appeal.

Name:

Signed:

Position and Company:

Date:

²⁵ The Applicant will be asked to sign this Declaration immediately before the planning application is validated.

²⁶ Where this Declaration is signed by the Applicant's agent, it is confirmed the agent has authority to sign the Declaration on behalf of the Applicant.

²⁷ The Applicant will be required to produce a final version of any viability assessment to be attached to this Declaration so that there can be no doubt about the figures on the basis of which the council is being asked to determine the Application.

