DRAFT

Rotherham local plan

Development Viability Supplementary Planning Document

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Rotherham Metropolitan Borough Council

EXECUTIVE SUMMARY

1. This Supplementary Planning Document [SPD] sets out over-arching principles that Rotherham Metropolitan Borough Council, as the local planning authority, shall apply in evaluating development viability, as part of the planning decision process, in accordance with national guidance.

2. This SPD does not alter the Council's existing planning policies, but provides additional advice on the appraisal methodology, information requirements and review procedures that the Council intends to apply when evaluating submitted viability evidence. Importantly, its purpose is to provide greater clarity to developers and third party interests, including members of the public, and should be read alongside the Local Plan and the planning authority's other associated planning guidance.

3. The Council's adopted *Core Strategy* [RMBC, 2014] and its *Sites and Policies Local Plan* [RMBC, June 2018] are further supported by an *Affordable Housing Refresh study of Viability* [RMBC, June 2019a] which has sought to update the viability position of residential development in Rotherham. This study has tested a cross-section of the sites that are included in the Council's adopted plan to ensure that development is not rendered unviable by the plan's affordable housing and other planning policy requirements. Accordingly, and in conformity with national guidance, the Council expects all planning applicants to deliver full policy compliant schemes, especially as the vast bulk of the sites included in its recently adopted plan are green field sites that have been released from green belt designation.

4. The Affordable Housing Refresh study also demonstrates that the Council has been successful in delivering affordable housing in accordance with its extant policies, and where this has not been possible, for example because of site conditions, the Council has been flexible in accepting a different mix or numbers regarding on-site affordable housing provision or commuted sums that have been judged to be of equivalence.

5. This SPD details the approach applicants shall follow if they elect to contest viability [see Section 4]. It reveals the evidence that must be presented and the format in which this must be submitted in order that the Council [and where necessary its advisors] can evaluate its accuracy and relevance in informing its decision-making [see Section 3].

6. To support this process of review and evaluation, Section 2 of the SPD provides guidance on the appraisal methodologies that are typically used in carrying out development viability appraisals, the kind of evidence and assumptions that are to be adhered to in its assessment and it proffers a number of questions that the

Council's officers will be posing. Consistency and equity are the goals that the Council is seeking in all applications that are subject to viability and review.

7. Thus, this SPD is presented to applicants in a spirit of support as well as openness/transparency that the Council wishes to embrace and for which all applicants shall reciprocate. Further advice and support is provided in Appendix 2; the Council strongly recommends that applicants read its contents prior to making a decision to proceed.

8. The viability review process, which is set out in Section 4, shall focus on the principal variables determining the residual land value estimate generated by the appraisal methodology. In this regard, the key variables of values and costs will be scrutinised; it shall be expected that applicants present their evidence base where it shall be robustly examined including the site's existing use value. The existing use value [plus a premium] is used to determine an acceptable land value benchmark which, in accordance with guidance, shall reflect the minimum required to incentivise a reasonable landowner. The Council shall expect the applicant to demonstrate the site's current use value by confirming the existence of an operational business otherwise the Council shall discount its worth accordingly. Land prices shall not be accepted by the Council.

9. In situations where developments are unable to achieve policy compliance, applicants shall be subject of a subsequent viability review mechanism, which shall be secured through a planning obligation. The viability review mechanism will depend on a number of factors, especially relating to the scale and the phasing of development. The viability review mechanism that is set out in Section 4 and supported by the information in Appendix 4 shall be evaluated by the Council to confirm if applicants are able to deliver further policy requirements based on the evidence submitted by the applicant.

10. The Council's position is one that the sites in its Local Plan are able to deliver full policy compliant schemes. The Council recognises that, exceptionally, there may be circumstances where this is not possible and, thus, the viability review mechanisms contained in this SPD shall be embraced, otherwise applications seeking planning permissions shall be refused.

CONTENTS

Acronyms

AH	Affordable Housing
ADC	Abnormal Development Costs
ARY	All Risk Yield
BC	Build Costs
CF	Cash Flow
CRI	Compound Rate of Interest
CP	Capital Profit
DF	Development Finance
DY	Development Yield
DCF	Discounted Cash Flow
DRI	Discounted Rate of Interest
EUV or CUV	Existing or Current Use Value
GDV	Gross Development Value
IRR	Internal Rate of Return
LP	Land Price –offer/transaction
LV/RLV	Land Value/Residual Land Value
NPV	Net Present Value
RLVE	Residual Land Value Estimate
PRP	Private Registered Provider
V	Viable/Viability
YP	Year’s Purchase

Section1: Preamble

1. Development viability is an important aspect in the planning process being underpinned by the National Planning Policy Framework [MHCLG, 2019a] and the accompanying Planning Practice Guidance for Viability [MHCLG, 2019b]. Appraising viability is undertaken when local planning authorities produce Local Plans. As part of the planning application process, the core purpose of contesting viability is to confirm that developments are deliverable, while explicitly taking into account Local Plan policy requirements, such as the provision of affordable housing, infrastructure and delivery of environmental policies, site specific attributes and local market context and sentiment. Rotherham Metropolitan Borough Council's [RMBC] adopted Core Strategy [RMBC, 2014] and Sites and Policies Local Plan [RMBC, 2018] require developers seeking to challenge planning policy requirements to provide development [viability] appraisals to demonstrate that each scheme is not fully policy compliant, especially in respect in the provision of affordable housing.

2. A recently prepared research paper demonstrates the degree to which RMBC's affordable housing policies has been met [RMBC, 2019b]. Of the 43 qualifying development schemes [2011-2019] where there was an agreement to deliver affordable housing[1], no fewer than 36 of these delivered the planning authority's affordable housing policy requirement either directly through delivery on site, by accepting a different housing mix, or commuted sums which were deemed to provide equivalent compensation for a number of actual units that would normally be delivered on-site. **Applicants need to be aware that overall, the evidence confirms that the planning authority is successfully delivering its affordable housing policy requirement**. Any deviations from the policy requirement can be explained as being due to specific site matters, whether this related to a lack of viability or where the planning authority had to negotiate a different housing mix or an off-site commuted sum that were judged to be equivalent in planning and housing policy terms. Importantly, it also reveals that the planning authority has been flexible and respectful of market conditions and site specific issues that affect both viability and the ability of a site to deliver its quotient of affordable housing in accordance with local plan policy.

3. Currently there is a range of different guidance relating to viability. The focus of this Supplementary Planning Document [SPD] is the guidance that serves site-based development viability appraisals[2] and the rigorous approach that shall be taken by the local planning authority in evaluating development viability appraisals. This SPD sets out over-arching principles that the local planning authority shall apply in evaluating development viability, as part of the planning decision process, in accordance with national guidance. Indeed, it is prescient to stress to applicants that current national guidance states:

"Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be

[1] In the early part of this period, Rotherham had a two tiered affordable housing policy, which were significantly lower than the current rate of 25% on qualifying sites.
[2] Rather than whole plan strategic housing viability assessments.

viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available." [Paragraph 57, p.16, NPPF, MHCLG, February, 2019]

4. Proposals should be designed in a way that accords with Local Plan policies, including for the provision of affordable housing taking account of the overall Local Plan requirements with a policy compliant tenure mix and split.

5. The Council is aware that in some exceptional circumstances, a proposal may generate insufficient value to support the full range of developer contributions [for example on sites with known contamination or remediation requirements].

6. In instances where, in the opinion of the applicant, a scheme cannot meet policy requirements, applicants are required to robustly demonstrate that the site is clearly unviable by submitting a Financial Viability Appraisal [FVA].

7. The SPD proffers greater clarity to developers and third party interests, for example, members of the public, and should be read alongside the Local Plan and the Council's other associated guidance. Crucially, it does not alter existing policies, but provides additional advice on the appraisal methodology, information requirements and review procedures that the Council intends to apply when evaluating the submitted viability evidence.

8. **In the spirit of openness and to further help applicants fully understand the Council's approach, applicants are strongly advised to read Appendix 2. This explains the Council's approach in evaluating a contested viability appraisal, particularly setting out key issues and principles of the appraisal methodologies, and transparency with regard to the generation and presentation of evidence by applicants, and the kinds of questions that are likely to arise in conducting the evaluation. If an applicant is in any doubt as to whether they should contest viability, they should contact the planning officer dealing with their application.**

Scope of this document

9. This SPD provides guidance on:

- What is expected of applicants submitting viability appraisals in support of applications, including the process involved and required information;

- How the Council will consider submitted viability appraisals; and

- Guidance on future viability review mechanisms in cases where the affordable housing target or other policy requirements are not met following the consideration of a submitted viability appraisal.

10. Of course, there is no need for applicants to submit a viability appraisal if they are willing to meet all planning policy requirements in respect of their proposal.

Status and use of this document

11. In accordance with relevant legislation, this SPD has been subject to consultation, review of feedback received and then formally adopted by the Council. It supplements the Council's Core Strategy [RMBC, 2014] and its Sites and Policies Local Plan [RMBC, 2018] and forms a material consideration in the determination of planning applications. Thus the SPD should be taken into account during the preparation of proposals for residential and mixed-use or non-residential development from the inception stages and when undertaking development viability and negotiating site acquisitions. The rest of the SPD is organised as follows:

    Section 2: Provides detailed guidance on the viability appraisal process.

    Section 3: Provides guidance for applicants on the typical information requirements that they will be expected to provide to support their viability appraisals and the Council's review procedures.

    Section 4: Provides guidance on the use of future viability review mechanisms for all applications where policy requirements are not met in full at the time planning permission is granted.

12. Further supporting information is presented in the following appendices:

    Appendix 1: Glossary of Terms
    Appendix 2: Advice to Applicants and Council Officers
    Appendix 3: An example of an Inputs Template
    Appendix 4: An explanation of financial weights used in a static Residual Land Valuation Estimate.
    Appendix 5: An example of the Outputs Templates
    Appendix 6: Formulae used in the Viability Review Mechanisms
    Appendix 7: Links to active spreadsheets containing the Formulae used in the Viability Review Mechanisms

13. Finally, in the event of any doubt, applicants are urged to contact the relevant Planning Officer handling their planning application in the first instance.

Section 2: Development Viability and Negotiation

Preamble

14. The economic viability of development is important in terms of supporting delivery in both plan making and when determining planning applications [MHCLG, 2019a].

15. The Council has accounted for the cumulative impact of its policy requirements on development viability as part of the evidence base supporting the independent examination of its Core Strategy [RMBC, 2014] and Sites and Policies Local Plan [RMBC, 2018] and its recently published Affordable Housing Refresh study covering site-based viability [RMBC, 2019].

16. It is the Council's role to determine the most appropriate approach to be taken in each viability case. This SPD sets out guidance on the approach and appraisal methodology considered appropriate in the context of supporting delivery of the Local Plan and making sure that the maximum possible provision of necessary planning obligations is achieved on the particular site, and reflecting scheme circumstances, bearing in mind that this relates to the land and to planning; and is not an approach that is tailored or responsive to the applicant's particular circumstances in any way.

17. All Financial Viability Appraisals [FVA] shall be submitted in a clear and accessible format with full supporting evidence to substantiate the inputs and assumptions used [as set out in this SPD] and shall be submitted alongside a planning application in order for it to be validated. Section 3 provides templates of the data/evidence sources [i.e. inputs] and expected outputs from the viability appraisal [see pp.23-28].

18. The FVA will be scrutinised and evaluated by the Council's planning officers [and when appropriate] with advice from a suitably qualified external consultant and the cost of this external consultant is to be borne by the developer/applicant. The evaluation will consider whether the approach adopted and variable inputs and assumptions used are appropriate and adequately justified by evidence and will determine whether the level of planning obligations and other Local Plan requirements proposed by the applicant are the maximum that can be viably supported or whether further obligations and/or a greater level of policy compliance can be achieved. During evaluation, the Council may request clarification or additional information. Where appropriate, the Council will be prepared to consider reasonable compromise but will expect applicants to present FVAs that demonstrate the nearest to policy compliant proposals possible, having demonstrated satisfactorily that full compliance cannot be achieved. If a FVA is not agreed by the Council and follow-up/negotiation is appropriate, the Council will expect that further review costs are also paid by the applicant.

19. The cost of the Council's review of the FVA and any other associated costs [for example related to any follow-up or negotiation requiring the Council's further review or additional support by its external consultant] will be paid in advance by the applicant – before the review or follow-up work proceeds. In some instances it may be necessary also for the Council or applicant to commission additional specialist services to enable the

Council to properly assess the scheme, depending on the nature of the proposals and the dialogue on the information supplied.

20. On completion of the FVA [or any follow-up review FVA], the Council will indicate if additional planning obligations are required over and above those proposed by the applicant through their FVA. Heads of Terms will be included in the Council's Planning Report, reflecting the outcome of the viability process. An application will be recommended for refusal of planning permission if terms cannot be agreed.

21. Where reductions in affordable housing provision are agreed on viability grounds the Council will include the estimated scheme Gross Development Value [GDV] and build costs at the time of planning permission in a planning obligation. Additionally, potential affordable housing units will also be identified[3] in planning obligations where affordable housing is not being provided in full or in part on viability grounds. This will enable affordable units to be provided at a later stage if there is an improvement in viability and it subsequently proves possible to provide such units. [See Section 4 which sets out in detail the Council's Viability Review mechanism].

22. NPPF guidance encourages transparency of evidence wherever possible. The Council requires that the FVA must be open and transparent and that it adopts an "open book" approach [MHCLG, 2019b].

23. To ensure openness and transparency in the planning process, all viability evidence will be made publicly available on the public planning register alongside other planning application documentation. Redaction of any information will only be allowed in exceptional circumstances, and any justification provided as to the extent of harm that would occur if the information was disclosed will be placed on the public planning register, whether or not accepted.

24. If a FVA submitted to the Council is to be relied on for the purposes of determining a planning application [the Submission VA], the Council will expect that this appropriately represents the viability of the development and is consistent with corresponding information that an applicant has themselves relied upon to inform commercial decisions.

25. The Council will not accept viability arguments where it is not given the ability to properly assess the validity of the appraisal that is relied on. It is essential the Council is provided with a full working electronic version of the viability appraisal methodology that can be fully tested and interrogated. All assumptions shall be accessible and capable of variation to observe the impact on the appraisal methodology's outputs[4].

[3] This will include a site plan showing the layout of the final approved scheme plan, which will be integral to a S106 planning obligation.

[4] The Council will generally not make the live working version of a viability appraisal methodology accessible to third parties, other than to those who have a specific role in advising the Council on viability matters. These advisors will be required not to release the appraisal methodology to any third party.

Summary of Viability Appraisal Requirements

26. The minimum requirements for a FVA and the submission of supporting information are set out in Sections 2 and 3 but the following shall be noted:

- A FVA should contain:
  - A summary of the main viability appraisal assumptions;
  - A detailed appraisal containing the information required by Section 3 as a minimum, with supporting evidence;
  - A summary clearly setting out the exceptional reasons that make the development proposal unviable; and
  - A request to vary usual affordable housing requirements and or any planning obligations that have been deemed necessary to mitigate the scheme's development impacts.

- Assumptions used in the FVA shall be generally evidenced from an independent expert or publicly accessible source.

- The applicant shall provide a written statement that the FVA appropriately represents the viability of the development and is consistent with corresponding information that the applicant has themselves relied upon to inform commercial decisions; and that the costs and values applied in the FVA submitted to the Council are consistent with current costs and values within [or used as a starting point for] FVAs that the developer or responsible body is relying on for internal or financial purposes[5].

- A statement that the agency or consultant undertaking the FVA has not been instructed on the basis of performance related pay or incentivised in any other way according to the outcome of the viability process and the level of planning obligations that the applicant is required to provide.

- The applicant must clearly demonstrate, with reference to viability evidence, that the proposed level of planning obligations is the maximum that can be provided and that the scheme is deliverable with this level of provision; and a statement that the scheme as proposed to be deliverable is based on the information provided to the Council.

- Where the applicant does not intend to build out the scheme themselves, they may be expected to provide evidence from a developer with experience of delivering schemes of a similar type and scale to demonstrate that the scheme is capable of being delivered on the basis of the evidence presented in the VA.

- The financial viability of schemes will change over time due to the prevailing economic climate and changing property values and construction costs. On large sites with extended build out times and particularly in cases for schemes granted in outline, a

[5] If 'outturn' values and costs are applied within an appraisal presented to the Council, these should also be consistent with those relied on by the applicant - see Section 3.

Review FVA is likely to be required for each phase and/or updated when each reserved matter application is made.

27. Where the Council is satisfied that developer contributions cannot be met in full due to financial viability, the Council will choose to:

- Negotiate the affordable housing requirement in accordance with Local Plan Policy CS7 [RMBC, 2014]. This could include:
  - Modifying the phasing of the delivery of affordable housing requirements, but only in appropriate circumstances where justified;
  - Reduced or revised affordable housing requirements [including adjustments to tenure mix and split]; and/or
  - A Review VA for the claw back of an affordable housing financial contribution in the event that the completed development proves to be more financially viable than anticipated in the submitted FVA.
  - The Council will <u>not</u> engage in a Review of VA which leads to lower provision at subsequent stages.

- Negotiate other planning obligations. This could include:
  - As a priority, the provision of site specific infrastructure in phases or with deferred timing or trigger points;
  - Reducing the scope of contributions or in-kind requirements provided the scheme would still remain acceptable in planning terms. This could be through altering the scope or specification of a particular piece of infrastructure or negotiating reduced commuted sums;
  - Mechanisms for the Planning Authority to claw back a financial contribution in the event that the completed development proves to be more financially viable than anticipated in the FVA[6].

Transparency of evidence

28. To ensure openness and transparency in the planning process, all viability information will be made publicly available on the public planning register alongside other planning application documentation. Redaction of any information will only be allowed in exceptional circumstances, and any justification provided as to the extent of harm that would occur if the information was disclosed will be placed on the public planning register, whether or not accepted.

29. It is common practice for applicants to seek to place confidentiality restrictions on viability information, normally as a request for exemption from disclosure under the Environmental Information Regulations 2004 and the Freedom of Information Act 2000, on the basis that this would adversely affect the confidentiality of commercial information which protects a legitimate economic interest.

[6] So long as these particular planning obligations are not necessary to make a development acceptable in planning terms.

30. However, the Council recognises the importance of public participation and the availability of viability information in the planning process to inform local Councillors, officers and consultees. The Council considers that disclosure would not cause an 'adverse effect' which would outweigh the public benefit of such an action; and that information submitted as a part of, and in support of a FVA should be treated transparently and be available for wider scrutiny. In submitting information, applicants should do so in the knowledge that this will be made publicly available alongside other application documents and in accordance with current national guidance on viability.

31. The Council will allow exceptions in very limited circumstances and only in the event that disclosure of an element of a FVA would clearly cause harm to the public interest to an extent that is not outweighed by the benefits of disclosure. Applicants wishing to make a case for exceptional circumstances shall provide full justification as to the extent to which disclosure of a specific piece of information would cause an 'adverse effect' and harm to the public interest, that is not outweighed by the benefits of disclosure.

32. The Council will consider this carefully, with reference to the 'adverse effect' and overriding 'public interest' tests in the Environmental Information Regulations, as well as the specific circumstances of the case. Such issues should be raised at an early stage within the pre-application process.

33. The Council has the right to provide information to external parties advising it on viability matters to fulfil its statutory function as Local Planning Authority. Regardless of any decision not to make specific elements of an appraisal publicly available information will be made available, on a confidential basis, to Planning Committee members or any other Council member who has a legitimate interest in seeing it.

34. The Council may also need to release information to a third party where another body has a role in providing public subsidy; or where the application is subject to a planning appeal. Any decision not to disclose information will be subject to the Council's obligations under the Freedom of Information Act 2000 and the Environmental Information Regulations 2004.

Development Appraisal Methodology

35. The Residual Land Value [RLV] appraisal methodology is a tool to determine whether a scheme will proceed or not. It determines the 'residual' value that is left available to pay a landowner for their land, once the costs of development [and a reasonable capital profit for the developer] are deducted from the gross development value [GDV] generated by the development. If a proposal generates sufficient positive land value after also supporting a suitable level of profit as well as necessary development costs and planning obligations, it will generally be capable of implementation from a viability point of view. If not, the proposal may not go ahead, unless there are alternative funding sources to 'bridge the gap' or other compelling drivers for it to progress. In all cases, the Council will always seek to mitigate the development impacts arising from the development [in addition to affordable housing] to ensure that applicants pay, as far as practicable, the true and full cost of their proposals and so minimise any spill-over costs on those not directly involved in the development decisions.

36. Any additional land value provided by a development over and above the value of the site in its existing use [inclusive of a premium], or an accepted policy compliant alternative use, is dependent on the grant of planning permission and be in compliance with the Local Plan[7].

37. The RLV appraisal methodology is the most appropriate to use in this context and is consistent with the longstanding principle that policy requirements associated with securing planning permission are development costs that influence the level of any uplift in land value from the grant of planning permission or change of use of land for development. Applied properly this appraisal methodology and approach is therefore appropriate for appraising viability as part of the planning process given that the purpose of the planning system is to achieve sustainable and resilient development.

38. Landowner expectations and speculation on land values need to be balanced against the legitimate needs of communities accommodating new development, including the provision of affordable housing and infrastructure. Ultimately, the landowner will make a decision on implementing a scheme or selling on the basis of return and the potential for market change, and whether an alternative development might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value at a premium above the 'existing use value' a reasonable landowner would expect to make development worthwhile. Further details on the application of existing use value are set out below on pages 15-16.

39. It is not considered appropriate to apply a fixed land value as an input within a development appraisal based on price paid for land or on an aspirational sum sought by a landowner. In such cases the developer's capital profit rather than the land value, would become the output of the residual valuation. This can result in a high fixed land value which is inconsistent with the outcome of the FVA which shows an unviable scheme. Other changes to a scheme, such as an increase or reduction in density [which can increase or decrease residual (land) value] may not be reflected in an appraisal where the site value has been fixed and is not the output of the appraisal methodology.

Benchmark land values

40. National guidance confirms that current or existing use value provide an appropriate basis for comparison with a residual land value to determine whether this incentivises a reasonable landowner to release a site and achieve a competitive return[8].

41. Benchmark land values, based on the existing use value or alternative use value of sites, are key considerations in the appraisal of development viability as they indicate the threshold for determining whether a scheme is viable or not. A development is deemed to be viable if the residual land value is equal to or higher than the benchmark land value. At

[7] Section 38(6) of the Planning and Compulsory Purchase Act 2004 requires that "where in making any determination under the planning Acts, regard is to be had to the Local Plan the determination shall be made in accordance with the plan unless material consideration indicates otherwise.

[8] Planning Practice Guidance for Viability, MHCLG, May and September, 2019b

this level, it is considered that a reasonable landowner will receive a competitive, yet minimum return and it is assumed will willingly release the land for development.

Assessing Existing Use Value/Alternative Use Value

42. Existing use value is defined as the value of the site[9] in its existing use, assuming that it remains in such use. It does not include any hope value[10] to reflect development on the site for alternative uses. Existing use values can vary significantly depending on the demand for the type of buildings or land uses relative to other areas. For instance, open green field land or other forms of previously undeveloped land or unused land have significantly lower existing use values.

43. It is important that any reference to existing use value is fully justified with comparable evidence specific to its current use. It excludes any 'hope value' associated with proposed development on the site or potential alternative uses.

44. Development, particularly residential, generates significantly higher land values and landowner expectations. In accordance with new national guidance [MHCLG, 2019b], the Council will expect benchmark land values for green field sites to provide a "minimum return" to a "reasonable landowner". Thus the premium on the EUV is likely to be around seven times[11], which is sufficient to allow policy compliant developer contributions[12] to be provided. In these circumstances, the developer makes a satisfactorily level of profit and the landowner gets their windfall. It is a common approach to utilise an Alternative Use Value, or an Existing Use Value plus a premium to determine the benchmark land value and assess whether the residual land value provides a competitive return for the landowner.

45. The Alternative Use Value or an Existing Use Value plus a premium approach may be informative in establishing the benchmark land value. This method reflects the need to ensure that development is sustainable [by taking into account site specific circumstances and complying with policy requirements] and should reflect the value of the landowners' existing interest [prior to grant of consent] and the need to provide a relevant incentive for the landowner to release the land for future development.

46. Any Alternative Use Value, or Existing Use Value plus a premium should be limited to those uses which have an existing implementable permission for that use in that there is an observable operational "business". The Council will need to be convinced that this kind of evidence used in the viability appraisal is robustly sourced and authenticated.

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[9] Market transactions used to justify an existing use value must be genuinely comparable to the application site, and should relate to sites and buildings of a similar condition and quality, or otherwise be adjusted accordingly and shall **exclude a land value uplift relating to future changes in uses** derived through the grant of planning permission.

[10] This is an element of market value that reflects the prospect of some more valuable future use or development in excess of the existing use value.

[11] However, there is no standard premium; for each site, definitive evidence needs to be provided to support the premium relating to risk profiles of the use of the site.

[12] This includes affordable housing and other developer contributions sought in the Council's extant Local Plan.

47. An Alternative Use Value approach to the benchmark land value will only be accepted where the alternative use would comply with the Local Plan. Sufficient information should be submitted to allow the principle of the alternative use to be assessed on a "without prejudice" basis to any future application that might be submitted.

48. In all cases, land or site value should reflect the site characteristics and conditions, planning policies including affordable housing, planning obligations and the appropriate Community Infrastructure Levy [CIL] rates. Such an approach significantly reduces inflated land values arising from the grant of planning permission, based on assumptions which do not adequately reflect planning policy and would likely make these unviable. This is in accordance with the internal logic of the appraisal methodology used in conducting development viability.

Market Value Approach

49. There is no single threshold land value at which land will come forward for development and there are a number of potential difficulties in the analysis of land market transaction to inform the benchmark exercise in FVAs. Such issues might be:

    - Overall – comparability of sites, schemes and circumstances, particularly across different planning authorities.
    - Potential overestimates of value based on past transactions ["market comparables"].
    - Potential for other transactions ["market comparables"] to not fully reflect current planning policy requirements such as those relating to affordable housing and density within the planning authority.
    - Differences in existing use value depending on observable business operations and any income generating existing uses.
    - Land transactions are speculatively based on assumptions of growth in values.
    - Transactions may relate to sites of different sizes, densities, mix of uses and costs to facilitate development.

50. Reliance on transactions that are not comparable may therefore lead to inappropriate views on a site's land value or worth. This restricts the ability to secure development that is viable, sustainable and consistent with the Local Plan.

51. Comparable, market-based evidence can be used to inform the Alternative Use/Existing Use Value plus Premium, but should always be appropriately adjusted to ensure that transactions are genuinely comparable, reflect current policy requirements and have not been inflated through assumptions of growth in values. If this is not possible, limited weight can be given to this and any benchmark land value that is reliant on them and the Council will rely on the Existing Use Value plus a Premium approach applying the guidance set out in this SPD.

Section 3: Information requirements – Evidence, Variable Inputs and Assumptions

Required Information and Evidence base

52. The submitted FVA should contain as a minimum the following information and data, which is set out in Table 1 below. The following information informs how a viability appraisal is generated.

Table 1: Viability Appraisal: Required Information and Variable Inputs		
Information and data required		**Notes**
Appraisal format	▪ Printed and electronic version of appraisal in format that can be fully tested and interrogated. ▪ Appraisal methodology utilised for the appraisal including details of any appraisal software or toolkits used. ▪ The unit of measurement must be metric.	
Scheme details	▪ Gross and net site area and densities. ▪ Residential unit numbers, sizes and types of units including the split between private and affordable tenures. ▪ Floor space areas: • Residential: Gross Internal Area [GIA] and Net Saleable Area [NSA]. • Commercial & other Uses: Gross Internal Area [GIA] and Net Internal Area [NIA]. ▪ Proposed specification for each component of development, consistent with assumed costs and values, and target market or occupiers.	
Development programme	▪ Project plan, including land acquisition, pre-build, construction and marketing periods and phasing. ▪ Viability cash flow where possible the timing and phasing of cost and revenue inputs [including interest rates, capitalisation rates; loan costs; residential sales rates with reference to project or build out plans and contracts and land or development or letting agreements as relevant].	
Gross Development Value	▪ Anticipated residential sales values, ground rents, sales rates [per month], and assumptions regarding forward sales and supporting evidence. ▪ Anticipated rental values, yields and supporting evidence. ▪ Details of likely incentives. ▪ Rent-free periods, voids for any commercial element. ▪ Anticipated value [and timing of payments] of affordable units based on evidence including details of	▪ 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 from the site, and, where relevant, arrangements with future occupiers where possible. ▪ Information relevant to comparable properties should be fully analysed to demonstrate how this has been interpreted and applied to the application scheme. ▪ Development appraisals should be informed by discussions with a RP of

	discussions with Registered Providers [RP] & RP offers. ▪ Substitution values and revenues for less or no affordable housing. ▪ Where house prices have been transformed, reference to its source is essential. The Council will draw on the ONS New House Price Index to verify such transformations.	affordable housing – providers may be able to indicate their likely offer prices. ▪ Affordable housing values assumed within a FVA should reflect the offer/s made by RPs for purchasing the affordable housing element of the development. Where input is not available, information on rents, management and repair costs, voids, yields /payback period requirements should be submitted. For Shared ownership - % share and rent level on retained equity. Estimated % of market value (MV) and £/m^2 indications are also useful benchmarks helping inform a view on the revenue assumptions. ▪ Evidence of calculations underpinning affordable housing values, including details of rental and capital receipts [including, where relevant, stair-casing], ▪ Discussions with RPs and subsidies should be provided.
Build Costs	▪ Build costs [£/m2] based on Build Cost Information Service [BCIS], with values correctly reflecting the specific proposal, and justified to show that an appropriate and reasoned approach has been taken in estimating the costs. ▪ BCIS data are building prices. It will be expected that applicants extract the contractor's rate of profit [equivalent to 5% of prices] to arrive at a baseline build cost, which is inclusive of preliminaries. ▪ Abnormal or exceptional costs not reflected in the land value/price, providing underlying details. ▪ Where applicants seek to rely	▪ Development costs adopted within FVAs are typically determined based on current day figures at the point of the planning permission. ▪ The BCIS is a publicly available source of cost information which can be used in FVAs. The selection of BCIS values must correctly reflect the specific nature, location and size of proposal, and be justified to show that an appropriate and reasoned approach has been taken in estimating the costs. In such instances where costs are agreed by the Council, this would be an acceptable basis of cost inputs as part of a review mechanism, linked to the Tender Price Index [TPI]. ▪ Abnormal costs should come with an explanation of the need/relevance and cost estimate information / reasoning for the assumed cost

	on a specific assessment of build costs rather than a recognised publicly available source of information [likely to be the case for larger schemes]: expected build cost and supporting evidence including a fully detailed elemental cost plan demonstrating the basis of cost estimations and evidence of contractor costs. Disaggregated abnormal costs [if relevant] that can be benchmarked against BCIS data. ▪ Details of other costs such as demolition and supporting evidence including clarity on any additional assumptions such as relating to external/site works.	levels. ▪ It should not be assumed that abnormal costs would necessarily be borne exclusively at the expense of compliance with the Local Plan, as a site involving abnormal development costs is likely to attract a lower land value than could be achieved on a site where this was not the case. ▪ Where a specific assessment of build costs is relied on, rather than standardised costs from a recognised source, or where any abnormal costs are applied, build costs will be reviewed on an open book basis as a part of a viability review. Costs should be provided for different components of the scheme including market and affordable housing. ▪ The Council will expect a clear correlation to be evident between a development's specification, assumed build costs and development values.
Fees	▪ Sales and letting and professional fees and relevant supporting evidence	▪ Build sales and marketing costs. These should be expressed based on unit costs rather than as global percentages.
Developer's Capital Profit	▪ Profit <u>on</u> all Costs or <u>of</u> GDV. ▪ Supporting evidence from applicants to justify proposed target rates of profit taking account of the individual characteristics of the scheme. ▪ For a policy compliant scheme a blended rate should be revealed based on different rates according to the risks associated with market housing units and those being delivered as affordable housing units.	▪ In accordance with the national PPG for Viability [MHCLG, 2019b] the Council will avoid a rigid approach to profit levels. The Council will consider the individual characteristics of each scheme when determining an appropriate profit level and will require supporting evidence from applicants and lenders to justify why a particular return is appropriate, having regard to site specific circumstances, market conditions and the scheme's risk profile. ▪ The appropriate level of developer profit will vary from scheme to scheme. This is determined by a range of factors including property

		market conditions, individual characteristics of the scheme, comparable schemes and the development's risk profile. The lower the scheme's risk profile, the lower the level of required profit and vice versa. ▪ Profit requirements for affordable housing are generally much lower than those for market sale units given the lower levels of risk associated with securing occupation of affordable units compared with the sale of market units and a more certain exit route. ▪ Assumptions made must be balanced and internally consistent. In line with this, it should be made clear how the profit level has been adjusted taking into account the other assumed inputs within an appraisal. For example, where a high build cost contingency or other costs at the upper end of typical parameters are adopted as means of mitigating risk, this would equally be expected to influence the assumed profit target. ▪ The Council expect that the actual developer return that is produced as part of the applicant's FVA should form the profit threshold [rather than any higher figure] or be regarded as a reasonable return for the applicant. ▪ The most common approach to calculating developer's capital profit in FVAs submitted as part of the planning decision process is either as a factor **of GDV** or **on all the costs of building out the site**.

Benchmark Land Value	▪ Existing Use Value (EUV) based on evidence including existing income, comparable data and details of condition of existing site. Justification for any alternative use value or the EUV plus premium, taking account of circumstances of site and planning policy together with this SPD. ▪ Freehold/leasehold titles. ▪ Tenancy schedule - to include lease summaries [where appropriate]. ▪ Details of income that will continue to be received over the development period [where appropriate]. ▪ Arrangements between the landowner and developer, including any land transfer, sale, development or tenancy agreements [where appropriate]. ▪ Evidence on how benchmark land value reflect extant planning policy	▪ See Section 3 [above]. ▪ Land value should reflect extant policy requirements, planning obligations and CIL charges. ▪ The current application of a 'market value' approach has raised concerns which can inappropriately reduce planning obligations. Where these concerns are evident the Council will rely on the Existing Use Value plus a premium approach applying the guidance set out in this document. ▪ Lower levels of affordable housing should only be tested where warranted by genuine site specific viability constraints [including where an acceptable benchmark land value cannot be achieved] as defined under the terms of this guidance. ▪ An Alternative Use Value benchmark land value will only be accepted where there is a valid consent for the alternative use or if the alternative use would clearly fully comply with the Council's extant Local Plan. ▪ In any event bearing in mind that land can be overpaid for – a historic or actual site purchase is not an appropriate indicator of current site value.
Planning Obligations and other Development Contributions	▪ Planning obligation [or S106] costs. ▪ Community Infrastructure Levy [CIL] rates.	▪ Likely S106 & CIL costs shall be included as a development cost in a FVA. ▪ The timing and level of planning obligations that can be supported as a part of the VA process will be considered. Where these are necessary to make development acceptable in planning terms however, where these cannot be secured, planning permission will not be granted. ▪ Any CIL instalment policy should be reflected in assumed timings of payments or in accordance with the Council's payments' schedule [RMBC, CIL Instalments Policy, 2016].

Development finance	▪ Finance costs appropriate to the type of proposal, reflecting that finance costs vary throughout the development period, with the majority of interest costs typically incurred during construction and bearing in mind the assumed land purchase timing[s].	▪ A standardised approach will generally be adopted to finance costs which should be appropriate to the type of proposal. ▪ The viability appraisal methodology should reflect that finance costs vary throughout the development period, with the majority of interest costs typically incurred during construction.
Other Fees and Costs	▪ A statement to verify accuracy of information submitted [see Inputs Template for further information, pp.22-25]. ▪ Other information requested by the Council having regard to the specific application. ▪ Depending on individual site circumstances further information may be required, this may include: • Developers market analysis report; • Details of company overheads; • Copy of financing offer letter; • Copy of cost plan; • Board report on scheme; • Letter from auditors concerning land values and write offs; • Sensitivity analysis showing different assumption options e.g. low, medium and high scenarios [see in particular Outputs Templates 2 and 3 on pp.28-29].	

Additional Notes:

A. **Gross Development Value** [GDV] is determined by assessing the total value of a development based on the value of the individual uses within the development. This is derived from the sales values of any units to be sold and the rental value of any units to be rented which are capitalised using a 'yield', to give an overall capital value [including ground rents]. Development values adopted within FVAs are typically determined based on current day figures at the time of determination. The ONS New Build House Price Index is an appropriate base on which to update new build house prices to the datum point of a FVA [when relevant].

B. **Building Costs**: The Building Cost Information Service [BCIS] is a publicly available [subscription] source of cost information which can be used in FVAs. The selection of BCIS inputs must correctly reflect the specific nature, location and size of proposal, and be justified to show that an appropriate and reasoned approach has been taken in estimating the costs. In such instances where costs are agreed by the Council, this would be an acceptable basis of cost inputs as part of a review mechanism, linked to the Tender Price Index [TPI), as a measure of the movement of baseline building costs.

Inputs Template: Variable Inputs and Assumptions

53. In submitting a FVA, an inputs' template has been prepared to illustrate the way the variable inputs can be summarised to give the Council a convenient way of checking inputs and understanding the primary variables used in generating the submitted viability appraisal [see Table 2 below]. All applicants will be required to utilise this template in their submitted FVA. Applicants may wish to supplement these to reflect the specific attributes of their scheme.

Table 2: INPUTS TEMPLATE: Variable Inputs and Assumptions

Variable	Description		£/unit; £/m^2; £/week
Prices [Market Homes]	**List house types** e.g. Detached		£k/£m^2
	Semi-detached		£k/£m^2
	Terraced		£k/£m^2
	Apartments		£k/£m^2
Prices [Affordable Homes]	Detached		£k/£m^2
	Semi-detached		£k/£m^2
	Terraced		£k/£m^2
	Apartments		£k/£m^2
Rents [Affordable Homes]	Detached [£/week]		£/week
	Semi-detached [£/week]		£/week
	Terraced [£/week]		£/week
	Apartments [£/week]		£/week
	Yield to capitalise Affordable rents [%pa]		X%
Rents [Market Homes]	Detached [£/week]		£/week
	Semi-detached [£/week]		£/week
	Terraced [£/week]		£/week
	Apartments [£/week]		£/week
	Yield to capitalise Market rents [%pa]		X%
Commercial Uses	**Use Class**	**Rent**	**All Risk Yield**
	Offices	£/m^2/pa	%
	Retail	£/m^2/pa	%
	Industrial/Warehousing	£/m^2/pa	%
	Others	£/m^2/pa	%

Build Prices [cite date], rebased to the Council's local cost adjustment factor	**Residential [illustrative]**	**Build Prices**	**Floor space/unit [m²]**
	Detached Homes]	£/m²	m²
	Semi-detached Homes	£/m²	m²
	Terraced	£/m²	m²
	Apartment	£/m²	m²
	Commercial Use Class [illustrative]	**Build Prices**	**Floor space [m²]**
	Offices	£/m²	X
	Retail	£/m²	X
	Industrial/Warehousing	£/m²	X
	Others	£/m²	X
	Others	£/m²	X
Infrastructure and Abnormal Developments Costs [ADC]	Infrastructure Costs [lump sum]		£x
	ADC1 [lump sum]		£x
	ADC2 [lump sum]		£x
	ADC3 [lump sum]		£x
	ADC4 [lump sum]		£x
Developer's Target Rate of Profit	Market Homes [% of GDV]		X%
	Affordable Homes [%of GDV]		Y%
	Specific rates for Commercial Uses		Z%
Fees and Other Relevant Costs	Professional Fees [%]		X%
	External Works [%]		X%
	Contingency [%]		X%
	Preliminaries [%]		X%
	NHBC [£/unit]		£x
	Planning Fees		prescribed
	Marketing Fees]		£/unit or £/m²
	Estate Agents' fees [%]		X%
	Legal Fees on site acquisition [%]		X%
	Legal Fees on Sales [%]		X%

	Stamp Duty Land Tax	prescribed
	Bank Fees : Valuation and Monitoring [£]	£x
	If BCIS price data used, specify Extracted Contractor's rate of profit [%]	%
Time & Interest Rate	Total Development Period [months]	X
	Total Build-out period [months]	X
	Void Periods [months]	X
	Build out Rates	Units/month
	Sales Rates	Units/month
	Debit Rate of Interest [%pa]	X%
	Credit Rate of Interest [%pa]	X%
	Discount Rate [%pa]	X%
RMBC Planning Policy Requirements to deliver a Compliant Scheme	AH Provision Policy Requirement [%]	%
	AH For Sale [%]	%
	AH For Rent [%]	%
	CIL - Market Homes only [£/m^2]	£x
	CIL for other Use Classes [£/m^2]	£x
	S106 Costs [£/m^2]	£x
Dwelling Unit Sizes	Detached [m^2]	X
	Semi-detached [m^2]	X
	Terraced [m^2]	X
	Apartments [m^2]	X
Scheme Totals - Residential	Residential Land Area [Hectares]	X
	Number of Dwellings	X
	Total Floor space [m^2]	X
	Average size of dwelling units [m^2]	X
Scheme Totals – Other Uses	Other Uses Land Area [Hectares]	X
	Total Floor space [m^2]	X

Overall Scheme Gross Site Area	Total Land Area [Hectares]	x
	Residential [ha]	x
	Green Spaces [ha]	x
	Agriculture [ha]	x
	Commercial/Mixed Uses [ha]	x
	Highways [ha]	x
	Others…..specify [ha]	x
Development Appraisal	Appraisal Methodology & name of proprietary software if relevant	Cash Flow Residual Land Valuation
	Residual Land Value Estimate	an output [£/ha]

54. The variable inputs recorded in the above template will need to be supported by documentation relating to the sources used and written explanation regarding any transformation of the data inputs submitted. This will enable the Council to authenticate inputs and proceed to evaluate outputs.

Outputs Template: Viability Appraisal Outputs

55. The Council requires that the submitted FVA adopts a standardized style and format for presenting the main outputs stemming from carrying out a FVA for contesting the viability of the proposed scheme. There are two templates that will need to be prepared. Of course applicants may wish to supplement these.

Outputs Template 1

56. The template [in Table 3] covers standardised outputs for the appraised scheme, specifically the main elements of gross development value, build costs, fees, finance, capital profit and lastly the residual land value, including the benchmark land value applied to judge the status and position of viability.

Table 3: Outputs Template 1: Standardised Viability Appraisal Outputs				
Planning Application Number: RB2020/XXXX				
Site Name: ……………………………				
Gross Site Size [hectares]				
Total Number of Dwellings				
Summary Outputs	**All Market Scheme**	**% of GDV**	**Policy Compliant Scheme**	**% of GDV**
Gross Development Value (GDV)	£x	100%	£x	100%
Building Costs, External Works & Extra Works	£x	x%	£x	x%
All Professional Fees, including Bank Fees & Stamp Duty Land Tax	£x	x%	£x	x%
Planning Obligations and Other Contributions	£x	x%	£x	x%
Interest Charges	£x	x%	£x	x%
Developer's Capital Profit	£x	x%	£x	x%
Residual Land Value Estimate [RLVE]	£x	x%	£x	x%
Residual Land Value Estimate [RLVE] £/hectare	£x	void	£x	void
Benchmark Land Value [£/hectare]	£/ha		£/ha	
Capital Profit as a % on All Scheme Costs	x%		x%	
Capital Profit as a % of Gross Development Value	x%		x%	
Cash Flow discount rate [%pa]	x%		x%	

Outputs Template 2

57. Table 4 covers iterations of a policy compliant scheme [as set out in Table 3 above] by applying sensitivity testing of the key variable inputs, which are selected in accordance with the internal logic of the appraisal methodology [see Ratcliffe, et al, 2009, p.422]. If relevant, applicants are advised to provide additional iterations to reflect other specific circumstances relating to the proposed scheme under review.

Table 4: Outputs Template 2: Standardised Sensitivity Outputs of A Policy Compliant Scheme				
Planning Application Number: RB2020/XXXX				
Site Name: ……………………………..				
Iteration [Cash Flow Discounted at X%pa]	**RLVE [£/hectare]**	**% change in RLVE from Policy Compliant Scheme**	**Benchmark Land Value = (EUV + (EUV*Premium)) [£/hectare]**	**Is Scheme Viable?**
RLVE - All Market	£x	VOID	£X	VOID
Base-line RLVE - AH Policy Compliant	£x	x%	£X	TRUE/FALSE
Base-line + Fall in House Price by 5%	£x	x%	£X	TRUE/FALSE
Base-line + Rise in House Price by 5%	£x	x%	£X	TRUE/FALSE
Base-line+ Fall in Building Costs by 5%	£x	x%	£X	TRUE/FALSE
Base-line + Rise in Building Costs by 5%	£x	x%	£X	TRUE/FALSE
Base-line + Fall in Interest Rates by 2% points pa.	£x	x%	£X	TRUE/FALSE
Base-line + Rise in Interest Rates by 2% points pa.	£x	x%	£X	TRUE/FALSE
Base-line + Extend Build period by 6 months	£x	x%	£X	TRUE/FALSE

*The above iterations can be changed in the active spreadsheets so long as these are declared to the Council.

58. Sensitivity analysis provides evidence to the Council of the relative power of the key variables affecting the status of viability for the contested scheme. It is important that there is consistency in the outputs displayed in Table 3: Outputs Template 1 and those displayed in Table 4: Outputs Template 2. Applicants are also encouraged to tailor the sensitivity analysis in accordance with the particular attributes of their proposed scheme.

59. It is seldom that a development project can be evaluated adequately on the basis of a single set of figures reflecting a single set of assumptions. The concept of a sensitivity analysis is a simple yet effective one, whereby each of the key variables [value (i.e. price/rents/yields), build costs, interest rates, time] is altered in turn in an informed and realistic way, so that the developer can test how sensitive the proposed land bid is to possible changes in these variables [see Ratcliffe et al 2009:422].

60. Accordingly, and a priori, small changes in any one of the [above] principal variables can often exert a disproportionate effect on the residual land valuation sum.

61. The applicant/developer should appraise any scheme with zero AH so as to provide a baseline against that the policy rate of AH% can then be compared. Indeed the developer should also set out the impact of applying various rates of AH% [i.e. from zero up to the Local Plan policy requirement]. The sensitivity analysis should then subject each of those sets of data to say +/- 5%, 10%, 15%, 20% fluctuations in each of the key variables but especially baseline prices (i.e. values, yields and rents) and baseline build costs.

62. The numbers and mix of AH for rent and sale will have different impacts on viability [with AH for rent having the most negative impact on the RLV] and so re-appraising the mix of these AH units may help render the development scheme viable.

63. Changes in the cash profiles should also be considered, particularly the payment received by the developers from RPs regarding the part-purchase of the affordable homes or involving CIL payments or planning obligations.

64. Equally, consideration shall be given to phasing planning obligations arising so as relieve the cash flow without compromising the integrity of the development in planning terms and the Council's Local Plan.

Appendix 5 contains illustrations of completed Output Templates for Tables 3 and 4.

Section 4: Viability Review Process

Preamble

65. The assessment of viability at planning application stage [Submission VA] may have had the effect of reducing the policy requirements that a development would otherwise have to meet. One potential outcome could be a reduced provision of affordable housing. Figure 1, overleaf, displays the routes that a planning application can follow. The normal route simply illustrates that all fully policy compliant schemes are most likely to gain planning permission. All other applications will be required to follow the Viability Tested route.

66. The purpose of this section of the SPD is to explain the route and the triggers involved in the viability review mechanism.

67. In order to ensure that the maximum reasonable level of affordable housing is provided in line with Core Strategy Policy CS7 [RMBC, 2014, p.76], and that other plan requirements are met, the Council will require viability review through planning obligations on all residential/mixed use applications which do not meet the affordable housing requirement and or policy requirements in full at the time planning permission is granted.

68. Property markets have experienced significant changes in recent years at a local and national level. The recently completed refresh study [RMBC, 2019] attests to the continuing viability of the Council's planning and affordable housing policy requirements. However, the Council understands that the viability of a scheme may be notably different by the time of implementation due to changes in market conditions; and uncertainties in relation to aspects of a VA at the application stage. Development values adopted within viability appraisals are typically determined and based on current day values at the point of the planning permission. However there is usually a time lag between the planning stage and delivery of the development with applicants normally having up to three years to implement a development and the construction period further delaying the point at which values are realised. During this time significant changes can occur to the viability of a development. As such, the practice of viability review to ensure that proposals are based on an accurate assessment of viability at the point of delivery has become increasingly well established.

69. The purpose of the viability review mechanism, once development on-site has commenced13, is to ascertain whether additional policy compliance can viably be achieved at the point of delivery. The viability review mechanisms should not result in a reduction in policy compliance which is likely to affect the acceptability of a development proposal. At any point in time, of course, the applicant can submit an entirely new planning application.

70. A viability review will determine whether a development is capable of providing additional affordable housing or meeting other unmet planning policy requirements, deemed unviable at planning application stage through the Submission VA.

[13] This is triggered by the issue of a commencement notice in relation to CIL Regulation 67.

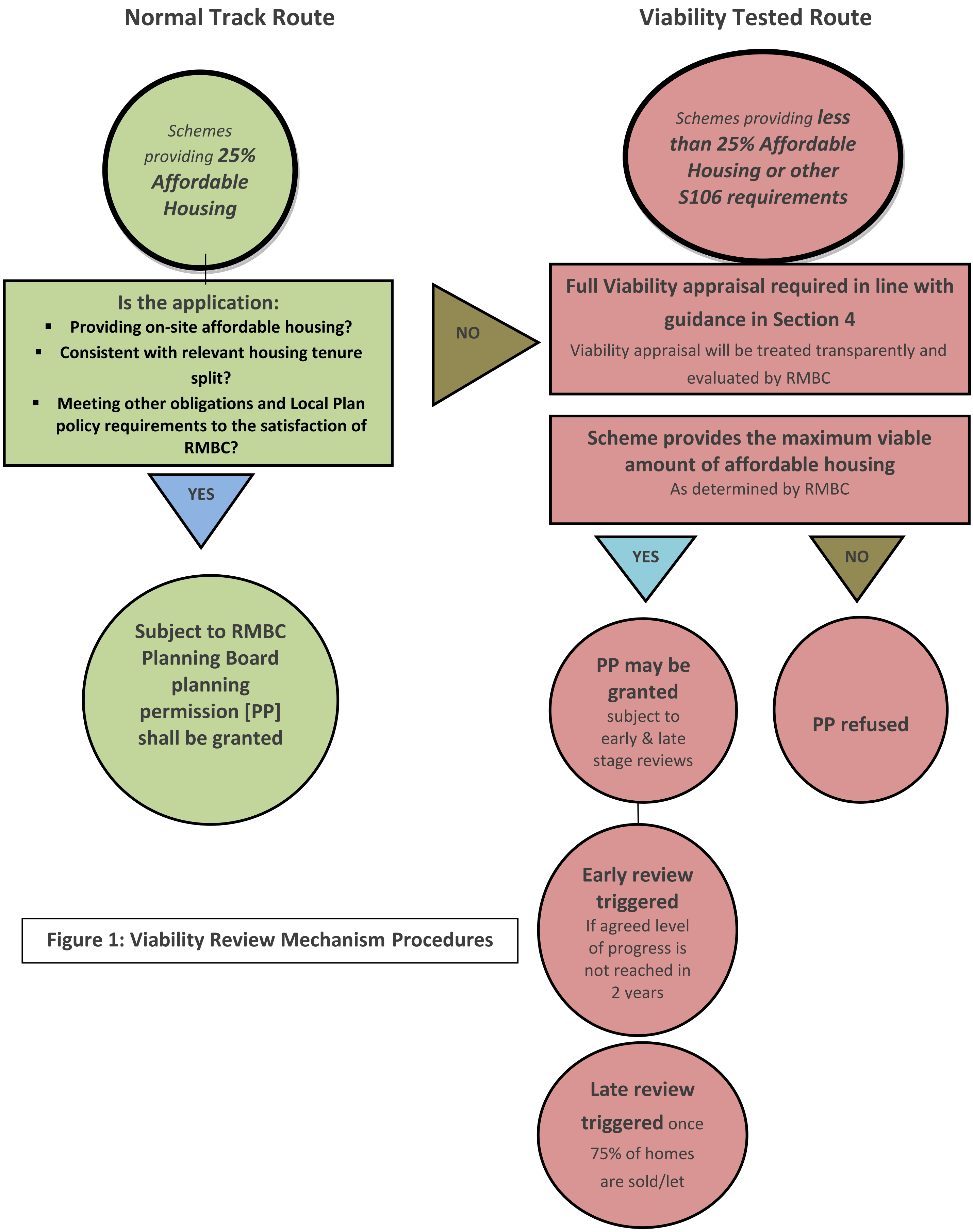

Figure 1: Viability Review Mechanism Procedures

The approach to viability review

71. In order to ensure that the maximum reasonable level of affordable housing is provided in accordance with the Council's Core Strategy Policy CS7, and other plan requirements are met, viability review mechanisms are required to be secured through planning obligations. Figure 2 [overleaf] summarises the procedures and the actions stemming from the particular viability review triggered. In particular, the role of using planning obligations as an integral aspect of securing possible affordable housing and other planning requirements if a scheme's viability position has improved since the date at which the planning permission had been granted. In the spirit of openness, both applicant and the planning authority shall be committed to following these procedures to ensure consistency and fairness in the process.

Additional provision capped based on policy requirements

72. The purpose of a viability review is to determine whether greater or full compliance with the Council's Local Plan can be achieved to accord with the Council's duty to deliver and implement its Local Plan. Therefore any additional obligations will be capped based on the policy terms of the Local Plan [including the Council's Local Plan affordable housing target] with the aim of securing the provision of policy requirements that were previously determined not to be deliverable.

73. Where a 'surplus' revenue or profit is generated over and above the 'target' or 'base' profit level [which is necessary to ensure a viable development], this will be prioritised for a greater level of policy compliance [capped by relevant policy requirements]. In most instances the Council shall deem it appropriate for a developer to receive a share of surplus revenue or profit to incentivise the developer to maximise value.

74. Thus, after any outstanding policy requirements are met, any additional 'surplus revenue' will be retained in its entirety by the developer as additional profit. Further details on the Council's approach to determining the cap and additional developer profit are set out below in the remaining parts of this section of the SPD and in Appendices 6 and 7 which contain the relevant formulae that shall be applied on a case-by-case basis.

Timing of viability reviews

75. Where affordable housing and other policy requirements are not met at application stage due to viability considerations, the Council will require applicants to enter into review mechanisms with integral Section 106 agreements. These will enable a re-assessment of viability to determine whether additional affordable housing and other planning obligations can be provided at a later date [see Figure 1].

76. Reviews may take place prior to or at an early stage of development enabling additional on-site affordable housing to be provided, or at a later stage based on actual values and costs that will generally result in an additional financial contribution. On phased schemes viability reviews may be required at different stages of the development process.

Figure 2: Early and Late Stage Viability Appraisal Review Procedures

Stage 1: Planning Permission granted at lower level of affordable housing provision than required by Local Plan policy.
The S106 Planning Agreement will require a layout plan showing the location of a full policy compliant Affordable Housing scheme, to be appended to it.
The layout plan will also highlight those affordable housing properties to be delivered at grant of planning permission stage and all appropriate details associated with the type (according to the NPPF glossary) of affordable housing provision to be provided.

Stage 2: Pre-implementation Stage Viability Review	
Route 1:	**Route 2:**
Community Infrastructure Levy Regulation 67 Commencement Notice Issued	Community Infrastructure Levy Regulation 67 Commencement Notice Issued
No necessity to Review if implementation expected within 12 months of Regulation 67 commencement.	If implementation will not be substantially complete within twelve months of Regulation 67 commencement then within three months of the start date a pre-implementation stage review of viability will be required.
No substantial changes to market conditions and to viability have occurred since the signing of the S016 Planning Agreement.	If Viability has improved then it is expected that further affordable housing units will be provided on site.
Build out completed.	S106 Planning Agreement – amendments to schedule and layout plan signed and added to Planning Register.

Stage 3: Mid-Stage Viability Review when development is to be delivered on site in phases
Viability Assessment of development on whole site taking into account values, build costs and surplus realised in initial stages of development and estimates for future stages.
If Viability has improved then it is expected that further affordable housing units will be provided on site.
S106 Planning Agreement – amendments are made to the schedule and layout plan signed and added to Planning Register.
Repeat this stage at three yearly intervals (or to be agreed with the LPA) until full policy compliance achieved or 75% of market residential units are completed on site.

Stage 4: Advance Stage Viability Review
This is triggered when 75% of the market residential units have been completed, or within three months of practical completion of other schemes, where the Advance Stage Review enables the viability assessment to be based on up-to-date, accurate and robust information.
If a surplus has been achieved to date through actual delivery of a scheme on site, then financial contributions will be sought towards off-site affordable housing provision or other policy requirements, capped to the level required by Local Plan policy.

77. Viability reviews carried out at an early stage in the development or prior to the implementation of later phases have the benefit of increasing the likelihood that additional affordable housing can be provided on site. The advantage of undertaking viability reviews towards the end of a development on the other hand is that better, robust, and up-to-date values and costs can be taken into account; and is based on up-to-date and accurate viability evidence, all of which will go towards supporting the delivery of the Local Plan.

78. The Council will therefore require viability reviews to take place at the following stages.

- For **all schemes** requiring a Submission VA at planning application stage: At an advanced stage of development [**Advanced Stage Review VA**], a review will ensure that viability is accurately assessed and up-to-date;

- On **phased developments**[14]: In view of the priority given to on-site delivery of affordable housing[15], an additional viability review will be required prior to substantial implementation of the development [**Pre-implementation Review VA**] where this does not occur after 12 months of the Commencement Notice, which is required by Community Infrastructure Levy Regulation 67; and

- For **large phased schemes**[16]: A further review will be required at a mid-point stage in the development [prior to implementation of the second half or later phases of the development] [**Mid-term Review VA**].

Viability review process

79. The applicant is required to submit updated information consistent with this SPD, as per that submitted at initial planning application stage [Submission Viability Appraisal] including any necessary supplementary information following a review of this by the Council. The review will assess changes to gross development value and build costs[17], the key variables most likely to change. This will apply to the development as a whole [incorporating all uses] and be based on formulas [which are displayed in Appendix 6] to be included in the planning obligation.

80. These formulae will be used to determine whether 'surplus revenue or profit' will be generated over and above required developer returns[18]. A proportion of any additional value generated as a result of increased values or reduced costs will be retained by the developer as an additional profit allowance to ensure that they also gain from the

[14] Typically sites of 100 or more residential units 10,000 m^2 or greater commercial schemes or mixed use schemes – however, to be assessed by the Council based on circumstances of individual schemes.
[15] See Core Strategy CS7: Housing Mix and Affordable Housing
[16] Threshold for 'large phased developments': 200 or more residential units [or 4 hectares or more] or 20,000m^2 or greater for commercial/mixed use.
[17] See Radcliffe et al [2009], especially p.422.
[18] The starting point for the review is that, it was determined that the approved scheme is deliverable at application stage (see Sections 2 and 3).

improved scenario[19]. This allowance will be higher for mid-term and advanced stage reviews to ensure that a developer remains incentivised to maximise values and minimise costs prior to the review.

81. In the event of a 'surplus' being identified on viability review, this is used to determine the level of additional affordable housing that can be provided [capped by the strategic affordable housing policy requirement i.e. 25%] based on the opportunity cost to the developer of converting market housing into affordable housing as determined by the difference in value of market housing compared to its value as affordable housing. For other planning obligations that were not fully addressed at application stage, the level of any additional financial contribution [capped at a policy compliant level] will be determined by the initial formula at each stage, as set out below.

82. In order to increase the likelihood of additional affordable housing being provided on site following a review at any stage, potential affordable units will be identified in planning obligations where affordable housing is not being provided in full or in part on viability grounds through an Additional Affordable Housing Schedule[20] to be appended to the planning obligation. This will enable affordable units to be provided at a later stage if there is an improvement in viability and it subsequently proves possible to provide such units.

Pre-Implementation Viability Review

83. For phased developments, where a development has reached 'substantial implementation' within 12 months of the Commencement Notice [as triggered by CIL Regulation 67], market conditions and the viability of a scheme remains relatively unchanged, a Pre-Implementation Viability Review would not normally be required. If substantial implementation occurs after 12 months of the Commencement Notice [as triggered by CIL Regulation 67], at which point the initial VA will be deemed to be out of date]. As a result, a Pre-Implementation Viability Review will be required and this shall take place within no more than 3 months after this trigger point.

84. Reviews which take place prior to implementation of a phased development should deliver additional on-site affordable housing in accordance with an Additional Affordable Housing Scheme to be appended to the planning obligation. This should identify the units to be converted to affordable housing in line with the Council's required tenure split. Where there is remaining surplus which does not amount to the provision of one whole affordable housing unit, this surplus amount should be used as a contribution for off-site affordable housing [i.e. in the form of a financial commuted sum] or to provide any further planning obligations that were required, but found to be unviable at application stage. The same applies in the case of Mid-Term Viability Reviews.

[19] This is calculated as a factor of value and costs to ensure that the developer potentially stands to gain in either scenario.

[20] The potential affordable housing units will be detailed in an Additional Affordable Housing Schedule. This will comprise a site plan identifying the potential housing units together with a table stating their plot numbers, unit types and sizes.

85. In the case of Pre-Implementation Viability Reviews prior to substantial implementation, the developer will receive a share of any surplus in line with typical profit requirements. The majority of sales and rental income will be received at a later date and so the developer will remain incentivised to maximise value after the review has taken place.

86. The Pre-Implementation Viability Review formula is displayed in Appendix 6. This review operates in two stages:

- **Firstly,** by using **Formula A,** calculate the level of any surplus profit or revenue available for on-site affordable housing or other policy requirements; and then
- **Secondly**, by using **Formula B**, determine the level of additional affordable housing floor space deliverable from any surplus profit or revenue.

87. Any surplus will be used to determine those units identified in the Additional Affordable Housing Schedule that will be converted to affordable housing up to the affordable housing policy requirement cap. For other policy requirements which take the form of a financial contribution, only Formula A will apply. Appendix 6 contains the formulae and associated explanations that applicants shall use to evaluate their scheme.

88. An active spreadsheet will be made available to review applicants; a link is provided in Appendix 7. The variable inputs relating to GDV and Build Costs will be extracted from an applicant's original and updated viability appraisal calculations which must be prepared and presented in accordance with the review procedures set out in this SPD.

89. The above approach sets out a clear basis for calculating the level of any additional requirements that could viably be provided while recognising that in some instances adjustments to the calculations may be warranted according to the circumstances of a specific proposal. For example, in circumstances where the conversion of different tenures would be appropriate, such as intermediate housing to social rented housing, the Council may apply an alternative formula which takes into account the difference in values of the relevant tenures.

Mid-term Viability Review

90. In the case of 'large phased developments', a Mid-Term Viability Review will be required which takes place prior to implementation of later phases of a development[21]. These should deliver additional on-site affordable housing in later phases in accordance with an Additional Affordable Housing Schedule to be appended to the planning obligation.

91. Mid-Term [and Advanced Stage] Viability Reviews shall assess the development as a whole, taking into account values, build costs and surplus that have been realised in the initial stages of the development as well as estimates for the subsequent phases. This is necessary to ensure that affordable housing provision is maximised and that other policy requirements that were not achievable at application stage, are met where viable. Where

[21] At a mid-point stage in the development (prior to implementation of the second half/ later phases of the development).

build costs were based on BCIS build costs in the application stage appraisal, these will be index linked from the date of the previous review using the BCIS Tender Price Index [TPI].

92. The Mid-term Viability Review will operate in two stages:

- **Firstly,** by using **Formula C,** calculate any surplus based on the approach set out below in the **Advanced Stage Viability Review;** and **then**

- **Secondly,** by using **Formula B,** calculate the surplus to determine the level of additional affordable housing that can be provided on-site in accordance with an Additional Affordable Housing schedule to be appended to the planning application **[see section on Pre-implementation Reviews above].**

Advanced Stage Viability Review

93. Advanced Stage Viability Reviews will be required on all residential/mixed-use applications which do not meet the Local Plan affordable housing target and or all policy requirements at the granting of planning permission on the basis of an agreed Submission VA [and any subsequently provided information]. For residential-led schemes, Advanced Stage Viability Reviews should be undertaken on sale of 75% of market residential units, and for other schemes, within a three month period prior to practical completion. This enables the assessment to be based on up-to-date, accurate and more robust information, while also retaining the ability to secure the additional provision of policy requirements[22].

94. The outcome of this review will typically be a financial contribution towards off-site affordable housing provision or other policy requirements. In the event that a surplus is generated, any contribution payable will be capped according to the level of contribution required by policy and associated guidance. For affordable housing contributions, this will be based on the level of surplus required to provide additional affordable housing to meet the overall affordable housing target. The contribution and cap will be calculated in accordance with Formulae C and D that are set out in Appendix 6.

95. Again, in some instances adjustments to the calculations may be warranted according to the circumstances of a specific proposal. For example, where market and affordable housing values were clearly distinguished in the original appraisal calculation, it may be appropriate to allow for differential costs when determining the Advanced Stage Affordable Housing Cap.

Considering Changes in Values and Costs at Planning Application Stage

96. In line with NPPG[23], the Council will always consider development viability based on current costs and values at application stage. The NPPG envisages that for phased schemes, however, it may be appropriate to consider projected changes in values or costs

[22] This will normally be achieved through a restriction on occupation of market units and or payment into a secure account determined by the Council.

[23] National PPG for Viability: Key principles in understanding viability in plan making and decision taking: see https://www.gov.uk/ guidance/viability.

at planning application stage. This is distinct from viability review which considers changes in values and costs at the point of delivery.

97. If a VA assumes projected changes in development values and build costs, these should be fully justified, reasonable and consistent with long-term new build trends, current market conditions and market expectations.

98. Whether or not projected values and costs are applied, viability reviews will be necessary to assess actual changes in values and costs.

Material Changes

99. Where material changes are proposed that would make the scheme less compliant24 with the Local Plan, this would require a new planning permission and could not be addressed through a VA review. The information and data set out in Table 5 should be provided on an open book basis for evaluation as part of a review.

Table 5: Information required for Viability Review Mechanisms in relation to Material Changes

Required Information & Data	Notes	Comments
Gross Development Value [GDV]	GDV [all gross receipts or revenue received] supported by evidence, including but not limited to: ▪ Audited company accounts detailing all sold/ let transactions. ▪ Certified sales contracts or completion certificates detailing the purchase price for each sale. ▪ Land Registry records showing sale price information. ▪ Other receipts [e.g. income from ground rents].	
Estimated GDV	Estimated GDV for the unsold or un-let components of the development at the point of review using detailed comparable information taking into account: ▪ Any sales/ lettings that have taken place on the development [see also Section 3]. ▪ Income from any other sources.	
Average residential values [£/m2]	Average residential values [£/m^2] for market and affordable housing across the scheme based on the information provided above.	
Actual build costs incurred	Payments made or agreed to be paid in the relevant building contract, including receipted invoices, or costs certified by the developer's quantity surveyor, costs consultant or employer's agent.	This is not required at application stage where build costs are based on relevant [index linked] BCIS figures.
Estimated Build Costs	Estimated Build Costs to be incurred for the remainder of the development based on agreed building contracts or estimation provided by the developer's quantity surveyor or cost consultants [see Section 3].	This is not required at application stage where build costs are based on relevant [index linked] figures.

END

[24] Whether for the remainder of a site [once started] or if the development of the scheme has failed to start.

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Appendix 1

Glossary/Acronyms

AH	Affordable Housing	These comprise social rented, affordable rented, intermediate housing for sale or rent, including Starter Homes, provided to eligible households whose needs are not met by the market. Eligibility is determined with regards to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision. Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered as affordable housing for planning purposes. For additional explanation of each type of affordable housing see National Planning Policy Framework [MHCLG 2019a].
A Priori	A Priori	An "a priori" argument is one where certain basic principles or hypotheses are assumed to be true. Therefore, it is not necessary to use empirical evidence but rely on the axioms being true [www.economicshelp.org]
	Abnormal Development Costs	Abnormal development costs are dependent on site specific circumstances and may include decontamination, land stabilisation and land forming or raising. Any abnormal costs identified since the original appraisal may be included in the appraisal, and the applicant should provide site specific evidence [cost estimates or invoices], benchmarked against comparable evidence, where relevant and available. These may need to be verified by independent consultants. In some cases these shall be reflected in market value and costs, and care will need to be taken to avoid double counting.
BC	Build Costs	Cost estimate data is likely to be drawn from roughly similar schemes. These or known tender price evidence may need to be updated if the baseline appraisal is dated. Site specific evidence based on reported cost estimates or invoices should be provided by the appellant and assessed against comparable market evidence. Where comparability is at issue, these can be benchmarked against the most detailed possible sections of Building Costs Information Service [BCIS] or other appropriate data sets or verified by independent cost consultants. BCIS data is expressed as cost per sq m of Gross Internal Area [GIA] requiring adjustment to Net Internal Area (NIA) used to estimate Gross Development Value. While BCIS data excludes the cost associated with the provision of external areas [car parking, landscaping etc], preliminaries and contractor's profit rate are included so be watchful that these are extracted and certainly not double counted. Additionally, Fees connected with Professional Services and Finance Costs [i.e. interest charges] will also be triggered. The cost impacts of any changes to legislation and Building Regulations [Part L] since the baseline appraisal scheme can be taken into account.
	Cash Flow	The cash flow of an appraisal, particularly for larger schemes, is fundamental. It determines both a significant input (finance costs) and a key output measure (i.e. return on capital employed which is the relationship of capital invested to profit generated). Costs for a typical project are front loaded with a time gap between costs (land, infrastructure and building works) and income (say dwelling sales). The duration of this period and magnitude of the gap between costs and income will determine the finance costs incurred. A key point to examine is how the movement of costs or incomes can reduce finance costs – for example by bringing forward part of a grant to fund early infrastructure [e.g. from Housing Infrastructure Fund] or delaying an 'up front' land receipt or S106 obligation until the project begins to generate income. The opportunity to improve viability through this sort of approach is significant and applicants shall be required to demonstrate that these matters have been attempted.
CRI	Compound Rate of Interest	Interest that accrues on the initial principal and the accumulated interest of a principal deposit, loan or debt. Compounding of interest allows a principal amount to grow at a faster rate than simple interest, which is calculated as a percentage of only the principal amount [www.investopedia.com]. The cost of borrowing money and related

		arrangement fees to fund the site acquisition, site preparation, land holding costs, construction and all major capital costs and fees may be included. Some developers fund these costs in whole or part from their own capital reserves. Supporting evidence from the appellant will be required to justify either the known borrowing costs and/or any assumed costs, when the developer intends to finance the scheme from their own funds. Debt finance costs can include incurred loan arrangement costs, if evidenced. Any differences from the original appraisal should be demonstrated and explained. Typically, it is assumed at all costs are funded 100% [whether from a third party or from own funds].
	Development Finance	An optimum cash flow minimises the quantity of development finance needed. The other driver of finance costs is the interest rate applied, for example 6.5 per cent. Considerations which a bank funder may make in setting this rate include the debt to equity ratio (how much of the scheme is being funded by the bank compared to the equity partners of the development e.g. the developer), the loan to value ratio (how the loan value compares to the value of any security offered such as the land) and other measures which give confidence as to the robustness of the proposals. The extent of public sector funding and any guarantees of the bank's capital will have a significant effect. The Council recognises that the financial status of the applicant will ultimately dictate the terms and conditions attached to development finance; whatever its rate, the appraisal methodologies assume that these are funded 100% from own funds or an external source.
DY	Development Yield	This can only be computed from developments owned or occupied on a lease [e.g. typically for commercial activities]. Rental income is divided by actual cost incurred in realizing the development. [www.rics.org.uk]. An investor would select those projects with the highest DY, everything else remaining equal.
DCF	Discounted Cash Flow	As firms operate by raising finance from various sources which is then usually invested in real assets [e.g. land and property], such investment spending involves outflows [payments] of cash causing inflows of cash. Typically these cash flows do not occur all at the same time i.e. the pattern and the size of the cash flows trigger the need for third party financing which accrue interest charges. Arising from the fact that investment involves opportunity cost, then the need to adjust the cash flow purely to take account of the time value of money, requires that a discount rate be applied to all future cash flows to adjust them back to present day values. It is only at today's values [i.e. Now] that projects net benefits can be compared and appraised. As most development projects take more than 1 year to complete and exit the site with a known profit receipt, the need for discounting exists.
DRI	Discounted Rate of Interest	There is NOT a unique rate of discount. However, guidance can be sought from HM-Treasury's Green Book, which identifies the Government's rate for underpinning its investment decisions [i.e. 3.5%pa] for projects with a life expectancy of up to 30years. For longer periods, the discount rate is lower [see HM Treasury, 2018, 26]. Other discount rates are used commonly in evaluation projects, For example, The Economics of Climate Change: The Stern Review [2007] assumed a discount rate, r=1.4%. This is controversial, but in essence applies a greater weighting to future costs/benefits. See: HM Treasury [2018) The Green Book: Appraisal and Evaluation in Central Government; also: http://www.cbabuilder.co.uk/Discount1.html. Since private individuals and businesses are much more impatient than Governments, the rate to be applied is likely to be higher than these two rates. In the absence of known discount rates used by private developers, Havard [2008] argues that it is acceptable to apply the market rate of interest or the opportunity cost of capital being used in the appraisal. The chosen interest rate used in discounted cash flow analysis will determine the present value of future cash flows. The discount rate takes into account the time value of money (the idea that money available now is worth more than the same amount of money available in the future because it could be earning interest) and the risk or uncertainty [i.e. of loss] of the anticipated future cash flows [which might be less than expected].

EUV or CUV	Existing (or Current) Use Value	This is the market value that specifically reflects the current use of the property only and disregards any prospect of development other than for continuation/expansion of the current use [www.rics.org.uk].Each use class [in planning terms] thus generates its own derived value according local market conditions. On an equivalent basis, situation [i.e. location] rather than site [i.e. the physical capacity of the site] determines EUV or CUV.
	Fees [relating to Land, Build Costs and Sales]	These may include agents' fees, legal fees, site promotion, sales and other costs and fees where appropriate. Incurred relevant costs and fees, evidenced by reference to invoices, receipts, and other sources, are to be preferred but clear justification will be required if they exceed evidence on standardised figures.
GDV	Gross Development Value	This is the aggregate Market Value of the proposed development assuming that the development is complete at the date of valuation in the market conditions prevailing at that date [www.rics.org.uk]. In the viability appraisal, this is almost certainly the largest sum to be calculated. Therefore, any changes to its value will have the greatest impact on the RLV. Thus, providing affordable housing, which by necessity involves a reduction in value, means that the RLV [the budget to buy the land] will be sensitive to any planning policy requiring the delivery of affordable housing. Hence, it is important for sensitivity analysis to have been conducted and the results presented in a clear and easily read format. For market sales and private rented housing, viability appraisals should be supported by scheme specific evidence from comparable development schemes, taking into account type of property, location and delivery. Appraisal comparables should be "achieved", rather than "asking" prices and exclude marketing incentives [e.g. fit out, payment of stamp duty]. Rents should be passing rents from recent letting and exclude service charges. Where comparability is at issue, these can be benchmarked against published sources e.g. Land Registry, Hometrack or agents' market reports. For affordable housing [including all types of schemes], the appraisal should, where relevant, include the lump sum payment to the developer by the landlord [typically a housing association or a RP] that is the capitalised net rent. Evidence should be provided to support this figure. Where the affordable housing is not going to be sold to a registered provider [i.e. a housing association or RP] or no evidence of sale price can be provided, gross development value of the affordable housing should be appraised, to compare capitalised net rent with development cost. Sales prices for market housing, equity sharing and discount market sales in the revised appraisal should be those current at the time of the appraisal and assumed to remain static throughout all phases of the development programme.
IRR	Internal Rate of Return	The discount rate that drives the Net Present Value [i.e. of all the cash flows relating to revenues minus costs] to ZERO is also known as the Internal Rate of Return [IRR] for that particular cash flow. Importantly, each cash flow will have its own particular IRR. The IRR is found by trial and error[25] by applying present values at different rates of interest in turn to the net cash flow. It is sometimes called the discounted cash flow rate of return. In development financial viability appraisals the IRR is commonly, although not always, calculated on a without-finance basis as a total project IRR [See also www.rics.org.uk].
	Land Price: "offers" and "transactions"	"Offer" prices are expressions of worth or value; they are expressions of expectation and not a product of a transaction or an exchange. On the other hand, prices relate to actual transactions, where the seller and buyer through negotiation and bargaining come to agree a price where exchange [and hence a transaction] can occur. Depending upon market conditions and position on the property cycle, offer prices tend to be higher than transaction prices: in a depressed market these can be 8% to 10% difference; in a rising market, the difference is likely to be much smaller; and in times of extreme competition for land, the difference not only disappears, but a price war can occur to secure ownership rights in the land/property markets.

[25] If using Microsoft Excel© this can be easily calculated

	Land Value	Prior to any transaction/exchange, this is ultimately a guess-estimate. But what a site might be worth must take explicit cognisance of and be informed by (local) market conditions and evidence, site specific attributes, and local planning policies and requirements [see National Planning Policy Framework, MHCLG, 2019a]. Indeed, at the point of a viability review, the agreed land value in the original appraisal should be used, unless the site has been acquired since and evidence is provided of the purchase price. Yet, any purchase price used shall be benchmarked against both market values and sale prices of "comparable" sites in the locality. Any significant overbid for the site at the point of review shall be disregarded. Where market value is used, it should have regard to the Local Plan policies and all other material planning considerations, including planning and affordable housing obligations and disregarding that which is contrary to the Local Plan, whilst providing the "minimum requirement to incentivise a reasonable landowner" to enable the development to be deliverable. As both purchase price and market value address landowner profit, the latter should <u>not</u> otherwise be included in the appraisals. Crucially, the Council's approach will be to use a site's existing use value [EUV] plus an appropriate premium to evaluate a site's viability position.
NPV	Net Present Value	The sum of the discounted values of a prospective cash flow, where each receipt/payment is discounted to its present value at a discount rate equal to a target rate of return or opportunity cost of capital.
CP	Capital Profit	A developer's capital profit has two elements: the return for undertaking a project and a compensation for the risk involved. (Myers, 2019) Profit is treated as a "cost" in the Residual Land Value [RLV]. In this regard, Ratcliffe et al [2009] argues that the development industry seek a target rate of profit of between <u>15% and 25% on costs</u> [the equivalent in value terms is <u>13.04% and 20% of value</u> respectively]. Capital Profit levels [developers' return] vary significantly between projects to reflect the size and risk profile of the developer and the risks related to the development project. Any changed assumptions on developer profit (before interest and tax) since the baseline appraisal will need to be justified and evidenced from comparable schemes or data sources such as IPD Development Return Index and other supporting indices [e.g. FAME], However, the local planning authority and Planning Inspectorate may also want to reference existing financial appraisal guidance where it provides ranges for typical profit level
RLV	Residual Land Value	This is the land bid budget available to a developer or a prospective owner. It is the residual left over after "all" costs [i.e. build costs, fees, finance, planning obligations, CIL payments and provision of affordable housing] <u>and</u> profits are subtracted from the gross development value. Thus it reveals the Developer's maximum budget available to buy the land. See Ratcliffe, J, Stubbs, M. & Keeping, M. [2009] *Urban Planning and Real Estate Development*, Routledge [3rd Edition], especially Chapter 14.
RP	Registered Social Landlord or Registered Provider	Also known as a Housing Association, a Local Council or a charitable association [e.g. a Community Land Trust].
	Sensitivity analysis	This is a means by which a scheme's inherent risks and uncertainties are evaluated. Typically the four prime variables of value/rent, yield, cost, time are appraised understand how they affect a scheme's development's viability.
	Preliminaries [i.e. Site Investigation, security; preparation and Infrastructure Costs]	These costs may include demolition; ecological, geotechnical, archaeological and other site investigations (including those undertaken before site purchase or for planning); basic on-site infrastructure and services. Site specific evidence (reported cost estimates or invoices) should be provided by appellant and benchmarked against comparable market evidence, where relevant. These may need to be verified by independent cost consultants. In some cases these will be reflected in market value and care will need to be taken to avoid double counting.

	Viable	The test for viability is that the evidence indicates that the current cost of building out the entire site (at today's prices) is at a level that would enable the developer to sell all the market units on the site (in today's market) at a rate of build out evidenced by the developer, and make a competitive return to a willing developer and a willing landowner. In other words, a scheme is said to be viable if the developer has enough money to BUY the land, build out the scheme and achieve its target/hurdle rate of capital profit. Critically, the test of viability does not seek to confirm the land price paid by the developer. Thus the viability test simply seeks to find the site's value/worth at the time of the valuation [i.e. now at the point/date of contestability or Appeal] and not the price paid by the developer at some other time.
YP	Year's Purchase	It is the reciprocal of the yield [i.e. initial year].The amount that is yielded by the annual income of property; used in expressing the value of development in the number of years required for its income to yield its purchase price, in reckoning the amount to be paid for annuities, etc. (www.dictionary.reference.com). As such it tells you how many years' rental income is needed to achieve the break-even point. The shorter the better!
ARY	All Risk Yields	The ARY is the risk of not collecting rent. As applied to different commercial elements of a scheme (i.e. office, retail, etc.) and is usually calculated as a year's rental income as a percentage of the value of the property (www.rics.org.uk)
	ARY [yield] moving in	Yield % is falling. It represents the "tone" of the market at a particular point in time. Thus stems from an in-balance in the market, where the stock of property in the short run is fixed [as are their use classes] and so if demand for the space and use of the stock is rising, the risks of not collecting the rents by investor is falling. The attributes in such a market are exemplified by continued growth and buoyant economy; increased competition; lower risks and greater rewards [rising values].
	ARY [yield] moving out	Yield % is rising. As above, but where demand for the existing stock of buildings/land is now falling. The risks of not collecting the rents by the investor are rising. The attributes in such a market are exemplified by economic recession; over supply or contracting demand; rising voids and vacancies; greater risks and lower rewards [falling values].

Appendix 2: Advice to Applicants and Council Officers

Preamble

In reviewing a submitted FVA, the Council wants applicants to fully understand the process and the factors that the Council will focus on in evaluating a contested viability appraisal. Therefore, the Council believes it is important to re-iterate these in the form of questions and raising issues relating to viability principles and the internal logic of the appraisal methodologies. Indeed, these same issues will be central in the Council's officers' approach in evaluating the submitted FVA.

The following commentary is provided to clarify that an open and transparent approach to viability is being sought by the Council. Consistency and equity are the goals that the Council is seeking in all applications that are subject to viability and review.

Headlines for Applicants and Council Officers

Key questions and issues of principle

- What are the main differences in the applicant's offer regarding affordable housing [and other relevant planning requirements] in respect of the planning authority's policy requirements?
- It is important to identify the appraisal methodology used and be aware of its relative strengths and weaknesses. This means: is it a cash flow appraisal or an appraisal where more basic assumptions have been applied regarding the calculation of interest charges?
- How much a developer may have paid for land is not the key test of viability and its appraisal. Rather, it is what the land is worth by reference to up-to-date market evidence of costs and values now that is important, inclusive of site conditions and extant planning and affordable housing policy requirements.
- So be clear on whether a residual land value estimate or a land price is being used.
- Changes to the GDV will have the most powerful effect on the RLV and ultimately on the site's viability position.
- Be clear of the existence of different ways of representing the developer's profit. It is a target rate of profit set by the developers. Thus it is an input alongside the other major costs to be covered by the value created from building out the scheme. Though capital profit is welcome, it is not much use in decision-making, if it is expressed simply as an absolute sum.
- Capital profit is best expressed as a proportion [%] <u>on</u> all the Costs or <u>of</u> the GDV so that different schemes can be compared on an equal basis.
- Additionally, it is normal to apply different rates of profit to cover the different levels of risk in the real estate sectors. Thus, affordable housing attracts a lower target rate of profit, typically around 6% on Costs [or 5.66% of GDV] because there is a more certain

exit strategy relating to a known ending owner. Market homes attract a higher rate of profit, typically between 15% and 25% on Costs [or 13% to 20% of GDV], as most of these are built but without a known end occupier and owner. Other asset classes are likely to have different target rates of profit according to their risk profiles and market sentiment.

- In respect of the input profit rates, the Council will draw on guidance from case law where relevant.
- Using the sensitivity analysis as a starting point, test whether the assumptions made about the key variables [value (i.e. price/rents/yields)], build costs, interest rates, and time] are evidence-based and that they are robust, reasonable and justifiable.
- Small changes in any one of the [above] prime variables often exert a disproportionate effect on the residual land valuation, with value and cost being the most powerful of these variables.
- The numbers and mix of AH for rent and sale will have different effects on viability [with AH for rent having the most negative impact] and so re-appraising the numbers and/or mix of these may help render the development scheme to become viable.

Development Viability Appraisal Methodologies

Restating the principles underpinning appraisal methodologies

- By definition a viability appraisal is a snapshot, being a direct product of current market prices and costs that are set within known and declared development assumptions; it is an appraisal at today's prices and costs [i.e. now]. But we know that viability is a relative and thus a dynamic concept, and so with sensitivity analysis appraisals can be easily and conveniently updated to take account of changes in the policy environment, as well as market uncertainties and future changes in the key variables that shape a scheme's viability.

- Viability appraisals are typically conducted in a controlled spreadsheet environment. Since there is no single or agreed preferred approach, it is important that those reading the results from spreadsheets have confidence in their structure and that they take into account all the usual variable inputs and project parameters associated with the proposed development scheme. The critical issue is not the medium in which the viability appraisal is conducted but the assumptions and variable inputs applied in conducting the viability appraisal. In short, the spreadsheets utilised should be active and fit-for-purpose in that the results from them can be thoroughly reviewed and subject to [public] scrutiny by the relevant interested parties [e.g. The Council, The Planning Inspectorate; as well as other consultees].

- Viability appraisal is simply the practical application of economic theory tailored to a number of different development sites [and where appropriate other uses] conducted within a spreadsheet environment, where critical assumptions are known and made explicit.

- Efficient market hypothesis contends that markets ought to reflect all the relevant costs and values, so that a developer's land bid offer-price reflects in a clear and obvious manner the full and true costs of providing affordable housing and other local planning policy requirements [that are typically secured through S106 and other legal agreements]. However, because of imperfect knowledge and skills, landowners' price expectations may be higher than the offer prices being made by applicants and developers. In the context of affordable housing requirements [with/without public grant/subsidy] *a priori*, it is contended that these requirements will lead to lower land values. In fact the central purpose of a viability appraisal is to ascertain the relative land values that reflect alternative development scenarios, especially those shaped by variations in the proportion of affordable housing. As a general principle there is an inverse relationship between the level of affordable housing and the outturn land value; as the requirements for the former increase the latter decrease.

- Once the RLV appraisal calculations have been made, these values simply denote the maximum budget available to buy the land. Viability is confirmed if the developer is found to have a sufficiently large enough budget to buy the land in current market conditions compared to the site's Existing Use Value [plus a premium][26].

Viability Appraisal Methodologies

Some guidance on the likely appraisal methodologies

It is a requirement of this SPD that applicants declare their appraisal methodology from the outset.

In practice there are two basic methods that can be adopted to conduct a viability appraisal:

- A static Residual Land Valuation Estimate; and
- A cash flow Residual Land Valuation Estimate.

A static Residual Land Valuation Estimate [RLVE]

This appraisal methodology is a relatively coarse valuation. It is based on a methodology that assumes:

- All the building and sales occur at the same time, instantaneously [i.e. NOW].

[26] Further explanation of EUV is provided in Section 3 of this SPD [i.e. pp. 15-16]

- All funds are borrowed from a third party [i.e. opportunity cost of capital].
- A market rate of interest is applied.
- Financial weights[27] are applied in accordance with industry norms, to ensure that not all funds are borrowed from day one and accrue at a compound rate of interest and then paid back at the end from sales' receipts.

Despite the above adjustments [i.e. finance charge weights] the main criticism of the "static" appraisal method is that it is not precise enough in the way it reflects the incidence of time and money payments during the period of development, according to Ratcliffe et al [2009, p.410]. However, the quality of the valuation is as good as the assumptions applied. The valuation is not invalidated, it just means that in adopting this approach, one has to recognise and, importantly, understand the implications and [some would say] the limitations if this method is used.

A cash flow Residual Land Valuation Estimate

The cash flow appraisal methodology is a more dynamic method as it better reflects reality whereby an applicant/developer can appraise the pace and phasing of the scheme with cash flows of income and expenditure taking place at (ir)regular intervals throughout the development period that reflect the actual characteristics of the project being appraised. Thus the pattern of sales and costs dictate the financing requirements and so unlike a static appraisal methodology financial weights are not required as the cash flows are under the direct management of the applicant/developer. These will ordinarily appraise different scenarios according to acceptable or required cash flow profiles, in this way the applicant/developer can accelerate development if markets are viewed to be rising, and slowdown construction or even stop development if demand is weak or dramatically falls.

The cash flow appraisal methodology gives explicit prominence and thus control over the pattern and timing of costs and values, which is how house builders and developers actually appraise potential development opportunities and options.

In the cash flow appraisal methodology, if the developer's discounted rate of interest is not known, it is normal to apply the market rate of interest or the opportunity cost of capital.[28]

The cash flow approach generates all the same kinds of output as the static appraisal methodology [i.e. in that it identifies the budget available to the developer to buy the land]. Remember, this is not the same as the price of land, which would only be recorded and/or known if a transaction had been made.

Both appraisal methods should generate the required outputs. In summary form:

- Gross development value in total; £/unit or £/m^2;

[27] See Appendix 2 which displays typical financial weights used in a static development appraisal methodology
[28] Havard, T. [2008] *Contemporary Property Development* London: RIBA Publishing [2nd Edition]

- Build Costs, including preliminaries, external works, abnormal development costs, professional fees;
- Interest Charges;
- Capital Profit; total, % on costs or % of GDV;
- Other Fees and Charges, including S106 agreements, Community Infrastructure Levy [CIL], Stamp Duty Land Tax [SDLT], planning & National House Building Council [NHBC] fees, etc.,
- RLVE – baseline [without Affordable Housing], but providing other planning policy requirements;
- RLVE – Local Plan Policy Affordable Housing Provision, including other planning policy requirements;
- RLVE – sensitivity analysis using changes to the key variable inputs [i.e. prices (rents; yields); build costs; interest rates and time];
- Existing Use Value [plus a Premium] or Alternative Use Value for the site

This SPD requires applicants who choose to contest viability to submit their evidence in a standardized format using the Input and Output Templates that are presented in Section3 [above].

A priori, any changes in variables that affect the computation of value [the worth of the development now] will have the greatest impact on the residual [land] value; equally any changes that affect variables and elements near the top of the valuation [e.g. in prices or rents or build costs] will affect the residual [land] value the greatest.[29]

Viability Scrutiny and Review

In reading any appraisal, there are a number of obvious questions that shall be posed. Equally, the applicant needs to understand that their submitted appraisal will be scrutinised using these kinds of questions by the Council. The following questions/issues [see below] are presented as illustrative of the Council's approach prior to formally evaluating a submitted VA.

Questions to ask/consider

- ☐ What methodology has been used: static appraisal or cash flow appraisal?
- ☐ Using a static appraisal, what financial weights have been applied and are these reasonable or industry standard norms? [See Appendix 3 of this SPD for further information.]
- ☐ Are the data inputs and outputs expressed or presented as £/ft^2 or £.m^2? Beware that some valuers/surveyors do not stick to one common unit of measurement. The conversion factor between

[29] See Ratcliffe, J, Stubbs, M. & Keeping, M. [2009] *Urban Planning and Real Estate Development*, Routledge Press [3rd Edition], especially Chapter 14, p.422.

ft^2 and m^2 is 10.76391042ft^2=1m^2.

- ☐ Using a cash flow appraisal, what is the justification for the pace and phasing of the development being such that it is? The Homes England guidance stresses the importance that this is declared and justified as the outturn price may have to be discounted to generate higher sales' rate.[30]
- ☐ Using a cash flow appraisal, what discounted rate of interest has been applied? Why this amount? [Is it the amount shown in the company accounts?] If not, does the rate mimic the market rate of interest?
- ☐ Irrespective of the method, are the reporting outputs [cited in the Output Templates in Section 4] presented in the format requested by the Council and is it reasonably easy to connect the results to the key underlying assumptions and evidence provided by the applicant?

Key components of the Viability Appraisal

This section covers the primary components of the residual land valuation estimate.

A: Gross Development Value

GDV is the largest sum in the appraisal equation and therefore changes to it have the most powerful effects on the residual land valuation estimate [RLVE] and thus ultimately on the viability of a scheme.

Check the assessment of different elements that comprise the GDV [in the Glossary of Terms], particularly as Affordable Housing attract substantially lower transfer values. For example, if a market home is £100; then affordable homes for sale [Intermediate/Starter Home] is expected to be £80, while an affordable rented home could be close to £40 to £45. It is vital that the evidence for setting these values is clearly referenced to current and local market conditions and that these can be clearly verified by the Council as part of the viability review.

A land's or property USE determines its land or property VALUE. The use class order, and hence planning, has an integral role in determining, holding, and reducing both relative and absolute land values.

In accordance with national guidance, whatever an applicant or developer has paid for land is not a key factor in a test of viability appraisal. The true test of viability is what the land is worth NOW, in today's market of values and costs, respecting the site's condition and, of course, the Council's extant affordable housing and other planning policy requirements set in its Local Plan.

As markets are typically subject to cyclical fluctuations [i.e. they change as a result of both internal as well as external factors], officers and applicants need to be aware that any land valuation estimates shall only remain valid for a relatively short period of time.

[30] HCA [2009] *Investment and Planning Obligations, Responding to the Downturn*, Good Practice Note, London: Homes and Communities Agency [in 2018 it was renamed Homes England].

It is vital to know if land values or land prices are being used and it is important to test whether these are evidence-based and that they are a good reflection and representation of up-to-date local market conditions [i.e. at the time of the appraisal].

The basic equation to identify the Developer's land budget (GDV – (BC + P) = RLV) can also be re-arranged to calculate other elements providing certain values are known [as shown in the Table 3 below].

Table 3: Key components of the appraisal methodology

GDV - (BC + P) = RLV	Here the Land Value is a residual. This is the maximum amount that can be paid for the land by the developer.	Vital for those who are seeking to sell or buy land.
GDV - (BC + LP) = P	Here, with a known Land Price, the Profit is a residual in this equation.	This shows the amount of profit that might be achieved by the developer having bought the land.
GDV = (BC + P + RLV)	Here the GDV is made up of the three main "cost" elements which explicitly include the developer's profit.	This reveals the three basic "costs" that comprise the Value of the completed development.
Explanatory Notes		
GDV= Gross Development Value, inclusive of all known income streams		
BC = Building costs, inclusive of preliminaries, external costs, abnormal development costs, fees and finance, SDLT, Local Plan policies requirements, etc.		
P= Developer's target rate of profit for market and affordable housing units		
RLV = Residual Land Value, which represents the budget to buy the land		
LP = Land Price declared to have been paid by the applicant/developer		

Questions to ask/consider

- ☐ Does the evidence of current/existing use land values stem from reliable sources?
- ☐ How recent is it? [up to 3 - 6 months old can be considered 'recent']
- ☐ Does the data evidence reasonably reflect the market NOW?
- ☐ Does it represent local market conditions?
- ☐ Have the calculated land value[s] taken into account the Council's extant planning policies, including affordable housing, site conditions and local market conditions?
- ☐ Does the review of values compare what is currently achieved in the area to the maximum that could be achieved given the project proposals?
- ☐ Are things which drive value (e.g. parking spaces or overlooking a park) been identified and the additional benefit of these quantified?
- ☐ Who retains the freehold for apartments and where is the capitalised sum of this future ground rent income stream included? Is there a future income stream from on-site energy generation and does operation of this concession generate a capitalised sum?
- ☐ What rates of sale / letting are assumed within the programme? Do these conform to industry norms of 3 units per month?
- ☐ Has a robust assessment of the demand for, and income from, all potential commercial uses been undertaken?
- ☐ What yield, rental income and assumptions such as sales incentives have been used for commercial uses? For example, sales' incentives could include rent-free periods.

B: All Costs

These costs are the second most powerful variable in explaining any changes in the RLV and hence viability [after GDV].

In general build costs will be the second largest sum, comprising site preparations and preliminaries [e.g. 10%]; direct build costs of creating the asset [e.g. 60%]; professional fees [e.g. between 8%-10%]; external costs and landscaping [e.g. 20%]. Known site conditions will ultimately dictate the array of costs that will need to be audited.

Abnormal development costs and remedial works can often cover a multitude of things and so may need to be unpicked and each component tested to see if the cost is reasonable, e.g. drawing on specialist, scientific or environmental reports.

Demolition costs can be a very expensive item; particularly where heavy fixed plant has been installed, special foundations or superstructure provided, or the site is tightly positioned in a busy urban area. Likewise, in older central locations where existing redundant underground services are present, or in fresh situations where the ground lacks stability or access to infrastructure, normal site preparation costs can rise substantially, according to internal specialist reports available to the Council.

To aid the accurate spread of building costs throughout the construction period, most experienced developers have drawn up cost profiles for the various sectors of the property development industry, but these are only used in an indicative way in the static based appraisal method, as opposed to a cash flow appraisal method where they can be employed in a more direct and explicit manner with reference to known or controlled cash flow profiles [see Ratcliffe et al 2009:402].

The developer's capital profit is a "cost" input in the calculation of land value. This cost is set by the developer as a target rate of profit. Of course, all developers will seek to maximize their profits. Interestingly, the actual profit received is only known once the developer has exited the site and final accounts agreed[31]. Data shows that, as with other aspects of the economy, the profit rate of return [%] is cyclical in nature; and on some occasions developers make losses. In assuming a target rate of profit, the developer will not trade-in the profit, but will seek to manipulate costs [down], raise prices, alter mix and density of development so that the budget available to them is sufficient to compete in the land market and buy the land. Of course, we also know that at times developers pay too much for land or do not do sufficient research to ensure that their target rates of profits are not compromised.

Questions to ask/consider

- ☐ Are the above costs justified by reference to comparable projects, priced work or published sources?
- ☐ If abnormal costs are cited are these justified and based on actual or verifiable cost bases?
- ☐ Are items such as preliminaries, design fees, statutory fees and the like clearly identified and the

[31] FAME provides publicly available evidence on the booked profits of all house-builders.

method of calculation clear (e.g. are preliminaries and design percentages added to build costs in a simple or compound form)?
- ☐ Is the link between costs and values clear – how has the specification and design been optimised to generate value?
- ☐ Has the land already been purchased or is this a variable cost?
- ☐ Where the land has already been purchased what is the current (residual) value of the land? [To clarify, the Council in accordance with national guidance will always apply the residual land values in assessing viability.]
- ☐ What are the existing use values (EUV[32]) and alternative use values (AUV) of the site? How have these values been generated and have their sources been declared?
- ☐ In situations where a public body is the landowner, have the land payments been timed sensibly to maximise benefit by, for example, deferring receipts to later in the development?

C: Capital Profit

There is no such thing as too much risk so long as capital profit can be set which is commensurate with it.

Capital profit depends on risks, including, amongst other things:

- Time to complete the development
- Financial size [of developer]
- State of market
- Certainty of information – costs, ground conditions etc
- Pre-sales and pre-lettings
- Competition

Expressing capital profit as a total sum [£], though revealing, is not much use to decision-makers.

For evaluation purposes, capital profit should be expressed on a percentage basis [% on costs or % of GDV].

Speculative house-builders typically seek two elements of profits in building out a development: they seek to take a profit on build costs and they seek to take a profit of the price they pay for land,

House builders will normally assign different levels of profit to reflect risks in the different real estate markets, including Affordable Housing. Where affordable housing is constructed with an agreed purchase price from a RP the risk is minimal, consequently the margin will be relatively low and akin to that of a contractor's rate of profit, which is typically 6% on costs including overheads. This is substantially lower than the more risky elements of a development that is dependent on competition and market sales. The difference between the

[32] Further commentary on these is located on pp.23-24 of this SPD.

different profit margin levels is risk and it follows that different risk-sharing arrangements will use different margins. Applicants need to understand that the Council will adopt the above convention as described above in evaluating all contested appraisals.

Where land acquisition costs cannot be ascertained and are likely to be the result of the valuation, then a proportion of the GDV is taken, usually 10-20%. Where land costs are known, and can be included as part of the total costs, then a proportion of that total cost is adopted, normally 15-20%. In terms of profit 20-25% is a benchmark that many developers aspire to. In reality, 15% is acceptable for many developers and, where a pre-let has been secured, even 10% will do (Ratcliffe et al 2009: 406).

Questions to ask/consider

- ☐ What rate of capital profit has been attached to market housing and what to AH?
- ☐ What rate of capital profit has been attached to non-residential elements of the proposal?
- ☐ Are these different rates of capital profit reasonable as well as being representative of industry norms and current national guidance?

D: Sensitivity analysis

It is seldom that a development project can be evaluated adequately on the basis of a single set of figures reflecting a single set of assumptions [Ratcliffe et al 2009:422]. The concept of a sensitivity analysis is a simple yet effective one, whereby each of the key variables [value (i.e. price/rents/yields), build costs, interest rates, time] is altered in turn in an informed and realistic way, so that the developer can test how sensitive the proposed land bid is to possible changes in these variables [see Ratcliffe et al 2009:422].

Accordingly, and a priori, small changes in any one of the [above] principal variables can often exert a disproportionate effect on the residual land valuation sum.

The applicant/developer should appraise any scheme with zero AH so as to provide a baseline against that the policy rate of AH% can then be compared. Indeed the developer should also set out the impact of applying various rates of AH% [i.e. from zero up to the Local Plan policy requirement]. The sensitivity analysis should then subject each of those sets of data to say +/- 5%, 10%, 15%, 20% fluctuations in each of the key variables but especially baseline prices (i.e. values, yields and rents) and baseline build costs.

The numbers and mix of AH for rent and sale will have different impacts on viability [with AH for rent having the most negative impact on the RLV] and so re-appraising the mix of these AH units may help render the development scheme viable.

Changes in the cash profiles should also be considered, particularly the payment received by the developers from RPs regarding the part-purchase of the affordable homes or involving CIL payments or planning obligations.

Equally, consideration shall be given to phasing planning obligations arising so as relieve the cash flow without compromising the integrity of the development in planning terms and the Council's Local Plan.

Questions to ask/consider

- ☐ Are the assumptions made about the key variables [i.e. value (price/rents/yields), build costs, interest rates, and time] evidence-based and are they robust and reasonable?
- ☐ Is the (revised) AH% in terms of tenure numbers/mix acceptable to the Local Planning Authority and to relevant RP Partners?
- ☐ If CIL payments can be re-scheduled has this been implemented?
- ☐ Similarly, could payments or the costs associated with planning obligations be delayed without compromising the integrity of the development?
- ☐ For the last question, has this been considered by all parties regarding viability of the scheme?

Appendix 3

Typical Financial Weights

FINANCE CHARGE WEIGHTING	
Building Costs	0.50
Professional Fees	0.75
Marketing/Advertising Fees	1.00
Planning/survey Fees	1.00
Land Acquisition Legal Fees	1.00
Estate Agents Fees	0.00
Stamp Duty Land Tax	1.00
Planning Obligations & Community Infrastructure Levy	1.00
Legal Fees on Sales	0.00
NHBC Fees & Bank Fees	1.00

In a static Residual Land Value Estimate the above weights are attached to the compound rate of interest accrued to each of the above lines of cost. Some may view these as crude or approximate, but for schemes that can be built out within 2 years, the adjustments that are generated by applying these kinds of weights are reasonable and acceptable.

A financial weight of 1 means that interest charges will accrue from day 1 until completion of the development and paid by the value created from the proposed development.

A financial weight of 0 means that no interest charges accrue and these lines of cost will be paid from the income generated at the point of sale.

A financial weight of 0.5, which is typically attached to build costs, means that only half of the accrued interest charges will be applied. With build costs, if a weight of 1 is applied this implies that the developer will be borrowing all the money needed to build out the scheme from day 1; this will simply over-estimate the accrued interest charges. In most schemes, the cost profile is similar to a cumulative frequency curve or ogive where costs rise from a low base and then progresses at an increasing rate to completion. Calculus informs us that the area under the ogive is about 0.5! As such, it follows that inferences can be easily drawn when other financial weights are applied.

If applicants apply different financial weights from those cited above, they will need to provide written explanation for this in their submitted FVA.

Appendix 4: An Example of a completed Inputs Template

INPUTS TEMPLATE			
Variable Inputs and assumptions: ILLUSTRATIVE ONLY		£	£/m2
GDV	Market House Prices-2 bed Semi-detached [£/unit]	£245,000	£3,602.94
	Market House Prices-3 bed Terraced [£/unit]	£330,000	£3,975.90
	Market House Prices-3 storey Townhouse [£/unit]	£360,000	£3,829.79
	Affordable House Prices-2 bed Semi-detached [£/unit]	£196,000	£2,882.35
	Affordable House Prices-3 bed Terraced [£/unit]	£264,000	£3,180.72
	Affordable House Prices-3 storey Townhouse [£/unit]	£288,000	£3,063.83
	Affordable House Rents-2 bed Semi-detached [£/week]	£135.00	£1,524.71
	Affordable House Rents-3 bed Terraced [£/week]	£162.00	£1,498.99
	Affordable House Rents-3 storey Townhouse [£/week]	£184.50	£1,507.40
	Gross[33] Yield to capitalise affordable rents [%]	6.25%	
Build Costs	BCIS Median, August 2018-Semi-detached [£/m2]	£1,380	
	BCIS Median, August 2018-Townhouse & Terraced [£/m2]	£1,278	
	Professional Fees [%]	10.00%	
	External Works [%]	15.00%	
	Abnormal Development Costs [£lump sum]	£45,000	
	Contingency [%]	5.00%	
Profit	Developer's Target Rate of Profit - Market Housing [%of GDV]	20.00%	
	Developer's Target Rate of Profit-Affordable Housing (% of GDV)	5.66%	
Other Fees	Marketing [£/unit]	£1,500	
	Estate Agents' fees [%]	1.50%	
	Legal costs on site sale/acquisition [%]	0.50%	
	Legal costs on Sales [%]	0.50%	
	NHBC [£/unit]	£1,200	
	Planning Fees [£]	prescribed	
	Stamp Duty Land Tax [£]	prescribed	
	Planning Obligation Costs [£/m2]	£45.00	
	Community Infrastructure Levy [Market Homes only] [£/m2]	£55.00	
	Extracted Contractor's rate of OHP [%]	5%	
Time periods & Interest	Total Development Period [months]	13.00	
	Build-out period [months]	9.00	
	Void Period [months]	3.0	
	Debit Rate of Interest [%]	6.00%	
	Credit Rate of Interest [%]	0.00%	
	Bank Valuation and Monitoring Fees [£]	£15,000	
	Build rate [units/months] starting in month 3	3.0	
	Sales Volume rate [units/months] starting in month 7	3.0	
	Void Period [months]	0.0	

[33] If applicants use the net yield, then the net rent will need to be cited.

INPUTS TEMPLATE [continued]		
Scheme numbers & Housing Mix	Number of 2 bed Semi-detached	4
	Number of 3 bed Terraced	6
	Number of 3 storey Townhouses	8
Unit sizes [m2]	2 bed Semi-detached [m2]	68
	3 bed Terraced [m2]	83
	3 storey Townhouse [m2]	94
Land & Scheme Totals	Total Number of Units	18
	Site Area [m2]	4600
	Gross Built Floor space [m2]	1522.00
AH Policy Requirements	Affordable Housing Policy Requirements [%]	25.00%
	Affordable Housing for Rents [%]	14.00%
	Affordable Housing For Sale [%]	11.00%
	On-site Open Space Requirement [% of Site Area]	20.00%
Appraisal Methodology	Land Value Estimate [£ and £/ha]	an output
	Capital Profits [£ and %]	an input
	Appraisal Methodology	RLV Cash Flow
	Discount Rate [%pa]	6.00%

It is expected that applicants shall provide a comprehensive list of the variable inputs and assumptions, but these must be tailored to the specific attributes of their proposed scheme of development. It is important that applicants cite the root sources of the information contained in the Inputs Template.

Appendix 5: An example of the Outputs Templates 1 and 2

Outputs Template 1: Standardised Viability Appraisal Outputs				
Planning Application Number: RB2020/YYYY				
Site Name: ……………………………				
Gross Site Size [Hectares]	1.2			
Total Number of Dwellings	54			
RMBC AH Policy Requirement	25% of total dwelling Units			
Summary Outputs	All Market Scheme	% of GDV	RMBC Policy Compliant Scheme	% of GDV
Gross Development Value (GDV)	£10,000,000	100%	£9,010,000	100%
Building Costs, External Works & Extra Works	£5,500,000	55%	£5,500,000	61%
All Professional Fees, including Bank Fees & SDLTax	£920,000	9%	£880,000	10%
Planning Obligations and Other Contributions	£275,000	3%	£224,000	2%
Interest Charges	£360,000	4%	£355,000	4%
Developer's Capital Profit	£2,000,000	20%	£1,600,000	17.76%
Residual Land Value Estimate [RLVE]	£945,000	9%	£451,000	5%
Residual Land Value Estimate [RLVE] £/hectare	£787,500	void	£375,833	void
Benchmark Land Value [£/hectare]	£180,000		£180,000	
Capital Profit as a % on All Scheme Costs	25.00%		21.59%	
Capital Profit as a % of Gross Development Value	20.00%		17.76%	

Outputs Template 2: Standardised Sensitivity Outputs of A Policy Compliant Scheme				
Planning Application Number: RB2020/YYYY				
Site Name: ……………………………..				
Gross Site Size [Hectares]	**1.2**			
Total Number of Dwellings	**54**			
EUV of Greenfield Site (£/hectare]	**£22,500**			
Iteration [Cash Flow]	**RLVE [£/hectare]**	**% change in RLVE from Policy Compliant Scheme**	**Benchmark Lane Value = (EUV + (EUV*7)) [£/hectare]**	**Is Scheme Viable?**
RLVE - All Market	£787,500		£180,000	Void
Base-line RLVE - AH Policy Compliant	£375,833	0.00%	£180,000	TRUE
Base-line + Fall in House Price by 5%	£416.67	-99.89%	£180,000	FALSE
Base-line + Rise in House Price by 5%	£751,250	99.89%	£180,000	TRUE
Base-line+ Fall in Building Costs by 5%	£605,000	60.98%	£180,000	TRUE
Base-line + Rise in Building Costs by 5%	£146,667	-60.98%	£180,000	FALSE
Base-line + Fall in Interest Rates by 2% points pa.	£390,625	3.94%	£180,000	TRUE
Base-line + Rise in Interest Rates by 2% points pa.	£361,042	-3.94%	£180,000	TRUE
Base-line + Extend Build period by 6 months	£355,125	-5.51%	£180,000	TRUE

Appendix 6: Formulae

FORMULA A: This will be used to calculate the 'policy surplus' available for on-site affordable housing [or other policy requirements] at **Pre-implementation Review Stage.**

FORMULA A: To Calculate the Policy Surplus at Pre-implementation Review Stage				
SCHEME DETAILS: INPUTS:	**Notation**	**Illustrative Only [1]**	**Illustrative Only [2]**	**Illustrative Only [3]**
Assumed Number of Housing Units	W	50	50	50
Average size of homes [m2] - assumed for illustrative purposes only	Z	80.0	80.0	80.0
Assumed Total Floor space [m2]	Y=Z*W	4000	4000	4000
Assumed Total amount of Social/Affordable Rented housing Units [14%] floor space [m2]	V=Y*0.14	560	560	560
Assumed Total amount of Intermediate/Starter Homes Affordable housing Units [11%] floor space [m2]	U=Y*0.11	440	440	440
RMBC: AH For Rent Policy Proportion [expressed as a decimal]	0.14			
RMBC: AH For Sale Policy Proportion [expressed as a decimal]	0.11			
Transfer Value of social/affordable rented units [% of Market Value Homes] [expressed as a decimal]	0.45			
Transfer Value of Intermediate/Starter Homes For Sale[% of Market Value Homes] [expressed as a decimal]	0.8			
Average Market Values Homes [£/m2]	G	£3,000	£2,750	£2,625
Average Social/Affordable For Rent values [£m/2]	H=G*0.45	£1,350	£1,238	£1,181
Average Intermediate/Starter Homes For Sale values [£m/2]	I=G*0.8	£2,400	£2,200	£2,100
Updated Gross Development Value [GDV]	A	£12,000,000	£11,000,000	£10,500,000
GDV determined as part of the assessment of viability at application stage	B	£10,812,000	£9,911,000	£9,460,500
Updated Build Costs [BC]	C	£6,500,000	£6,800,000	£5,800,000
BC determined as part of the data inputs for assessment of viability at application stage	D	£6,000,000	£6,000,000	£6,000,000
KEY OUPUTS				
Additional Net Value	P=((A - B) - (C - D))	£688,000	£289,000	£1,239,500
Additional Profit Allowance [%]	APA	17.50%	17.50%	17.50%
Additional Profit	Q=((A - B) - (C - D))*APA	£120,400	£50,575	£216,913
POLICY SURPLUS REVENUE	**=(P - Q)**	**£567,600**	**£238,425**	**£1,022,588**

Explanatory Notes for FORMULA A	
(A - B)	This is the change in GDV at the point of the viability review.
(C - D)	This is the change in Build Costs at the point of viability review, which is subtracted from the change in GDV to establish whether there is additional value generated as a result of increased values or reduced costs.
APA	This (i.e. 0.825) calculates the reduction in the additional value available for on-site affordable housing, accounting for the proportion of additional value to be retained by the applicant as an additional profit allowance [i.e. a 17.5% of GDV for the developer], which is a "blended" rate.
Illustrative Examples [W & Z]	These simply provide examples of how the balance of changes in GDV and Build Costs generate different levels of Policy Surplus Revenue.

The figures contained in the above Formula A table are provided to simply illustrate how the calculation of the "policy surplus" is derived given different scheme details. The inferences that can be drawn are as follows:

- Scheme 1 shows that after review, the relative change in GDV and costs generates a positive policy surplus.
- Relative to scheme 1, scheme 2 has a lower GDV and higher costs after review and thus the policy surplus is lower for scheme 2 relative to scheme 1.
- Scheme 3 has lower GDV but on review it is relatively higher, while, costs after review are marginally lower. Overall, the policy surplus for scheme 3 is higher relative to both Schemes 1 and 2.

If a policy surplus is generated, then Formula B calculates the additional AH floor space [m^2] to be delivered and this can be transformed into number of units based on average unit sizes [m^2]. Equally, this sum can be paid as a commuted sum in respect of both AH and other planning obligations that must be in accordance with the Council's adopted Local Plan policies. See Formula B [below] for further details and explanations.

FORMULA B: This is used to determine the amount of additional on-site affordable housing floor space [or equivalent affordable homes] at **Pre-implementation Review Stage**.

FORMULA B: to determine the amount of additional on-site affordable housing floor space				
SCHEME DETAILS: INPUTS	**Notation**	**Illustrative Only [1]**	**Illustrative Only [2]**	**Illustrative Only [3]**
POLICY SURPLUS REVENUE [from Formula A Table]	**=(P - Q)**	**£567,600**	**£238,425**	**£1,022,588**
Average Size of Homes [m²] - assumed for illustrative purposes only	Z	80.0	80.0	80.0
Average Market Values Homes [£/m²]	G	£3,000	£2,750	£2,625
Average Social/Affordable For Rent values [£/m²]	H=G*0.45	£1,350	£1,238	£1,181
Average Intermediate/Starter Homes For Sale Values [£/m²]	I=G*0.8	£2,400	£2,200	£2,100
RMBC: AH For Rent Policy Proportion [expressed as a decimal]	0.14			
RMBC: AH For Sale Policy Proportion [expressed as a decimal]	0.11			
Transfer Value of Social/Affordable For Rent units [% of Market Value Homes] [expressed as a decimal]	0.45			
Transfer Value of Intermediate/Starter Homes For Sale [% of Market Value Homes] [expressed as a decimal]	0.8			
KEY OUPUTS				
Policy Surplus Revenue x 0.56 [% of surplus to be used for social/affordable rented homes]	E=(P - Q)*(14/25)	£317,856	£133,518	£572,649
Policy Surplus Revenue x 0.44 [% of surplus to be used for Intermediate/Starter homes]	F=(P - Q)*(11/25)	£249,744	£104,907	£449,939
Additional Social/Affordable For Rent Floor space [m²]	L=E/H	235.45	107.89	484.78
Additional Intermediate/Starter Homes For Sale Floor space [m²]	M=F/1	104.06	47.69	214.26
Total Floor space [m²]	**=L+M**	**339.51**	**155.58**	**699.04**
TOTAL NUMBER OF ADDITIONAL AFFORDABLE UNITS	**=(L+M)/Z**	**4.24**	**1.94**	**8.74**

Explanatory Notes for FORMULA B	
(G – H)	This is the loss in value arising from transferring a market home to a social/affordable rented homes
(G – I)	This is the loss in value arising from transferring a market home to an intermediate/starter home
E	The proportion of the surplus revenue to be used for social/affordable rented homes [i.e. 56%]
F	The proportion of the surplus revenue to be used for intermediate/starter homes [i.e. 44%]
E and F	Both are divided by H and I respectively to establish the floor space available for additional affordable housing [or equivalent dwelling units]
G	This sum is to be determined as an integral part of the viability review
H	This sum to be determined as an integral part of the viability review. For illustrative purpose this is assumed to be 80% of market value. Such percentages are subject to change.
I	This sum to be determined as an integral part of the viability review. For illustrative purpose this is assumed to be 45% of market value. Such percentages are subject to change.
Comment/Advice	The additional social/affordable rented and intermediate/starter homes' floor space will be used to determine those dwelling units in the Affordable Housing Schedule to be converted to affordable housing to be secured through a clause in a planning obligation [S106].
Illustrative Examples [Z & G]	These simply provide examples of how the balance of different changes in GDV and Build Costs generate different levels of Policy Surplus Revenue to provide additional affordable floor space.

FORMULA C: To calculate the additional financial contribution payable to the Council at **advanced review stage** towards affordable housing **or** other policy requirements deemed not viable **at application stage**.

FORMULA C: To calculate the additional financial contribution				
SCHEME DETAILS: INPUTS	**Notation**	**Illustrative Only [1]**	**Illustrative Only [2]**	**Illustrative Only [3]**
RMBC: AH For Rent Policy Proportion [expressed as a decimal]	0.14			
RMBC: AH For Sale Policy Proportion [expressed as a decimal]	0.11			
Transfer Value of Social/Affordable For Rent units [% of Market Value Homes]	0.45			
Transfer Value of Intermediate/Starter Homes For Sale [% of Market Value Homes]	0.8			
Average Market Values Homes [£/m^2]	G	£3,000	£3,100	£2,900
Average Size of Homes [m^2] - assumed for illustrative purposes only	Z	80.0	75.0	82.5
Assumed Total Floor space [m^2]	Y	20000	22500	28875
Assumed Number of Housing Units	W	250	300	350
Assumed Total amount of Social/Affordable For Rent units [14%] floor space [m^2]	V=Y*0.14	2800	3150	4043
Assumed Total amount of Intermediate/Starter Homes For sale [11%] floor space [m^2]	U=Y*0.11	2200	2475	3176
Gross Development Value [GDV] achieved on sale of 75% of residential units and GDV from other parts of the development sold or let and other income receipts	A	£40,545,000	£47,133,563	£56,585,616
Estimated GDV for parts of the development that are yet to be sold or let and other income receipts or sources [of A]	B	£12,163,500	£14,140,069	£16,975,685
GDV determined as part of the appraisal of viability at application stage [or for phased schemes as determined in previous review]	C	£50,681,250	£58,916,953	£70,732,020
Actual Build Costs incurred at point of review [of B]	D	£24,327,000	£28,280,138	£33,951,369
Estimated Build Costs for remainder of the development [of B]	E	£7,298,100	£8,766,843	£10,185,411
Total Build Costs determined as part of the appraisal of viability at application stage [or for phased schemes as determined in previous review]	F	£30,408,750	£35,350,172	£42,439,212
KEY OUPUTS				
Additional Gross Financial Contribution	P= ((A + B - C) - (D + E - F))	£810,900	£659,870	£1,131,712
Additional Profit Allowance [%]	APA	22.50%	22.50%	22.50%
Additional Profit [%]	Q= ((A + B - C) - (D + E - F))*APA	£182,453	£148,471	£254,635
ADDITIONAL NET FINANCIAL CONTRIBUTION	**R = (P - Q)**	**£628,448**	**£511,399**	**£877,077**

Explanatory Notes for FORMULA C	
(A + B – C)	This is the change in GDV* at the point of review.
(D + E –F)	This is the change in Build Costs** at the point of review.
Additional Gross Financial Contribution [P]	This calculates the additional value that has been generated as a result of increased outturn values or reduced costs.
PA	The enhancement in the profit allowance is applied to incentivise the developer to maximise value. The profit rate is set at 22.5% of GDV, which is <u>5% points higher than the normal profit</u> allowance of 17.5% of GDV in Formula A [see above].
Additional Net Financial Contribution [R = (P – Q)]	This calculates the reduction in the financial contribution required, accounting for the percentage of additional value to be retained by the applicant as an additional profit allowance.
*	These are to be determined as part of the review.
**	These are to be determined as part of the review, or, where based on application BCIS build costs and agreed by the Council, linked to the Tender Price Index [TPI] and for phased schemes, linked to TPI from the date of the previous review.
Illustrative Examples [Z & W]	These show three different schemes in terms of number of housing units, but also different level of estimated changes in both GDV and build costs from the original values at application stage.

The figures presented in Formula C table [above] are illustrative only. There are three differently sized schemes in terms of total number of dwellings to be delivered on site. As well, the average size of each dwelling unit is different, so generating a different overall floor space [m^2] for each scheme and thus a different policy threshold of AH arising. As with the earlier formulae [A and B], the three schemes demonstrate different changes in both GDV and build costs at review [at the point of 75% delivery of units], and these relative changes generate different policy surpluses. A key point to stress is that the developer is incentivised to get the highest outturn values as the target profit rate to be received by the developer is higher than normally allowed – from 17.5% to 22.5%.

Any policy surplus shall be paid as an off-site commuted sum that can be used to deliver off-site AH or contribute towards mitigating the development impacts as allowed by the Council's Local Plan.

FORMULA D: To calculate the maximum additional affordable housing contribution [in terms of floor space (m^2)] payable at the **advanced stage review**.

FORMULA D: To calculate the maximum additional affordable housing contribution [m2] at advanced stage review				
SCHEME DETAILS: INPUTS	**Notation**	**Illustrative Only [1]**	**Illustrative Only [2]**	**Illustrative Only [3]**
Assumed Number of Housing Units	A	250	300	350
Average Size of Homes [m2] - assumed for illustrative purposes only	C	80.0	75.0	82.5
Assumed Total Floor space [m^2]	B = C * A	20000	22500	28875
Assumed Total amount of Social/Affordable For Rent Units [14%] floor space [m^2]	0.14	2800	3150	4043
Assumed Total amount of Intermediate/Starter Homes For Sale Units [11%] floor space [m^2]	0.11	2200	2475	3176
Scheme at Review Stage [at 75% of scheme]	0.75			
Remaining Scheme Proportion [25%]	0.25			
Transfer Value of Social/Affordable For Rent units [% of Market Value Homes] expressed as a decimal	0.45			
Transfer Value of intermediate/Starter Homes For Sale[% of Market Value Homes] expressed as a decimal	0.8			
KEY OUPUTS				
25% [RMBC Policy Compliant] of total residential floor space x 0.75	G=B*0.25*0.75	3750	4219	5414
Total Social/Affordable For Rent floor space determined at application stage [or for phased schemes as determined in earlier reviews [i.e. 14%]	H	2800	3150	4043
25% [RMBC Policy Compliant] of total residential floor space x 0.25	I=B*0.25*0.25	1250	1406	1805
Average size of homes [m2] - assumed for illustrative purposes only	A	80.0	75.0	82.5
Average Market Housing value [£/m^2]	K	£3,000	£3,100	£2,900
Average Social/Affordable Housing For Rent value [£/m^2]	L=0.45*K	£1,350	£1,395	£1,305
Average Intermediate/Starter Homes For Sale value [£/m^2]	M=0.8*K	£2,400	£2,480	£2,320
ADVANCED STAGE AFFORDABLE HOUSING CAP	**S = ((G-H) x (K-L)) + ((I-J) x (K-M))**	**£997,500**	**£1,159,594**	**£1,392,136**
Additional Affordable Housing for Rent units [based on average size and values]		**5.172**	**6.21**	**7.24**
Additional Affordable Housing for Sale units [based on average size and values]		**2.286**	**2.74**	**3.20**
Total Additional Affordable Housing units [based on average size and values]		**7.46**	**8.95**	**10.44**

Explanatory Notes for FORMULA D	
G	This is the percentage of affordable housing floor space to be social/affordable rented on policy split [i.e. 14%]
I	This is the percentage of affordable housing floor space to be intermediate/Starter Homes units on policy split [i.e. 11%]
G - H	This is the additional social/affordable rented housing floor space cap based on overall 25% affordable housing provision
I - J	This is the additional intermediate/Starter Homes floor space cap based on overall 25% affordable housing provision.
K - L	This is the loss in value of converting a market housing unit to social/affordable rented housing
K - M	This is the loss in value of converting a market housing unit to intermediate/Starter housing
Affordable Housing Cap [S]	This is the maximum additional financial contribution which can be converted into actual affordable housing units based on their average size of units [m2] and their value [£/m2].
Values	Determined as part of t review
Build Costs	Determined as part of t review, or, where based on application BCIS build costs and agreed by the Council linked to Tender Price Index [TPI] and for phased schemes linked to TPI from the date of the previous review.
Illustrative Examples [A & C]	These show three different schemes in terms of number and average size of the housing units as well as different average market prices [£/m2] which generate different Advanced Stage Affordable Housing Caps.

The figures in the Formula D table [above] are simply illustrative. They follow the same logic of Formula C, but in this case, the policy surplus generated [at the review point of 75% delivery of schemes] is converted into actual number of additional AH units, which are in compliance with the Council's planning policies. Depending on the average size of units being delivered, the policy surpluses displayed above generate a different number of AH units.

For all the Formulae set out above, it is stressed that in some instances adjustments to the calculations may be warranted according to the circumstances of a specific proposal. For example, where market and affordable housing values were clearly distinguished in the original appraisal calculation, it may be appropriate to allow for differential costs when determining the Advanced Stage Affordable Housing Cap.

Appendix 7: Spreadsheets for the Formulae [A, B, C and D]

The active spreadsheets will be provided on request.

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