Viability

Information required

This advice note provides information to applicants as to the minimum level of detail required to begin discussions around viability.

This advice is intended to help applicants needing to commission or undertake viability assessment. By asking the right questions up front all the necessary calculations and supporting information can be provided to the council first time. This will help to minimise delays in processing and determining planning applications.

Ideally, any such discussions would form part of pre-application discussions. It should be noted that this information is provided for guidance only. Each scheme will be considered on its merits.

It is the responsibility of the applicant to demonstrate that a scheme is unviable.

In most cases a Residual Land Value assessment, from a suitably qualified person, such as a RICS surveyor, will be the most appropriate way to do this. Larger more complex residential and mixed use schemes are likely to require more complex viability models. If you are proposing a more complex scheme please contact the Planning Team as early as possible for advice.

Using Viability Appraisals in Planning

This Guidance Note has been prepared to explain how viability appraisals submitted with planning applications will be used to inform negotiations.

When should Viability Discussions take place?

Ideally, viability negotiations should form part of pre-application discussions. Reviewing information submitted to identify potential viability issues at an early stage, allows the greatest scope for resolving the issues, helping to minimise delays in processing and determining your subsequent planning application(s).

What is a Residual Land Valuation (RLV)?

An RLV is a process for valuing land with development potential. RLV can be used in several ways:

- By calculating the potential receipts (known as Gross Development Value-GDV) from the development, less the development costs (including planning contributions, interest payment and the minimal level of profit required), RLV can be used to calculate what price could be paid for the land.
- By calculating the potential receipts (GDV) from the development, less the development costs (including planning contributions, the cost of the site and interest payment), a RLV can be used to calculate the level of profit that the scheme would generate.
- By calculating potential receipts (GDV), less development costs (including the cost of the site, interest payments) and the required level of profit, a RLV can be used to calculate the amount of money available in the scheme to make planning contributions.

For the purpose of discussions around the viability of a housing scheme, this way of setting out an RLV is likely to be most useful:

Total Development Value (TDV) of the site
MINUS
All the Development Costs (including a return for the developer and the cost of land)
LEAVES
The amount available to pay for Section 106 Planning Obligations (and Community Infrastructure Levy) contributions

Viability and the wider Policy Context

It is important to remember that viability discussions do not take place in isolation. As a planning authority we have to deliver sustainable development, and consider any applications in line with the policies in the adopted plan and any other material considerations.

The policies in the plan need to be taken together and the plan must be read as a whole. The policies in the plan have been through various stages of consultation and a public examination by a Planning Inspector. The policies

are supported by evidence, and this evidence, and the policies it supports, has been scrutinised through the plan-making process.
In terms of viability, it is important to note that the policies and supporting evidence already:

- assume a reasonable level of profit for the developer
- assume a reasonable return for the landowner
- understand and allow for consideration of risk
- include buffers and allowances for uncertainty
- are mindful of the economic cycle
- have taken account of financing costs
- assumes no grant is available
- reflect local circumstances

Therefore, as the National Planning Practice Guidance acknowledges "Decision-taking on individual applications does not normally require consideration of viability."

What happens once I have provided my RLV?

Once an RLV and the supporting information are submitted, the costs, values and outputs in the RLV will be reviewed. They will be tested to ensure they are clearly evidenced and reasonable. Areas where further clarification is needed may be identified and further information may be requested.
If the viability assessment and supporting information is submitted as part of pre-application discussions, any issues can be picked up and discussed during the pre-application meeting. At this meeting a way forward will be agreed, including a timetable for further written information if needed.
If these discussions take place when an application has already been submitted, feedback will be in written form. It is for the applicant to satisfactorily demonstrate that the scheme is unviable. Incomplete, inaccurate or confusing information is unlikely to be able to do this.
For larger or more complex schemes, advice may be sought from the District Valuer. This will be at the applicant's expense.

How are viability issues identified, and what can be done about them?

At a very simple level a site specific viability assessment looks at the values and costs of a particular proposal. By deducting the costs from the values you get an outcome, the 'residual', which in our suggested approach would be how much is left to contribute to S106 contributions. Therefore, by definition, reducing costs, and or increasing values, will improve the viability of a particular scheme.

One of the benefits of using an RLV, is that this method of calculation offers a simple way to model the financial outcomes of different schemes. For example, by trying out different numbers, and/or a different mix of size and types of housing it will be possible to see if viability can be improved.

What issues may be identified?

Issues may be identified in relation to any element of the RLV. Essentially, costs should be reasonable and values should be realistic. RLVs include allowances for reasonable developer profits and a suitable value for the land. It is important to remember that on-site affordable housing has a value, which should also be accounted for, albeit not full market value. CIL charges should be included as a cost and the sums for how they were calculated included in the supporting text of the viability appraisal.

Where there is a clearly identified viability issue, the next stage of discussion will be to see if anything could be done that would reduce costs and/or increase values. Redesigning the scheme, including considering changes to the mix, size, type and tenure of the units may also be considered, where this would improve the viability of the scheme.

This approach is in line with the National Planning Practice Guidance which indicates that where the deliverability of the development may be compromised by the scale of planning obligations and other costs, a viability assessment may be necessary. This should be informed by the particular circumstances of the site and the proposed development in question. Assessing the viability of a particular site requires more detailed analysis than at plan level.

What if the scheme is still not viable?

There are many reasons in relation to good planning, and our wider role, to work with applicants to try and improve the viability of any proposal. Ideally, we should work together to find a way to deliver a scheme that meets all the targets. However, this may not always be the case. In such circumstances the aim will be to get as close to the targets as possible, by securing as much as is viable.

Having considered efforts to improve the viability of the scheme, if an applicant has clearly demonstrated that providing the target amount of affordable housing and other requirements on a particular site is currently not viable we may agree to negotiate.

As was clearly demonstrated during the credit crunch, the viability of a site may change over time. RLVs are a snapshot in time and reflect current costs and values. For schemes with longer build out rates we may seek to include claw-back or overage clauses, or programme in a re-appraisal of the RLV and resulting contributions, at particular phases of the scheme.

Definitions

Development Receipts (GDV)

Development receipts are the money generated from a completed scheme. Usually this will be the sum of anticipated sales of the completed units. These should be provided on a per unit basis.

Development Costs

Development costs are the costs required to bring the site forward. This includes build costs, land costs, professional fees and developer's profit. Costs should be broken down into their constituent parts. Build costs should be provided per square metre per unit, with the floor space of each unit clearly specified. Be sure to include other site costs and professional fees as well as the land value and developer's profit.

Residual Land Valuation (RLV)

An RLV is a process for valuing land with development potential.
A RLV viability appraisal is therefore a calculation of values minus costs. As such, changes which reduce costs and/or increase values, will improve viability. Likewise, changes which increase costs and/or reduce values will decrease viability. Viability assessments are essentially calculations, and as such are only as good as the information that is fed into them. Therefore, supporting information is required that sets out the sources of information used, for example, information from estate agents or property websites,

quantity surveyor's costings, local knowledge. This explanation is as important as the figures themselves in terms of informing viability discussions.

RLV and Confidentiality

Information provided to support planning applications is normally uploaded to the Council's website. RLVs can be submitted on a confidential basis, but in such cases it is recommended that a non-sensitive summary is produced which would be viewable by members of the public. You should however note that **viability assessments can be the subject of requests for information under the Environmental Information Regulations and/or the Freedom of Information Act**. Guidance and case law would suggest that the majority of any such report would have to be released although we would discuss any release of sensitive information with you first.

Viability

The national Planning Practice Guidance states that "a site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken."