

Financial Viability in Planning Supplementary Planning Document

Royal Borough of Kingston-upon-Thames
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Acronyms

NPPF: National Planning Policy Framework **BCIS:** Build Cost Information Service

SPD: Supplementary Planning Document **PPG:** Planning Practice Guidance

CIL: Community Infrastructure Levy **AUV:** Alternative Use Value

EUV: Existing Use Value **BLV:** Benchmark Land Value

RLV: Residual Land Value

GIA: Gross Internal Area

NIA: Net Internal Area

01 Introduction

- 1.1 Development Viability has become an important consideration within the planning process as established in the National Planning Policy Framework (NPPF). Viability is considered in two key stages in planning; viability in plan making and in the decision making of planning applications.
- 1.2 The purpose of viability testing as part of the planning application process is to ensure that developments are deliverable in a way that balances planning objectives in an optimum way. This influences the extent to which new developments meet Core Strategy (2012) requirements, such as the provision of affordable housing, employment floorspace and infrastructure.
- 1.3 The London Plan (2016) requires that boroughs evaluate viability appraisals rigorously.¹ Robust assessment is vital to ensure the implementation of adopted planning policies which form the basis of the delivery of sustainable development in each authority.
- 1.4 There is a range of different guidance relating to viability assessments which has in some cases led to a diversity in approach. This Supplementary Planning Document (SPD) sets out the overarching principles for how the Council will approach development viability where it is a consideration as part of the planning process, in line with the NPPF and the national Planning Practice Guidance (PPG).
- 1.5 This document should be read alongside, national, regional and local planning policy and guidance.

¹ London Plan March 2016 policy 3.12 and paragraph 3.71

02 The Purpose of the Document

2.1 The purpose of this document is to provide clarity for developers and stakeholders on matters pertaining to the role of financial viability assessments in planning. This SPD sets out the Council's requirements and the approach applied to the assessment of viability. It has been prepared as a Supplementary Planning Document (SPD) to support Policy CS10 (Housing Delivery) of the Kingston upon Thames Core Strategy (2012) and the Infrastructure Delivery Plan, as supported by other Council strategies, including the Local Implementation Plan (LIP2).

Status of the SPD

2.2 SPDs are used to add value to existing policy. They build upon and provide more detailed advice or guidance on policies that are adopted in Local Plans, and once adopted will form part of the Council's Local Development Framework. This SPD fully accords with the aims of Core Strategy Policy 10 (CS10) Housing Delivery. Upon adoption, it will become a material consideration in the determination of planning applications. It has been prepared in line with the requirements of Part 5 of the Town and Country Planning (Local Planning) (England) Regulations 2012 and associated regulations and guidance on SPDs.

2.3 The SPD will support those producing viability and financial appraisals for wider public and private projects. This will be achieved through the provision of clear advice on the content and requirements of financial appraisals.

03 Policy Context

National

- 3.1 The NPPF establishes that the key purpose of planning is the delivery of sustainable development through a 'plan-led' system as set out in statute. Planning should: help to deliver strong, responsive and competitive economies, by co-ordinating development requirements, such as the provision of infrastructure; create sustainable, mixed and healthy communities; meet full, objectively assessed needs for market and affordable housing; promote sustainable transport; require good design; conserve and enhance the natural and historic environment; and, meet the challenge of climate change.
- 3.2 The NPPF also requires that the costs of planning requirements should allow for competitive returns to a willing landowner and developer to enable development to be deliverable. The process and methodology for testing this must be accounted for within the context of the NPPF as a whole and the overarching objective of achieving sustainable development.
- 3.3 Central to the consideration of development viability is the assessment of 'land or site value', which is an important input into a viability appraisal. The PPG sets out common principles in 'land or site value' and that in all cases 'land or site value' should:
- » Reflect the policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy (CIL) charge.
 - » Provide a 'competitive return' to willing developers and landowners (including equity resulting from those wanting to build their own homes); and
 - » Be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of a

submission.

- 3.4 The PPG also indicates that a 'competitive return' to developers and landowners will vary significantly between projects to reflect the size and risk profile of the development and risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected where possible. A competitive return for the landowner is the price at which a reasonable landowner would be willing to sell their land for the development. The price will need to provide an incentive for the landowner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative that complies with planning policy.

Regional

- 3.5 The London Plan (2016) provides strategic context for planning activities in London. It requires developers to provide development appraisals to demonstrate that each scheme provides the maximum reasonable quantum of affordable housing output, and that borough's evaluate viability appraisals rigorously.²

Local

- 3.6 The Council's Core Strategy was adopted in 2012. In Kingston, there is a particularly pressing need for affordable housing. Policy CS10 (supported by Development Management Policy DM15) identifies that the Council will take full advantage of opportunities to deliver new housing and, in particular maximise the quantum of affordable output. The Council's Infrastructure Delivery Plan underpins and complements the Core Strategy. The plan identifies the key items of strategic importance and other infrastructure needed to achieve the objectives and policies in the Core Strategy.

3.7 This SPD is required to ensure the implementation of adopted planning policies, which form the basis of the delivery of sustainable development in the Borough and seeks to maximise the opportunity to secure policy compliant development in the Borough.

1 NPPF paragraph 17

2 London Plan March 2016 policy 3.12 and paragraph 3.71

04 Viability Assessment and the Planning Application Process

4.1 In line with the planning policy requirements set out above, where policy requirements cannot be achieved within proposed development schemes due to viability reasons, applicants are required to demonstrate this through the submission of an 'open book' development viability appraisal.

4.2 Development viability appraisals should compare the Residual Land Values (RLV) of developments on sites throughout the Borough to their value in Existing Use Value (EUV) plus a premium (where applicable), hereinafter referred to as 'benchmark land value'. While the Council will avoid a rigid approach to assumed profit levels (in line with PPG), the Council will require supporting evidence from applicants to justify proposed rates of profit, (in particular the Council's expectations relating to Developer Profit and Benchmark Land Value). If a development incorporating the Council's policy requirements generates a RLV equal to, or higher than the benchmark land value, then it can be judged that the Council's requirements will not adversely impact development viability. Similarly, if a development incorporating the Council's policy requirements generates a lower RLV than the benchmark land value, then it can be judged that the Council's requirements adversely impact on viability.

4.3 Further to the above, to ensure that development appraisals can be properly assessed and are robust:

- » Development viability, including Section 106 Heads of Terms (where this is likely to be a consideration) should be discussed early in the planning application process.
- » Viability assessments should reflect the NPPF, PPG on viability, and Mayoral and Borough guidance relating to methodology and inputs.
- » Viability evidence must be robustly justified and appraisal assumptions benchmarked against publicly available

data sources.

- » Appraisals must be balanced, coherent as a whole and consistent.
- » A working electronic version of the viability appraisal model should be provided (the Council utilises ARGUS Developer in the assessment of viability appraisals and submissions should be made in the recognised .wcfx format where possible).
- » Applicants and/or assessors should confirm that the assessment provides a fair and true reflection of viability and that this complies with professional and ethical standards.
- » The Council may appoint an independent valuer or seek other qualified advice to test assumptions and provide the Council with advice on the levels of affordable housing that can be achieved. The costs of financial appraisals and independent assessments will be met by the developer.

4.4 The Council will consider whether the approach adopted and the inputs applied are appropriate and adequately justified by evidence¹. In doing so the Council may take advice from a suitably qualified and competent professional(s) (including Quantity Surveyors where appropriate). The reasonable costs of this process will be paid for by applicants. All costs must be met before determination of the application. An appraisal should be updated where necessary to ensure that the assessment reflects current market conditions at the point of determination, in line with PPG²

4.5 Following the assessment of an applicant's development viability appraisal, the Council will indicate whether the proposed scheme

¹ PPG Viability Paragraph 16 states that an applicant should be "able to demonstrate to the satisfaction of the local planning authority that the planning obligation would cause the development to be unviable" before an authority agrees to vary requirements.

² PPG Viability paragraph 17

complies with adopted Local Development Framework policies and whether or not scheme amendments and/or additional planning obligations are required to ensure compliance.

an application or providing public subsidy and when fulfilling their duties under the Environmental Information Regulations and Freedom of Information Legislation.

Openness and Transparency

4.6 Information relevant to the plan-making and planning application process is publically available, which is consistent with the NPPF, placing a requirement on councils to facilitate community involvement in planning decisions³. PPG states that transparency of viability evidence is encouraged wherever possible⁴. The Environmental Information Regulations (2004) recognise the benefits of public participation and include a presumption in favour of disclosure. To ensure transparency and public participation:

- » The Council requires that information provided be made available to the public alongside other application documents. In submitting information, applicants do so in the knowledge that it will be made publicly available. Where an applicant requests that a redacted version of a viability appraisal be made public, the Council will only accept this position in receipt of satisfactory evidence providing justification for the components of the report to be redacted and the period of time for which they should remain redacted.

4.7 Subject to the above:

- » The Council will make information available to development control committee members or any other Councillor who has a legitimate interest in seeing it; and
- » The Council will make information available to a third party where another body has a role in determining

3 NPPF paragraphs 66 & 69
4 PPG Viability Paragraph 4

05 Principal Requirements

5.1 If a proposal relies on a viability appraisal to demonstrate why a policy compliant scheme cannot be provided, the applicant must submit:

- i. the viability appraisal which includes the information set out in this SPD;
- ii. a written assurance confirming that the applicant will cover all reasonable costs associated with the assessment of such an appraisal; and
- iii. the names of the applicant's, agents, consultants, parent or holding companies, development managers or other interested parties involved/likely to be involved in the development must be clarified on submission of the viability appraisal in order for any potential conflicts of interest to be identified.

5.2 In line with planning policy and guidance set out above, Appendix 1 clarifies the Council's expectations for the content of various components within development viability appraisals submitted. In addition, to clarify the information required by the Borough in order to prevent unnecessary delays or additional costs in the process, submitted appraisals must contain detailed information outlined in the relevant schedule of Appendix 2. The detailed requirements follow the guidance set out in the Royal Institution of Chartered Surveyors (RICS) guidance note 'Financial Viability in Planning' (GN 94/2012) and form part of the Council's local information requirements for the validation of planning applications. Appraisals should be structured to reflect the detailed information listed in the relevant schedule and include an executive summary and clear conclusions.

Appendix 1

Principal Requirements

Financial Viability Appraisal Component	Royal Borough of Kingston upon Thames Requirements
Development Values	<p>Assumptions relating to development values should be justified with reference to up to date transactions and market evidence relating to comparable properties within a reasonable distance from the site and, where relevant should reflect arrangements with future occupiers. In line with the London Plan, applicants should engage with Registered Providers (RPs) at an early stage and ensure that affordable housing values reflect discussions with and offers made by RPs.</p>
Development Costs	<p>Build costs should be provided in an elemental format based on a detailed specification of the proposed development and supported by evidence of contractor costs or which enables costs to be benchmarked against publically available sources such as the Building Cost Information Service (BCIS).</p> <p>Costs details should generally be provided based on Gross Internal Area (GIA), clearly apportioning costs to different elements of the development (i.e. commercial, market residential, affordable housing etc).</p> <p>Where costs are considered abnormal, the Council may seek advice from an independent Quantity Surveyor, to be paid for by the applicant.</p>
Developer Profit	<p>In line with the NPPF and PPG, the Council recognises that in regard to Developer Profit (considered 'competitive return' to developers and landowners), this will vary significantly between projects to reflect the size and risk profile of the development and risks to the project.</p> <p>As such the Council will avoid a rigid approach to assumed profit levels, however it will require supporting evidence from applicants to justify proposed rates of profit. The evidence submitted should take into account the individual characteristics of the scheme, including current property market conditions and a developer's risk profile.</p>
Benchmark Land Value	<p>The process for establishing an appropriate benchmark value for a development viability appraisal is key as it indicates the threshold for determining whether a scheme is viable or not.</p> <p>The Council considers that the 'EUV plus a premium' approach best reflects the need to ensure that development is sustainable and should form the primary basis for determining the benchmark land value in most circumstances. This should reflect the value of the landowners existing interest prior to the grant of consent and the need to provide a relevant incentive to the landowner to release the land for development fully taking into account site specific circumstances and the need to maximise policy compliance through the plan-led system (for premiums above existing use, refer to 'Developer Profit' above).</p>

	<p>The EUV should be fully justified with reference to comparable evidence, which excludes any hope value associated with the development on the site or alternative uses. This evidence should relate to sites and buildings of a similar condition and quality.</p> <p>The 'EUV plus a premium' should form the basis for determining the benchmark land value. An Alternative Use Value (AUV) approach to the benchmark land value may only be accepted where there is a valid consent for the alternative use or if the alternative use would fully comply with the Local Development Framework. In such cases a full viability appraisal must be submitted together with (in the case of an outline consent or development plan designation) a provisional design indicating how the alternative use could be accommodated on the site.</p> <p>PPG requires that in all cases land value should first and foremost reflect policy requirements, planning obligations and CIL charges. It is vital that land value is not overstated based on purchase price, land transactions or landowner aspirations which do not sufficiently reflect the role and requirements of Kingston's Local Development Framework. Overstated land values will not be an acceptable justification for delivery of developments that provide a sub-optimal balance of planning objectives.</p>
Planning Contributions	<p>Estimated \$106 planning obligation and \$278 costs should be included as a development cost. Both the Kingston and Mayoral Community Infrastructure Levies should also be included as a development cost. These costs should be programmed in accordance with the relevant CIL instalment policy, and if applicable phased payments as permitted by the CIL Regulations, which aid developer cash flow should also be reflected in the assumed timing of payments.</p>
Viability Review Mechanisms	<p>In line with the Council's adopted Planning Obligations SPD, legal agreements associated with planning permissions may require viability review mechanisms. These are designed to test the outcomes arising during the carrying out of development, against those predicted in the viability appraisal submitted with the relevant planning applications with a view to determining whether any additional provision of planning obligations is necessary and justified (e.g the provision of additional affordable housing or a contribution in lieu) to ensure that the completed development is policy compliant. Review Mechanisms have to be completed at the applicant's expense and at times agreed with the Council. The identification of review mechanisms will be determined by the Council on a case by case basis (depending on the nature and scale of the development and the timeframes in which it may be completed) to maximise policy compliance through the appropriately identified review mechanisms.</p>
Mayoral 'Call-In' Applications	<p>For developments that are 'called-in' by the Mayor of London, the Council will work with the Mayor to assess viability appraisals in accordance with the Development Plan.</p>

Appendix 2

Detailed Requirement Schedule - Residential Led Scheme

Residential Led Scheme Appraisal Section	Information Requirements
Proposed Scheme Details	<ul style="list-style-type: none"> » Floor areas in spreadsheet » Commercial: Gross Internal Area and Net Internal Area » Number of car parking spaces » Proposed specification » Residential unit numbers and habitable rooms including the split between private and affordable tenures and the types of affordable tenure.
Gross Development Value (GDV)	<ul style="list-style-type: none"> » Any existing income that will continue to be received over the development period » Anticipated residential sales values and ground rents and supporting evidence » Net operating income (where appropriate) » Anticipated rental values and supporting evidence for any commercial element » Yields for the commercial elements of the scheme and supporting evidence » Details of likely incentives, rent-free periods, voids for any commercial element » Anticipated sales rates (per month) » Anticipated grant funding for affordable housing » Anticipated value of affordable units with supporting evidence/ explanation of how these have been valued including assumptions
Costs	<ul style="list-style-type: none"> » Expected build cost (a full QS cost report also showing how costs have been estimated) » Demolition costs » Historic costs (as reasonable and appropriate) » Site preparation costs » Vacant possession costs » Planning costs (including infrastructure and other contributions) » Construction timescales, programme and phasing » Any anticipated abnormal costs » Rights of light payments/party walls/oversailing rights » Details of expected finance rates » Site Value » Professional fees, including: <ul style="list-style-type: none"> • Architect • Planning Consultant • Quantity Surveyor • Structural Engineer • Mechanical/Electrical Engineer • Project Manager • Sale/letting fees

Development Programme	<ul style="list-style-type: none"> » Pre-build » Construction period » Marketing period » Viability appraisal and cash flow » Phasing (where appropriate) » Growth Model (where appropriate)
Benchmark Viability Proxies – Rationale	<ul style="list-style-type: none"> » Profit on cost/value – Evidence should be provided from applicants and lenders to justify the proposed rate of profit taking account of the individual characteristics of the proposed scheme and the development's risk profile » Development yield » Internal Rate of Return (IRR) (where appropriate)
Sensitivity Analysis	<ul style="list-style-type: none"> » Sensitivity Analysis should be used to justify assumptions including sales values
Title	<ul style="list-style-type: none"> » Freehold/leasehold » Tenancy schedule – to include lease summaries (where appropriate)

Appendix 2

Detailed Requirement Schedule - Commercial Led Scheme

Commercial Scheme Appraisal Section	Information Requirements
Proposed Scheme Details	<ul style="list-style-type: none"> » Floor areas in a spreadsheet » Commercial: Gross Internal Area and Net Internal Area » Number of car parking spaces » Proposed specification
Gross Development Value (GDV)	<ul style="list-style-type: none"> » Any existing income that will continue to be received over the development period » Anticipated rental values and supporting evidence » Net operating income (where appropriate) » Yields for the scheme and supporting evidence » Details of likely incentives, rent-free periods, voids
Costs	<ul style="list-style-type: none"> » Expected build cost (a full QS cost report also showing how costs have been estimated) » Demolition costs » Historic costs (as reasonable and appropriate) » Site preparation costs » Vacant possession costs » Planning costs (including infrastructure and other contributions) » Construction timescales, programme and phasing » Finance costs – to be justified according to the proposal » Any anticipated abnormal costs » Rights of light payments/party walls/oversailing rights » Details of expected finance rates » Professional fees, including: <ul style="list-style-type: none"> • Architect • Planning Consultant • Quantity Surveyor • Structural Engineer • Mechanical/Electrical Engineer • Project Manager • Sale/letting fees
Development Programme	<ul style="list-style-type: none"> » Pre-build » Construction period » Marketing period » Viability appraisal and cash flow » Phasing (where appropriate) » Growth Model (where appropriate)

Benchmark Viability Proxies – Rationale	<ul style="list-style-type: none"> » Profit on cost/value – Evidence should be provided from applicants and lenders to justify the proposed rate of profit taking account of the individual characteristics of the proposed scheme, and the development's risk profile » Internal Rate of Return (IRR)
Sensitivity Analysis	<ul style="list-style-type: none"> » Sensitivity Analysis should be used to justify assumptions including sales values.
Title	<ul style="list-style-type: none"> » Freehold/leasehold » Tenancy schedule – to include lease summaries (where appropriate)

If you would like to discuss any aspect of this document or Strategic Planning and Regeneration generally, then please ring the Strategic Planning Team on 020 8547 5002 or email us at localplan@kingston.gov.uk

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ENGLISH

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