

APPENDIX 8



Viability Testing Local Plans

Advice for planning practitioners

Local Housing Delivery Group
Chaired by Sir John Harman

June 2012



Supported by



About the Local Housing Delivery Group

The Local Housing Delivery Group is a cross-industry group involving a broad group of stakeholders with an interest in home building in England.

It was set up in 2011 to respond to the Government's challenge to boost the delivery of new homes, to simplify housing standards where possible, and to support growth and high standards in home building by helping local authorities and developers find agreed ways in which they can fulfil their obligations under the new National Planning Policy Framework (NPPF).

The Local Housing Delivery Group was chaired by Sir John Harman. On the group were:

Stewart Baseley, Home Builders Federation

Cllr Ed Turner, Local Government Association

Ian Davis, NHBC

Michael Rich, Homes and Communities Agency

Keith Holland, Planning Inspectorate

Mike Holmes, Planning Officers Society

Paul King

Russell Reefer, Local Government Association

Nick Scregg, Persimmon Homes

John Stewart, Home Builders Federation

Imtiaz Farookhi

David Marchant, NHBC (Secretariat)

Simon Brown, DCLG observer

The steering group also established two working groups – one (chaired by the Homes and Communities Agency) to develop advice on the best way to test the viability of Local Plans, and the other (chaired by NHBC) to recommend ways to simplify the locally applied standards regime.

The views expressed in this report reflect the general views and consensus of the steering group as a whole but not necessarily the views of any one contributor.

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Foreword

I was pleased to be asked by Grant Shapps MP, the Housing Minister, to convene a cross-industry group to support the Government's ambition to increase the supply of housing through viable local planning and simplification of the local standards applied in housing development.

This review is a collaborative venture, drawing on the knowledge of practitioners and stakeholders from local government, residential developers and consultants. It serves as a perfect example of how the industry has come together to take joint responsibility for a complex and important aspect of planning without waiting to be told what to do. I thank all the participants, and particularly the HCA and NHBC who have acted as independent facilitators, for their support and advice during the 10 months of this review.

While you may not be surprised by many of the findings, it is clear to me that to implement some of the recommendations will need resources and a pragmatic, collective and cooperative approach.

I have observed stakeholders moving from very firm and sometimes opposing views to a measure of consensus during this review. The trust, understanding and respect built up will stand them in good stead for the work that must follow. I am pleased that the Local Government Association and the Home Builders Federation have agreed to continue to work together to help their members put these suggestions into practice.

This review by the Local Housing Delivery Group offers two important outcomes.

The first is practical advice for planning practitioners on developing viable Local Plans underpinned by a commitment from the HBF and LGA to engage their members in applying this advice and continuing to develop the guidance over time, as we all get to grips with the implementation of the new National Planning Policy Framework (NPPF). The viability testing advice is contained in this document.

The second part of this review – in a separate report – includes recommendations for the consolidation and simplification of local standards typically adopted for housing development. This is also underpinned by a commitment from stakeholders to support further detailed work if it receives Government backing. The recommendations are clearly linked to the viability testing as the standards and policies specified by local authorities need to offer clear community benefit and allow a carefully crafted Local Plan to be deliverable.

Sir John Harman
Chairman
Local Housing Delivery Group

"We thank Sir John Harman and all of those involved in this review work. We welcome very much the collaborative approach used to develop the advice and the commitment of all the various interested parties and stakeholders to develop the advice, based on their feedback and experience. This is a very valuable resource for local authorities to consider as they develop their local plans, and for other parties to use in contributing to that process."

Department of Communities and Local Government

"The Local Government Association believes that councils will overwhelmingly say 'yes' to appropriate and sustainable development. Recent research by the LGA also indicates that local communities will be supportive of housing development in their local area if that development comes with appropriate infrastructure."

"This speaks strongly to the need for greater and more constructive dialogue and understanding between local authorities, landowners and developers."

"On the one hand, councils appreciate the economic reality of development costs and market conditions, and on the other hand they believe that Local Plans must reflect the social, economic and environmental ambitions of the communities they serve."

"We believe this sector-led advice will assist councils in achieving this balance and determining a suitable approach on how to demonstrate plan viability, as required by the National Planning Policy Framework. It is also our hope that this advice will help us all develop clear, up-to-date and well-evidenced Local Plans that respond positively to opportunities for sustainable growth."

Cllr Ed Turner

Member of LGA Environment and Housing Board

"The Home Builders Federation is pleased to have been involved in the development of this advice. We are committed to working with home builders, local government and other stakeholders to help create an environment in which the industry can meet the demand for high quality, sustainable housing."

"We would encourage house builders to take part in the consultation and collaboration required to ensure that Local Plans are deliverable and that standards and policies applied locally have a clear local justification and do not undermine the viability of the Local Plan."

"It is important that this advice is further developed over time, taking account of the experience we will all gain in implementing the National Planning Policy Framework. We will be pleased to receive feedback on Local Plan viability testing in practice so that we can work with the LGA to develop this advice over time."

Stewart Basclay

Executive Chairman

Home Builders Federation

"The Planning Inspectorate and Planning Officers Society welcome this advice on viability testing of Local Plans. The use of this approach will help enable local authorities to meet their obligations under NPPF when their plan is examined."

Planning Inspectorate & Planning Officers Society

Introduction

The Government has placed high priority on the new homes market as a driver for growth and has taken some steps to help local government and industry meet housing demand.

Among these is the publication of the 2012 National Planning Policy Framework. This important policy document calls for balance between sustainable development which benefits the local community, and realistic returns for land owners and developers such that development is commercially viable. Given the parallel between the viability testing of Local Plans and the associated preparation of Community Infrastructure Levy charging schedules, the advice contained in this document should be helpful in preparing those charging schedules.

This report and advice from the Local Housing Delivery Group seeks to support this policy by outlining the importance of viability and deliverability as part of the balance in developing Local Plans.

"An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered."

Local Housing Delivery Group

A collective view

It is important to emphasise that the advice outlined in this report comes from the Home Builders Federation, the Local Government Association, house builders and local government representatives. They were supported by other experts from planning, consulting and standards bodies. They worked together to stimulate productive and open discussions. Views were recorded on a non-attributable basis.

While each individual and their organisation's views and objectives may differ, they found common ground, particularly given the current resource-constrained economy, for pragmatic, balanced planning policies and simplified development standards.

The advice has been developed to cover:

- The core principles of Local Plan viability testing.
- Guidance on how sound assumptions can be made.
- What sort of process would be most effective in carrying out an assessment of this kind.

This advice focuses on residential development, as it has been commissioned by the Local Housing Delivery Group and this is likely to be where there is the greatest need. However, the approach and principles should apply to any form of development that the Local Plan seeks to deliver.

The Local Housing Delivery Group has also deliberately avoided considering the development appraisal of specific sites. Instead it focused on the task of assessing a whole plan and the policies that are being developed as part of plan making.

The advice is aimed at those responsible for Local Plans and plan policy making, as well as those with whom planners will work and engage to produce deliverable and sustainable plans: developers, landowners, statutory agencies and community representatives.

Planning authorities and their partners are therefore advised to consider this advice as they develop Local Plans, in particular as they seek to address the national policy requirement to avoid cumulative demands that would put implementation of the plan at serious risk.

Developers and landowners seeking to bring forward development should also consider this advice and the approach it promotes.

The critical importance of skills

While not part of its detailed recommendations on the process of viability assessment itself, one of the most critical issues the Local Housing Delivery Group identified is the need for investment in people and the skills required to deliver housing through practical and deliverable Local Plans.

Successful implementation of the NPPF is entirely reliant on the skills, competence and resources in local government and the development community.

In particular, while it is not expected that councils need to retain inhouse all the specialist resources required to develop a viable plan, they must at the very least be a highly intelligent 'client', able to develop their policies and adopt home development standards in a discriminate way which recognises key aspects of development economics. Similarly, new entrants into house-building and development need to fully understand the purpose of the planning system, the process of local accountability and the empowerment of people and communities in planning.

It would certainly be part of the collaborative and cooperative approach advocated within this advice to ensure there is an equal development of expertise and understanding in local government and the house-building industry, supported where necessary by formal training and knowledge transfer.

The local standards issue

The house-building industry has to work with a large number of complex and overlapping standards, many of which are applied at local level. Achieving compliance with these standards in combination presents a significant challenge to the industry. The costs of achieving compliance and the burden and costs of demonstrating compliance can also be significant, and in some circumstances can have an impact on viability.

Therefore, this advice on viability assessment also needs to be considered alongside the work of the Standards Working Group, the part of the Local Housing Delivery Group tasked to look at this issue.

Its interim report 'A review of local standards for the delivery of new homes', concludes there is considerable overlap of standards and that there are ways to simplify and consolidate them. The report recommends an overhaul of standards in a Government-backed initiative supported by a properly constituted and representative cross-sector Industry Group. While this work continues, it is important to ensure that the standards adopted in Local Plans can be justified as offering clear local community benefit and do not undermine development viability.

Challenges and trade-offs

Against this context, this viability advice recognises there are significant challenges for planning authorities seeking to make plan policies that both provide for acceptable development and avoid placing unrealistic pressures on the cost and deliverability of development. These challenges are exacerbated when market conditions reduce the scope for delivering plan policies through lack of development value.

Decisions on how to deal with these challenges will be made by locally elected members, prior to the Local Plan being examined within a national framework that is clear on the need for Local Plans to be deliverable.

Where trade-offs between the economic, social and environmental dimensions of sustainable development need to be made, they should be clearly articulated, openly considered and directly addressed.

It is hoped that this advice supports those dealing with these challenges by setting out a straightforward approach and principles that will lead to well-informed decision making.

Sir John Harman and the Local Housing Delivery Group would particularly like to thank all the viability working group members:

Michael Rich (chair), Homes and Communities Agency
 Keith Holland, Planning Inspectorate
 Nick Scregg, Persimmon Homes
 Ray Peacock, Taylor Wimpey
 Roger Humber, House Builders Association
 John Stewart, Home Builders Federation
 Nicky Linihan, Planning Officers Society
 Adrian Fox, Dover District Council
 Jim Ward, Savills
 Anthony Lee, BNP Paribas
 Kathleen Dunmore, Three Dragons
 Lin Cousins, Three Dragons
 Gilian MacInnes, Planning Advisory Service
 John Parmiter, Roger Tym & Partners
 Robert Fourt, Gerald Eve
 Russell Reefer, Local Government Association
 Ben Linscott, Planning Inspectorate
 Doug Livingstone, Homes and Communities Agency
 Graeme Geddes (secretariat), Homes and Communities Agency
 Simon Brown (observer), Department of Communities and Local Government

Executive Summary

"Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."

National Planning Policy Framework, para 173

"Local Plans should be aspirational but realistic. They should address the spatial implications of economic, social and environmental change. Local Plans should set out the opportunities for development and clear policies on what will or will not be permitted and where. Only policies that provide a clear indication of how a decision maker should react to a development proposal should be included in the plan."

National Planning Policy Framework, para 154

The National Planning Policy Framework stresses the need to ensure that the sites and scale of development identified in a Local Plan should not be subject to such a scale of obligations, standards and policy burdens that cumulatively this threatens the plan's ability to be developed viably.

The NPPF also requires that Local Plans meet the objectively assessed needs for their area, and are deliverable and realistic. Plans that do not take full account of these requirements are therefore at risk of failing to be found sound when examined.



There are many factors that a local authority needs to consider and balance in preparing a Local Plan, as outlined in the diagram on the previous page.

Local Plans need to deliver development that reflects community aspirations, is of high quality, protects the natural environment, is serviced by the necessary infrastructure and supports the transition to a low carbon economy in order to mitigate the impact of climate change.

However, consideration of viability is also a key factor. Plans may be aspirational but realistic, and should ensure that the impact of the policies when read as a whole should be such that the plan is deliverable. It will be the elected members of the planning authority who will take the lead role in making sure the planning system can “play an active role in guiding development to sustainable solutions” (NPPE, para 8).

Key principles

Set within that wider context, this advice outlines a number of key principles that should be kept in mind when assessing the viability of the Local Plan and its policies:

- It is critical that consideration is given to the cumulative impact of the plan policies, rather than treating policies in isolation or overlooking the potential impact of policies on the delivery of planned development.
- Planning authorities will often need to strike a balance between the policy requirements necessary to provide for sustainable development and the realities of economic viability. There should be both clear local justification for the adoption of local standards and policies, and reasonable returns for landowners and developers. Making an informed and explicit choice about the risks to delivery is a key outcome of the assessment of Local Plan viability.
- This local choice should be supported by a collaborative approach that is taken throughout the policy making process. The advice and input of local partners, particularly those with knowledge of the local market and development economics, and those who will be involved in delivering the plan, should be sought at each stage. This should avoid making poorly founded assumptions that can lead to plans being contested. It will also improve understanding of the need for the proposed policies and standards among those seeking to bring forward development in the area. The best plans are also regularly reviewed to test the policies adopted to ensure the plan remains viable and deliverable.
- Viability assessments of Local Plans should therefore be seen as part of the wider collaborative approach to planning and a tool that can assist with the development of plan policies, rather than a separate exercise.
- The approach to assessing plan viability should recognise that it can only provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability. It cannot guarantee that every development in the plan period will be viable, only that the plan policies will be viable for the sufficient number of sites upon which the plan relies in order to fulfil its objectively assessed needs.

- The assessment process should be **iterative**. Draft policies can be tested based on the assumptions agreed with local partners, and in turn those assumptions may need to be revised if the assessment suggests too much development is unviable. This dynamic process is in contrast to the consideration of viability during development management, when policy is already set.
- This approach does make viability assessment more challenging, particularly when considering the potential viability of plan policies over the whole plan period and across the different sub-markets of the plan area. However, a **demonstration of viability across time and local geography** will be of much more value to local decision making and will help develop a local shared understanding of deliverability.

None of the above is intended to suggest that the outcome of a viability assessment should dictate individual policy decisions. Rather, the role of an assessment is to inform the decisions made by local elected members to enable them to make decisions that will provide for the delivery of the development upon which the plan is reliant.

What is important is that consideration of overall viability is part of the evidence base on which those decisions rest and which is subjected to test, challenge and debate at examination. Carrying out an assessment is a means of reducing the risk of plan policies based on aspirations that are unviable and therefore incapable of being applied in practice.

The National Planning Policy Framework indicates that wherever practical, Community Infrastructure Levy charges should be worked up and tested alongside the Local Plan. Because a local authority's CIL will be one of the policy costs on development, the approach to viability testing outlined in this advice should also assist the local authority in drawing up its CIL charging schedule.

Viability testing of Local Plans does not require a detailed viability appraisal of every site anticipated to come forward over the plan period. Because of the potentially widely different economic profiles of sites within a local area, this advice suggests a more proportionate and practical approach in which local authorities create and test a range of appropriate site typologies reflecting the mix of sites upon which the plan relies.

This document provides a step by step guide to carrying out a plan viability assessment, identifying key factors which should be taken into account and setting out how to arrive at a benchmark land value which will enable land to come forward, while ensuring sustainable development which meets local social, economic and environmental needs.

This advice will need developing and updating as experience is gained in developing Local Plans under the NPPF. Members of the Local Housing Delivery Group were clear that their commitment would need to continue beyond the publication of this advice. The HBF and LGA will continue to gather feedback from members, as well as examples of the advice in action and case studies of good practice for future editions of this document.

PART ONE

Policy and principles

1. Policy context

National Planning Policy Framework

"Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

"Local planning authorities... should assess the likely cumulative impacts on development in their area of all existing and proposed local standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence."

National Planning Policy Framework, paras 173-4

The National Planning Policy Framework sets out clearly that Local Plans should deliver development that (among other things) reflects community aspirations, is of high quality, protects the natural environment, is serviced by the necessary infrastructure and supports the transition to a low carbon economy in order to mitigate the impact of climate change.

The NPPF sets out the overall approach that should be taken in plan-making, including seeking achievement of each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. It says that significant adverse impacts on any of these dimensions should be avoided, and alternative options which reduce or eliminate them should be pursued (NPPF, para 152).

The challenge for planning authorities is to balance this with the realities of economic viability and develop plans that can deliver sustainable development – that is, to balance aspirational objectives with realistic and deliverable policies. (NPPF, para 154)

The NPPF also places a clear emphasis on the need for planning authorities to ensure that Local Plans are deliverable. While previous planning guidance has stressed the need for elements of planning policy (such as affordable housing policies) to be economically viable, the NPPF is clear that all policy requirements need to be considered together when making an assessment of whether a proposed plan can be delivered.

The NPPF and Community Infrastructure Levy

“By providing additional infrastructure to support development of an area, CIL is expected to have a positive economic effect on development across an area in the medium to long term. In deciding the rate(s) of CIL for inclusion in its draft charging schedule, a key consideration for authorities is the balance between securing additional investment for infrastructure to support development and the potential economic effect of imposing CIL upon development across their area. The CIL regulations place this balance of considerations at the centre of the charge-setting process. In view of the wide variation in local charging circumstances, it is for charging authorities to decide on the appropriate balance for their area and ‘how much’ potential development they are willing to put at risk through the imposition of CIL... In their background evidence on economic viability to the CIL examination, charging authorities should explain briefly why they consider that their proposed CIL rate (or rates) will not put the overall development across their area at serious risk.”

(Community Infrastructure Levy Guidance, sections 7-8, March 2010)

The statutory guidance on setting a charge for a Community Infrastructure Levy places a similar emphasis on viability. Like the NPPF, it promotes the role of contributions from development as a means to ensure that the wider costs of growth, such as infrastructure, services and amenities, can be met.

The NPPF links CIL and the Local Plan as follows:

“Where practical, Community Infrastructure Levy charges should be worked up and tested alongside the Local Plan. The Community Infrastructure Levy should support and incentivise new development, particularly by placing control over a meaningful proportion of the funds raised with the neighbourhoods where development takes place.” (NPPF, para 175)

These documents make it clear that, while it is legitimate to look at how the value released from development can contribute towards the services and infrastructure that will make that development acceptable to communities, it is important that planning authorities weigh this carefully against the potential that cumulative policy requirements might put the delivery of the plan at risk.

Cross-boundary issues

“Crucially, Local Plans should... be based on co-operation with neighbouring authorities, public, voluntary and private sector organisations”

National Planning Policy Framework, para 157.

In considering the policy context with regard to the viability of plans, it is important to note both the ‘Duty to Cooperate’ on strategic planning matters and the ability of neighbourhoods to develop their own neighbourhood plans.

The Duty to Cooperate is relevant to assessing the viability of the plan in two ways:

1. There will be a range of agencies that fall under the duty with which planning authorities should seek to collaborate in carrying out the assessment. Some of these may be able to make significant contributions to the assessment exercise.
2. The duty is the means through which neighbouring authorities (and counties in two-tier areas) will collaborate on strategic planning matters that go beyond the boundary of a single planning authority. In considering the range of policy requirements and infrastructure plans that are likely to impact on the costs of development, it is important to consider any of those that are being considered jointly across authority boundaries and to ensure that they are not omitted from the assessment.

Neighbourhood plans will need to be in general conformity with the Local Plan, but may be used to specify development and/or policies that go beyond the Local Plan.

Therefore, it is important that in areas where neighbourhood plans are likely to come forward, the assessment of Local Plan viability is shared and made available for neighbourhood groups to use as the starting point for their own plans.

Definition of viability

Before looking at the purpose and role of viability testing of Local Plans, it is worth defining what is meant by viability.

An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.

At Local Plan level, viability is very closely linked to the concept of deliverability. In the case of housing, a Local Plan can be said to be deliverable if sufficient sites are viable – as defined in the previous paragraph – to deliver the plan's housing requirements over the plan period.

2. Purpose and role of viability assessments within plan-making

The primary role of a Local Plan viability assessment is to provide evidence to show that the requirements set out within the NPPF are met. That is, that the policy requirements for development set out within the plan do not threaten the ability of the sites and scale of that development to be developed viably. Demonstrably failing to consider this issue will place the Local Plan at risk of not being found sound.

The most important function of an assessment is to bring together and consider the cumulative impact of policies. This means taking account of the range of local requirements such as design standards, community infrastructure and services, affordable housing, local transport policies and sustainability measures, as well as the cost impact of national policy and regulatory requirements. The test should include both existing policies that the planning authority intends to retain and the new policy requirements that it is seeking to introduce.

While many of these policy requirements may not be straightforward to cost, it is still important that attempts are made to consider the impact of all policies that may result in a development cost or benefit.

The role of the test is not to give a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage.

Rather, it is to provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan.

On the basis of the advice set out in Part 2 of this document, the viability assessment is not there to give a straightforward 'yes or no' to development across the whole plan area or whole plan period.

Instead the NPPF requires a rolling supply of sites with a "realistic prospect" of being delivered to provide five years' worth of housing, with a further supply of sites with a "reasonable prospect" of being developable for years 6-10 and, where possible, years 11-15.

"To be considered deliverable, sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable. Sites with planning permission should be considered deliverable until permission expires, unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, there is no longer a demand for the type of units or sites have long term phasing plans."

"To be considered developable, sites should be in a suitable location for housing development and there should be a reasonable prospect that the site is available and could be viably developed at the point envisaged."

National Planning Policy Framework, footnotes to para 47

Risk and balance

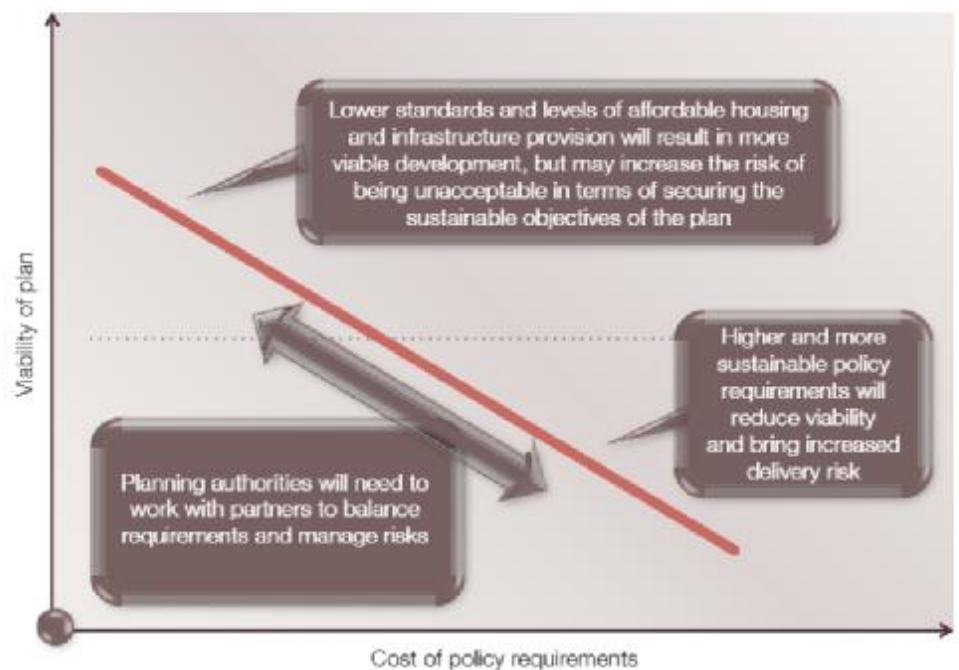
The guidance and policy cited earlier introduces the helpful notions of risk and balance.

As set out in the NPPF, "the cumulative impact of these standards and policies should not put implementation of the plan at serious risk" (NPPF, para 174). This echoes the requirement in CIL guidance for charging authorities to set rates that "will not put the overall development across their area at serious risk".

It is important to apply these principles to the assessment of Local Plan viability.

Planning authorities should use the assessment to help consider the level of risk that their proposed policies place on delivery. A viability assessment can test the impact of the costs of different policy requirements on delivery across the plan area, informing the local judgement about risk. Given the clear emphasis on deliverability within the NPPF, Local Plan policies should not be predicated on the assumption that the development upon which the plan relies will come forward at the 'margins of viability'.

Balancing delivery risk and sustainable plan policies



In making this local judgement, the planning authority will need to strike a balance between the policy requirements that it deems necessary in order to provide for sustainable development and the realities of economic viability.

Except for possibly in the highest value areas, it is unlikely that all policy aspirations will be capable of being realised, once a realistic account is taken of the costs associated with those aspirations alongside regulatory and statutory compliance.

Therefore, as with CIL, Local Plan making will involve decisions about how to balance competing interests and demands and it will be for local elected members to take decisions on the right balance for their area. This gives the viability assessment an important role within the plan-making process in helping to encourage and focus dialogue about the balances and trade-offs that will need to be considered.

Within this context, it is important to note that the role of an assessment is to help inform the decisions made by locally elected members when preparing and adopting a Local Plan.

The assessment will not dictate the outcome of individual policy decisions, although it should be an important part of the evidence that is taken into account and then subjected to test and debate at examination in order to ensure that the cumulative impact of policies does not inhibit the delivery of sites upon which the plan relies.

3. Benefits and scope of viability assessments

Spending time during the plan making process to consider the cumulative impact of policy on development can result in a number of benefits – for the plan, for the communities for which it seeks to provide sustainable growth, and for landowners and developers:

- Carrying out a viability assessment should lead to policies for development that take account of their cumulative impact and the consequent deliverability of the plan.
- A viability assessment of the plan provides a structured and transparent means for helping to understand the deliverability of proposed plan policies.
- In doing so, a viability assessment will bring to the surface the balances and trade-offs involved in plan making, allowing planning authorities to share these in an accessible way with communities and partners.
- The process of assessment should improve the shared understanding of the nature of sub-market areas. It should also open up viability modelling for partners to review on a transparent basis.
- Done well, it should lead to better plans, with more certainty for developers, more investment and a greater likelihood of delivering sustainable development on time for communities.
- In particular, a consideration of the cumulative impact of policy requirements should avoid situations where communities are left disappointed that their aspirations have not been matched by delivery.
- If carried out in the collaborative way proposed in this document – that is, engaging the relevant parties at an early stage – a viability assessment could help to reduce the conflicts that can occur at examination in public and during development management.
- In particular, a plan-level test of the policies should help to avoid re-opening every plan policy for negotiation as every site comes forward for a planning decision.
- Collaborative assessments will also develop a shared understanding of the drivers and constraints facing different parties, which in turn should lead to more constructive behaviour as sites come forward for development.

Acknowledging the limits

While there are benefits of testing the viability of a Local Plan as it is being prepared, it is important to have realistic expectations of the scope and accuracy of such testing. It is not a precise science.

- A plan-wide test will only ever provide evidence of policies being ‘broadly viable’. The assumptions that need to be made in order to carry out a test at plan level mean that any specific development site may still present a range of challenges that render it unviable given the policies in the Local Plan, even if those policies have passed the viability test at the plan level. This is one reason why our advice advocates a ‘viability cushion’ to manage these risks.
- Given the complexities of development across a whole plan area and whole plan period, planning authorities will need to take a proportionate approach and be realistic about the resources available for an assessment, which will necessarily limit the precision of assessments.
- Assessments depend heavily on the nature and quality of assumptions made. While this document should help authorities and their partners make well-informed assumptions, there will inevitably be assumptions for which it is harder to source data and/or where information is more contested.
- While there are many benefits to the collaborative approach set out below, the different drivers and objectives of stakeholders will inevitably lead to issues on which it is not possible to reach agreement and where approaches to viability may differ.
- Assessments are carried out at a particular point in time and are therefore limited by the data and information available at that time. This will inevitably limit the value of those assessments in informing plan policies that will be set for the long-term.

Despite the limitations noted above, there are significant benefits of a proper consideration of the impact of policy requirements on the deliverability of a Local Plan.

Part 2 of this document sets out how a collaborative approach to assessing viability can make the most of the benefits and help authorities meet the NPPF requirements.

PART TWO

How to assess the viability of local plans

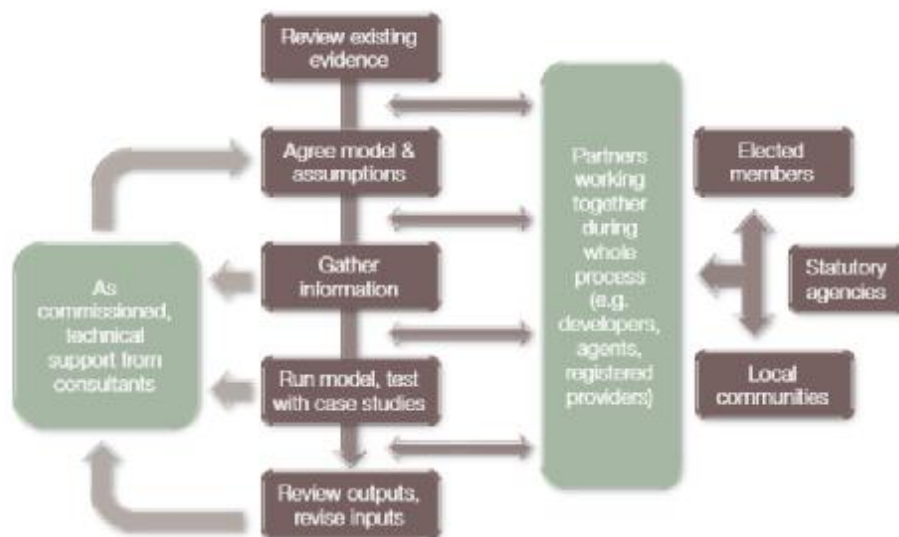
An overview of a collaborative approach

Given the purpose and potential benefits of a Local Plan viability assessment, the process will benefit from an approach that seeks to bring people together to discuss the key issues at an early stage of preparing the Local Plan, well before the formal examination in public.

This would be a collaborative working practice whereby the viability testing is an iterative process, both informing and being informed by the emerging policies. By getting people round the table to discuss and share information about the pressures on viability and the trade-offs that will need to be made in order to have a deliverable plan, it is far more likely that the right balance will be struck.

There are a number of stages at which seeking input from stakeholders will contribute to a better informed assessment. The diagram below provides an outline of how this might work, with each stage described in more detail in subsequent sections.

Overview of collaborative approach to plan viability assessment



The purpose of a collaborative approach is to allow regular engagement at each stage of the assessment process. Inviting contributions from informed stakeholders could include:

- Providing data and information.
- Testing assumptions.
- Technical modelling.
- Providing site information for case study tests'
- Or simply offering a critical friend role during the process.

A collaborative approach will also help to drive some of the benefits set out earlier in this document. In particular, through engagement in a viability assessment, it should be possible to move people and organisations beyond entrenched positions, which would otherwise involve all parties in time-consuming and often costly work in exploring issues through examination. This is neither efficient nor effective and can slow down the development process. Instead, developers and landowners should be invited to, and be prepared to engage early in, the process – both to reduce potential conflict, and to improve the prospects for the Local Plan at examination by showing that a collaborative approach has been used to set plan policies.

Of course, it is not intended that collaboration on the viability of plan policies is undertaken as a separate exercise. It should form part of the wider engagement and collaboration that planning authorities will carry out as part of the plan making process.

Where a suitable reference group or partnership already exists, then this should be the location for discussions about plan viability. For example, where planning authorities have a Housing Market Partnership (as recommended in the guidance on Strategic Housing Market Assessments¹), this is likely to be a good forum through which to take discussion of the residential development aspects of the viability assessment.

The Local Planning Authority will wish to contact a broad range of developers, especially those likely to be involved in the delivery of sites in the plan, with realistic timetables to allow for productive engagement.

“Public bodies have a duty to cooperate on planning issues that cross administrative boundaries, particularly those which relate to the strategic priorities set out in paragraph 156. The Government expects joint working on areas of common interest to be diligently undertaken for the mutual benefit of neighbouring authorities...”

National Planning Policy Framework, para 178

In working collaboratively through the assessment process, it is important the planning authority seeks engagement with the range of bodies with an interest in plan policies and their impact on deliverability, including neighbouring authorities under the Duty to Cooperate.

This engagement might also include statutory agencies such as the Environment Agency, Highways Agency and Natural England, other local authorities (county councils, parish and town councils), utility companies and representatives of community groups and organisations. Some of these organisations are covered by the duty to cooperate, introduced by section 110 of the Localism Act 2011, which planning authorities may find helpful as the basis on which to engage those bodies covered by the duty².

While there will be a limit to capacity, it is important that those likely to be delivering development within the area engage in this process. This will be far more productive than challenging plan policies at a later stage or seeking to unpick them as sites come forward during the development management process. Where developers engage in this collaborative process, it will aid the work if they are able

¹ SHMA 2007 guidance, pp. 12-13

² Environment Agency, Historic Buildings & Monuments Commission for England, Natural England, Mayor of London, Civil Aviation Authority, Homes and Communities Agency, Primary Care Trusts, Office of the Rail Regulator, Highways Agency, Transport for London, Integrated Transport Authorities, Highway Authorities and Marine Management Organisations.

to share as fully as possible their own appraisals and practices, recognising that there will be commercial constraints on this.

The process of collaboration must include the decision makers of the planning authority, its locally elected members.

Regular engagement between members and developers will be valuable; the form of this will depend on local circumstances and preferences. In addition to the formal process of decision making, planning authorities may wish to consider informal opportunities for stakeholders to directly engage with lead members at key stages through the plan making process to discuss issues arising from the viability assessment.

As noted earlier, a viability assessment of a Local Plan will be limited by the degree to which this process of collaboration can result in an agreed resolution of competing policy demands.

In cases where it is not possible to agree a satisfactory resolution, planning authorities may wish to consider adopting a mediation process, making use of a neutral third party to bring together all relevant stakeholders. Making this additional effort during the policy development stage can pay dividends in savings on costly discussions further down the line at the examination stage.

In the event that consensus cannot be reached, in the pre-examination preparation and at the examination, despite all reasonable endeavours by all relevant stakeholders, the planning authority may wish to invite the Inspector to recommend modifications.

The collaborative approach should feed into and benefit the development management process.

The positive relationships and trust built up should lead to more constructive engagement, whereby planning authorities are not seeking to increase levels of planning obligation in excess of that set out in the tested policies; and site promoters are not seeking to reduce obligations below the agreed policy level when submitting proposals.

The greater the engagement and collaboration at the plan policy making stage, the more likely it is that those resulting policies will be respected as setting the level of agreed requirements at the point where each specific site comes forward.

Throughout the process, the planning authority may wish to make use of consultants to support elements of the work. It is a matter for the planning authority to determine whether it considers this necessary for part or all of the required work – the advice in this document is aimed at informing either an in-house exercise or supporting an intelligent client role where work is contracted out.

However, in order to support the collaborative approach outlined here, it is important that key issues are referred back to the group of wider stakeholders.

Any appointed consultants providing technical support must therefore be able and willing to engage fully with that wider group on behalf of the client authority.

The approach will also be greatly assisted by avoiding 'black box' models where partners are unable to see (and therefore review or challenge) the basis on which the approach produces its outputs.

Step 1: Review existing evidence and consider scope for alignment of assessments

Existing evidence

It is very unlikely that any planning authority will be starting with a blank sheet when it comes to considering the viability of its policy requirements.

Assessments may have been carried out on affordable housing viability, a CIL charge may be under consideration, infrastructure requirements may have already been costed, Strategic Housing Market Assessments conducted and the work to prepare a Strategic Housing Land Availability Assessment may provide evidence of the deliverability of a range of sites.

An early task should therefore be to review existing assessments and their evidence bases, to determine what can be used or developed further as part of the plan-wide viability assessment.

This will help to reduce the burden and is in line with guidance to consider appropriate and available evidence. Particular consideration should be given to approaches that have been used in the past that have found good levels of support from local stakeholders.

Sources of evidence may already be available from previous studies and assessments



Viability considerations should already form part of the strategic housing land availability assessment (SHLAA) process. Good quality information provided by landowners/site promoters at this stage is vital to assist the testing of plan policy viability. The approach to assessing plan viability should therefore seek to maximise the use of relevant SHLAA information.

Landowners and site promoters should be prepared to provide sufficient and good quality information at an early stage, rather than waiting until the development management stage. This will allow an informed judgement by the planning authority regarding the inclusion or otherwise of sites based on their potential viability.

The information can also be used as the basis for case study testing of the initial outputs of the viability modelling.

If previously allocated or consented sites have not been developed, it will be important to re-assess whether they are realistically likely to contribute to meeting future housing requirements.

Appendix C sets out a checklist that can be used in order to help site promoters to record information that can inform the viability assessment.

Alignment of assessments

While considering the potential for other exercises to inform the evidence for a plan viability test, it is also important to explore the potential for aligning or combining future assessments.

In particular, as set out in the NPPF (para 175), where CIL is to be introduced, the development and consideration of the rate should be undertaken as part of the same exercise of viability testing the Local Plan wherever possible. Where a levy is already in place, if at all practical it should be reviewed alongside viability testing the Local Plan (and likewise the plan viability reviewed where practical if CIL charging is subsequently introduced).

As well as being more efficient, an alignment of tests will reduce the risk of an assessment becoming out-of-date through introducing a subsequent and separate charging regime. The need to review CIL on a more regular basis than the Local Plan will need to be considered.

Step 2: Agree the appraisal methodology, assumptions and information to be used

To secure buy-in to the outputs of a Local Plan viability assessment, it is vital to discuss with stakeholders the basis on which a viability assessment is to be carried out and the assumptions that will feed into it.

Agreeing approaches and assumptions to use may not be straightforward. However, establishing a 'workshop mentality' in developing the viability assessment and associated assumptions should help to avoid creating entrenched positions or at least provide an opportunity to identify where there may be areas of disagreement.

This collaborative approach allows landowners to demonstrate that their land is available for development at a competitive return and for the local authority's assumptions to be tested against the development sector's understanding of current market conditions and development economics.

For example, in order for land to come forward for development, it is necessary to secure:

- The willingness and ability of the private sector to implement a development proposal having regard to acceptable developer return.
- The willingness of lenders to support investment in a development proposal.
- The willingness of a land owner to sell land at an acceptable return.

It also allows for a wider appreciation of the drivers behind the policy aspirations of the planning authority on behalf of its communities, which will help to test and challenge assumptions that may otherwise prevent development from being acceptable to elected decision makers.

Further stakeholders involved in the development process, such as statutory agencies, service and utility providers, will also benefit from and improve their understanding of the issues through taking this collaborative approach.

Given this, it is important to keep in mind that, within available resources, the process is likely to involve some degree of iteration. It may be necessary to re-visit some of the early assumptions made once the initial outputs of the test are considered. Consideration of assumptions at this scoping stage should therefore allow for potential revision at a later stage.

Existing models and methodologies

A number of existing models are available to carry out viability tests, both at the Local Plan level and for specific sites.

Whichever approach is used, it is important for the planning authority to be aware of the importance of understanding the assumptions and inputs in the appraisal, as

well as the basis on which it calculates viability. The local planning authority should be in a position to make a well-informed judgement as to the merits of any given approach to the viability assessment. Critically, it should make every effort to get stakeholders to agree on the approach and to ensure that the assumptions used are transparent and available to all parties.

Most existing models use a residual land value methodology to assess viability. Here, the difference between the value and costs of development are compared with land values to determine whether development will be viable. We recommend that the residual land value approach is taken when assessing the viability of plan-level policies and further advice is provided below on the considerations that should be given to the assumptions and inputs to a model of this type.

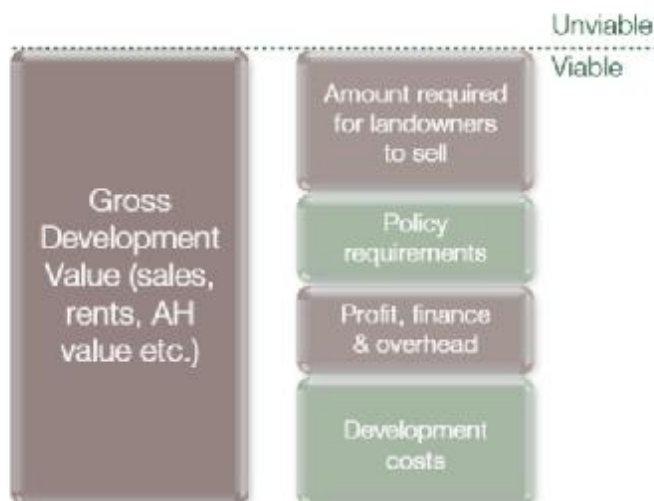
It is important to keep in mind that assessing the potential viability of plan policies will not take the same form nor share the same set of assumptions as a site-specific development appraisal.

When looking at whether or not a particular site is viable, it will be assessed against the existing planning policy, whereas a plan-wide test is carried out to help inform future policy.

This means that the assessment process should allow for a process of iteration of assumptions and policy goals, leading to a final set of policies that will ensure that the plan's strategic objectives are deliverable. Although this will be more challenging, it will increase the prospect of being able to successfully balance the viability and sustainability considerations within the Local Plan.

There is a need to agree on the inputs that will be used for each of the elements of the viability equation: gross development value, build costs, land costs, profit and policy requirements. Partners should openly discuss and agree the inputs that will be used; if a consultant's approach is being used, their proposed inputs should be made available to stakeholders and revised if necessary. Step 3 has more to say on gathering the information that will be needed to feed the assessment.

Basic outline of elements required for a viability assessment



Treatment of viability over time

There are also some key assumptions that should be discussed and agreed up front before any information gathering, in order to ensure that partners are clear on the parameters of the assessment and can take a view on the process before any outputs are produced. It is particularly important that there is a shared understanding regarding the approach taken to assumptions used over the time periods to be covered by the plan. It is recommended that this differs across the short, medium and long term.

With regards to housing supply, the NPPF is clear that for the first five year period following adoption of the Local Plan, planning authorities need to identify sites within the plan that are deliverable, which is defined as follows:

“Sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable.” (NPPF, para 47, footnote 11)

This is in contrast to the approach required for land for years 6-10 and beyond, recognising that less certainty will be possible and that it is sufficient for there to be a “reasonable prospect that the site is available and could be viably developed at the point envisaged”. (NPPF, para 47, footnote 12)

Taking a lead from this, it is sensible for the assessment of plan viability similarly to adopt a slightly different approach for the first five years from that taken for the longer term period covered by the plan.

The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values.

This offers a number of advantages. It helps to keep data requirements simpler by avoiding introducing additional assumptions about change over years 1-5. Importantly, this approach is in keeping with the NPPF requirement for sites where development is viable and avoids potentially misplaced assumptions about future economic change that might render the viability judgement incorrect. Instead, the economic realities of the time at which the plan is prepared and adopted will be properly reflected in the assumptions being made. This approach will also provide greater certainty for planners, developers and communities.

The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented, particularly during the first five years, where these will bring a change to current costs over which the developer or local planning authority has little or no control. A key example of this is the forthcoming change to Building Regulations arising from the Government’s zero carbon agenda.

For the period beyond the first five years (ie. the 6-15 year period), it is suggested that a more flexible approach may be taken, recognising the impact of economic cycles and policy changes over time.

With regard to residential development, the NPPF requires planning authorities to ensure that sites coming forward after the first five years of the plan should be in a suitable location for housing development and that there should be a reasonable prospect that the sites are available and could be viably developed at the point envisaged. It is therefore necessary for planning authorities to give consideration to likely future costs and values.

Inevitably, this will require predicting some key variables. Forecasting things like house prices or costs is notoriously difficult over the shorter term, and subject to wider inaccuracies over the medium and longer term. The best a council can realistically seek to do is to make some very cautious and transparent assumptions with sensitivity testing of the robustness of those assumptions. In so doing, it is important that variations against baseline costs, as well as values, are tested and based, where appropriate, on construction cost and other indices.

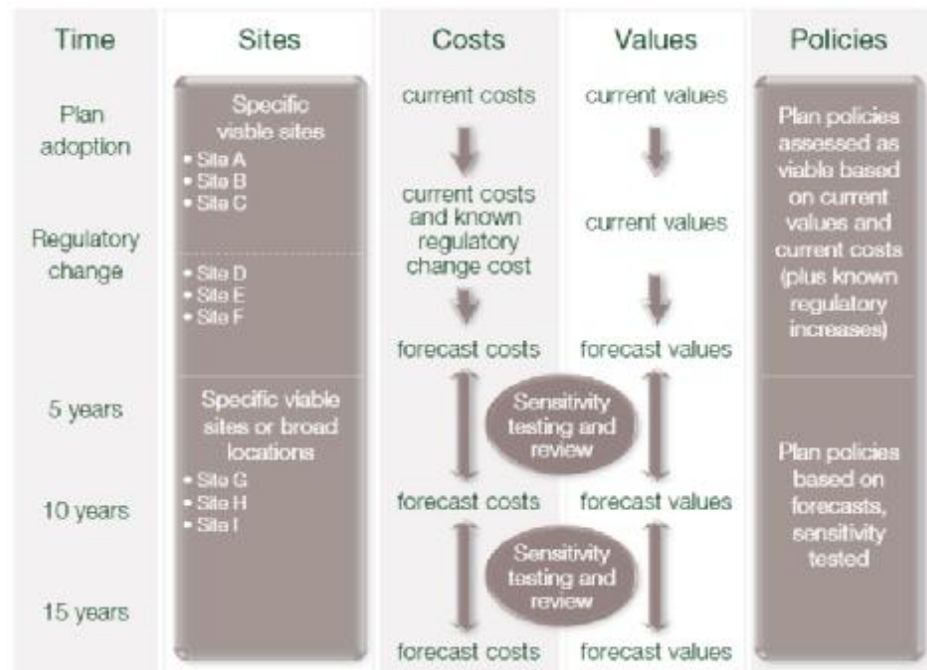
However, local planning authorities should ensure that the requirements of the NPPF to ensure that a rolling five year supply of deliverable sites plus an additional buffer of 5% or 20% (NPPF, para 47) are not prejudiced by unrealistic forecasting assumptions beyond the first five year period of the Local Plan.

The output of such sensitivity testing should inform the policy context for years 5-10 and 11-15 of the plan, albeit that it should be recognised that the forecasts for the latter part of the plan period are unlikely to be proved accurate and will need review.

It may be appropriate for local authorities to incorporate target-based policies in their plans for the periods 6-10 and 11-15 in their plans. However, such target-based policies should be cautious and soundly based on the forecasting sensitivity testing referred to above.

In keeping with the approach advocated throughout this document, planning authorities should carefully consider the risks to delivery of any given target for this period. The viability assessment assumptions should be monitored as the supply of sites upon which the plan relies is rolled forward annually. The need for such a review will be dependent upon the extent to which the relevant policies in the plan facilitate a continuing housing land supply. In the absence of such a continuing supply, Local Plans are at risk of not being considered up to date. (NPPF, para 49)

Whatever approach is taken to the assumptions made about inputs to the model over the time period of the plan, it is important to be transparent and engage with stakeholders so that the potential impacts of policy over time are clearly understood and debated.



One issue that arises from the points above is how to treat the value that development can and does create over time. This issue is particularly important where medium and large scale sites are likely to make up a significant part of the land supply for the plan period, given that such sites are often implemented over a period which exceeds five years.

Although the starting point in any assessment of the contribution of such schemes to overall development requirements embodied within the Local Plan should be the same as that for other specified sites in the first five years (ie. current costs and values), holding to those values for those sites across the whole plan period could impact on the longer term policy aspirations of the plan.

Accordingly, it may be appropriate for the assessment of those site types to factor in the potential for mechanisms for enhanced developer contributions in the event that the viability of the scheme improves over its period of implementation beyond the fifth anniversary of the date of the permission.

Assumptions made within the assessment about types of site should reflect that profile likely for that area, and for larger sites the model should be adjusted to allow for mechanisms that can review the value of development over time.

Treatment of Threshold Land Value

Another key feature of a model and its assumptions that requires early discussion will be the Threshold Land Value that is used to determine the viability of a type of site.

This Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development, before payment of taxes (such as capital gains tax).

In considering the value at which land will typically come forward for development, it should be noted that, on large complex sites, there are additional costs of site assembly and planning promotion. These are an intrinsic and essential part of the process of delivering large sites, albeit that they sit outside the activities that are the basis of the developer returns discussed in Step 3.

Different approaches to Threshold Land Value are currently used within models, including consideration of:

- Current use value with or without a premium.
- Apportioned percentages of uplift from current use value to residual value.
- Proportion of the development value.
- Comparison with other similar sites (market value).

Some models allow for a variety of threshold approaches in order to give a range of outputs. The potential for testing at a range of values is considered further below.

Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values (noting the exceptions below).

Alternative use values are most likely to be relevant in cases where the Local Plan is reliant on sites coming forward in areas (such as town and city centres) where there is competition for land among a range of alternative uses. This approach is already used by many councils, allows realistic scope to provide for policy requirements and is capable of adjusting to local circumstances by altering the percentage of premium used in the model.

The precise figure that should be used as an appropriate premium above current use value should be determined locally. But it is important that there is evidence that it represents a sufficient premium to persuade landowners to sell.

This is in line with the reference in the NPPF to take account of a "competitive return" to a willing land owner, as this will be one that would lead to a market transaction, discounting abnormal purchases or cases where landowners are selling under distressed circumstances.

Consideration should be made of costs that a relocating landowner may often incur (such as capital gains tax, stamp duty, relocation costs and professional fees), since there will be no incentive to sell unless those costs are met.

Plans have been found sound using a range of figures for a suitable premium above current use value, and it is suggested that for urban sites the premium should be carefully assessed following early discussions with local partners.

If resulting Threshold Land Values do not take account of such discussions, it should be recognised that there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound.

It is likely that a further refinement of initial assumptions about the premium will be necessary, to check the assumption against local market knowledge.

For example, the premium should take account of the make-up of key landowners within the area and their interests. In areas where landowners have long investment horizons and they are content with current land use, the premium will be higher than in those areas where key landowners are more minded to sell. As noted above, local sources should be used to provide a view on market values (the 'going rate'), as a means of giving a further sense check on the outcome of the current use plus premium calculation.

In setting out a Threshold Land Value, it is important to avoid assuming that land will come forward at the margins of viability.

To guard against this, planning authorities should consider incorporating an appropriate 'viability cushion' in the testing in order to ensure that the sites upon which the Local Plan relies in the first five years will, on the balance of probability, come forward as required.

This will also help to guard against the potential that small changes to external circumstances could render many sites unviable, leading to repeated challenges being made to policy requirements as applications for sites are made.

The decision on what cushion might be appropriate will rest with planning authorities, in collaboration with their consultees and partners, having taken a view on the level of risk to delivery (in the same way that guidance sets out consideration of risk should inform the balance of CIL charging).

It is widely recognised that this approach can be less straight forward for non-urban sites or urban extensions, where land owners are rarely forced or distressed sellers, and generally take a much longer term view over the merits or otherwise of disposing of their asset.

This is particularly the case in relation to large greenfield sites where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations.

Accordingly, the uplift to current use value sought by the landowner will invariably be significantly higher than in an urban context and requires very careful consideration.

It should also be recognised that landowners' expectations are not necessarily related directly to the economic circumstances of the locality, given that farmland of equivalent quality has a broadly similar intrinsic value irrespective of its geographic location within the country.

Therefore, for sites of this nature, it will be necessary to make greater use of benchmarks, taking account of local partner views on market data and information

on typical minimum price provisions used within developer/site promoter agreements for sites of this nature.

If such benchmarks are disregarded, there is an increasing risk that land will not be released and the assumptions upon which a plan is based may not be found sound.

Furthermore, if local market evidence is that minimum price provisions are substantially in excess of the initial benchmark assumptions, then the plan will be at significant risk unless Threshold Land Values are placed at a higher level, reflecting that market evidence.

For smaller, edge-of-settlement greenfield sites, landowners' required returns are likely to be higher than those associated with larger greenfield sites (and more in line with the Threshold Land Values per hectare adopted within the urban area). This is because landowners will be aware of the prospects of securing a beneficial permission at some point in the future and may therefore choose to defer bringing forward such land until they perceive market conditions have improved and/or the planning system is more conducive to an improved return.

In relation to larger scale sites which have been the subject of promotion through the development plan processes prior to the submission of a planning application, special consideration needs to be given to the manner in which Threshold Land Value is treated.

In such circumstances, the Threshold Land Value (at which a landowner will release land for development) is unlikely to represent the assessed value that will bring land forward for development. It will be necessary to take account of planning promotion costs and the return required by the promoters of such sites. Such costs and returns are an intrinsic part of developer/landowner contractual arrangements. They reflect the time, resources and risk associated with the site assembly and planning promotion of such schemes.

These activities lie outside those that are the basis of the developer returns discussed in Step 3. They can add significantly to the Threshold Land Value which a land owner may regard as a minimum acceptable return. This should be borne in mind when considering the benchmark land value adopted for large sites and, in turn, the risks to delivery of adopting too low a benchmark that does not adequately and reasonably reflect the economics of site promotion and development.

Planning authorities should also consider the willingness of landowners to sell at the site selection stage and seek to exclude those sites that are clearly non-deliverable from the viability assessment.

Consideration of types of site

As well as discussing and agreeing the approach to land value, partners should also consider the types of site that are likely to form the supply for development over the plan period.

Most available models are able to accommodate a range of site types. As with all other aspects of the assessment, the typology used should be shared with partners for discussion and revised if necessary.

Planning authorities may build up data based on the assessment of a number of specific local sites included within the land supply, or they may create a number of hypothetical sites, typologies or reasonable assumptions about the likely flow of development sites. In either case, a reasonably wide variety of sites has to be considered. This work can also be informed by historic completions and planning permissions, although historic data should be treated with care as patterns of future land supply may not match that of past development.

What is important is that partners have confidence that the profile of sites included within an assessment is a good match with likely future supply over the plan period, and avoid making assumptions that could be contested. For instance, it will be of little value to focus on high density, high value urban centre schemes if the majority of housing is proposed to be accommodated on lower density, large scale urban extensions. Further information on how site types might be classified is set out in Appendix A.

Particular attention may need to be given to the assumptions and modelling where the land supply is likely to depend significantly on either a number of large sites or many smaller sites. As noted above, where large sites are concerned there is a particular need to discuss revising any assumptions about values, given the time that it will take to fully develop out such sites.

Where smaller sites are concerned, models need to be properly interrogated to provide a shared understanding of the assumptions, to see if they are appropriate if development is likely to take place on large numbers of small sites. The use of thresholds for provision of affordable housing on small sites (no longer required) has led to assumptions being made that viability will be lower on very small sites. Assumptions such as this need to be visible and debated with local partners rather than accepted as part of modelling, as they will not necessarily hold true in practice.

Policy requirements

Finally, the scoping exercise must also include a thorough consideration of the potential policy requirements within the emerging Local Plan that are to be costed and included within the assessment – that is, requirements that are likely to give rise to added costs of development, and therefore have an impact on viability.

In some cases (such as affordable housing provision) the full cost of the policy is additional to the normal development costs of producing market housing.

In other cases, such as local authority public open space requirements, space standards or particular design requirements, the impact comes where the policy requirements are over and above what the developer would provide purely in response to market requirements. This all needs taking into account.

Here is a range of requirements that planning authorities may consider:

- Site-specific Sustainability.
- Site-specific Design Demands.
- Community Infrastructure and Services (s106 and CIL).
- Affordable Housing.
- Adoption Costs, Bonding, etc.
- Transport Policies.

Where these are proposed, their cost impact should be included within the viability assessment.

Some may be deemed to be critical for development to be acceptable in planning terms and some may be more discretionary and/or only applied to certain types of development or geographies. Through discussing this, appropriate trade-offs can be made to ensure that the cumulative policy burden does not make the plan undeliverable.

Considering this at the scoping stage will help to set the scene for any revisions or iterations that are required after the initial outputs of the assessment are considered.

As part of this work, it is also critical to take account of further funding sources that could meet the costs of those requirements. The local partnership should enable an informed discussion about what level of contribution is likely to be necessary and what mainstream funding will provide.

In turn, the iterative nature of the assessment process should help to inform – and if necessary, challenge – assumptions about other funding sources. In two-tier areas, this means county councils must be part of the partnership group that works on this.

Step 3: Information gathering and viability modelling

With the scoping of the assessment agreed, the next task will be to gather the information required – the inputs for the viability model as well as additional contextual information.

The work at this stage may be contracted out. However, it is still important to get an ongoing contribution of local knowledge from a range of sources as at least part of the information gathering exercise. Stakeholders with knowledge of the local market – estate agents, developers, registered providers, land agents and local surveyors and valuers – will have informed contributions to make, providing information and critically appraising information gathered by others.

As noted in Step 2, assumptions should continue to be tested and refined, in collaboration with local partners, throughout the process.

Development revenues and costs

When using current costs and values as the basis for assessing viability over the first years of the plan period, the information below on development costs needs to be checked with the development industry. It needs to be representative of current local costs which in turn reflect current local market conditions.

- **Revenue**

Information on development revenue, derived from local housing sales values, will be needed for the model. At plan level, average figures will need to be used, based on the types of development that the plan is seeking to bring forward.

Figures can be obtained through an analysis of sales values and rates within the plan area (using new homes sales for residential development), as well as receipts from rents for commercial property and ground rents for flatted developments.

The value received by the developer for affordable housing will also need to be included. As emphasised above, when considering information on sales values and rates, care should be taken to reflect current market conditions having regard to net sales revenues achieved rather than asking prices. (Net revenue is the actual revenue received by the home builder after allowing for discounts, sales incentives etc).

- **Build costs**

For build costs, these should be based on the BCIS or other appropriate data, adjusted only where there is good evidence for doing so based on specific local conditions and policies including low quantities of data.

Where significant proportions of development are likely to be particularly complex or high density, then adjustments should be made based on specific professional advice.

It is important to understand that BCIS costs do not include external structural and local site works and are based on Gross Internal Area (GIA) but do not include

circulation areas in flatted developments. Preliminary costs are included in the BCIS build costs figures so should not be included as a separate cost.

- **External works, infrastructure and site abnormalities**

These are likely to vary significantly from site to site. The planning authority should include appropriate average levels for each type of site unless more specific information is available. Local developers should provide information to assist in this area where they can, taking into account commercial sensitivity.

- **Site acquisition costs**

These costs will encompass agent fees (typically 1-2% of land value), legal fees (about 0.75-1.5%) and stamp duty (4% of site value plus VAT for values over £500k).

- **Site specific mitigation**

These costs may include flood protection, sustainable urban drainage schemes (SUDS), ecological considerations, and off-site highways works.

For a plan level assessment of these costs, it is again necessary to make use of averages based on the types of site likely to make up the supply over the plan period. CIL charges, where in place or being developed, may also take account of these factors.

As part of the collaborative approach, planning authorities should secure an understanding of these infrastructure costs through engagement with utility providers, Highways Agency, Environment Agency and others. Similarly, landowners and site promoters should endeavour to provide this information at an early stage, based on their site knowledge and engagement with service and utility providers.

- **Fees**

Expenditure on fees will vary with the complexity of sites. Where possible the figure used for fees should take account of the likely nature of the sites that will be included within the plan. They will also vary depending on the type of developer, with volume builders often able to realise some savings from inhouse provision. (For more details, see Appendix B).

- **Sales and marketing costs**

An allowance should be made for these costs of around 3-5% of the gross development value, recognising that this may vary depending on the relative strength of the local market.

- **Finance costs**

These costs, including finance arrangement fees, should be applied to the debt level anticipated during the development. These can be modelled using a typical interest rate based on average cashflows. Once again, partners need to consider the different types of development likely to feature in the plan and current market conditions.

By working closely with developers and others in the development industry, planning authorities will benefit from a sound understanding of the factors that impact on the development costs described above. This should not mean that inputs proposed by developers will not be subject to critical challenge and discussion.

However, it should avoid common errors that would otherwise be contested at a later stage or overlooked to give an unrealistic picture of viability.

There are four common viability-testing problems (these are also covered in more detail in Appendix B).

One error that has a very large impact on the outcome of viability testing is overlooking the distinction between the gross site area and the net developable area (ie. the revenue-earning proportion of the site that is developed with housing).

The net area can account for less than half of the site to be acquired (that is, the size of the site with planning permission) once you take into account on-site requirements such as formal and informal open space, sustainable urban drainage systems, community facilities and strategic on site infrastructure etc. On larger sites, sometimes the net area can be as little as 30%.

Applying an average density to the gross area can also give a very misleading result.

Another problem is created where cost indices (eg. BCIS) are used without also taking account of costs not covered by the data (such as on-site and strategic infrastructure).

The interest rate included in many viability tests is often only applied to build costs, ignoring the costs of capital for major items such as land purchase and infrastructure.

Another cost often overlooked is the cost of promoting schemes and associated fees, over and above planning fees.

Return on development and overhead

The viability assessment will require assumptions to be made about the average level of developer overhead and profit (before interest and tax).

The level of overhead will differ according to the size of developer and the nature and scale of the development. A 'normal' level of developer's profit margin, adjusted for development risk, can be determined from market evidence and having regard to the profit requirements of the providers of development finance. The return on capital employed (ROCE) is a measure of the level of profit relative to level of capital required to deliver a project, including build costs, land purchase, infrastructure, etc.

As with other elements of the assessment, the figures used for developer return should also be considered in light of the type of sites likely to come forward within the plan period. This is because the required developer return varies with the risk associated with a given development and the level of capital employed. Smaller scale, urban infill sites will generally be regarded as lower risk investments when compared with complex urban regeneration schemes or large scale urban extensions.

Appraisal methodologies frequently apply a standard assumed developer margin based upon either a percentage of Gross Development Value (GDV) or a percentage

of development cost. The great majority of housing developers base their business models on a return expressed as a percentage of anticipated gross development value, together with an assessment of anticipated return on capital employed. Schemes with high upfront capital costs generally require a higher gross margin in order to improve the return on capital employed. Conversely, small scale schemes with low infrastructure and servicing costs provide a better return on capital employed and are generally lower risk investments. Accordingly, lower gross margins may be acceptable.

This sort of modelling – with residential developer margin expressed as a percentage of GDV – should be the default methodology, with alternative modelling techniques used as the exception. Such an exception might be, for example, a complex mixed use development with only small scale specialist housing such as affordable rent, sheltered housing or student accommodation.

Land values

In order to determine an appropriate ‘current use value’, planning authorities should take up-to-date advice from local agents and valuers. This is likely to give a more locally accurate picture than relying on nationally available datasets.

The land price data published by the Valuation Office Agency (VOA) should be treated with considerable caution given that it may refer to transactions for fully serviced land before taking account of local policy costs.

In using data on housing land values, it is important to distinguish between headline values associated with fully serviced sites, as opposed to those net values which take account of infrastructure costs, Section 106 and CIL costs, and the costs of complying with existing policy requirements including the provision of affordable housing.

What ultimately matters for housing delivery is whether the value received by the land owner is sufficient to persuade him or her to sell their land for development. This can be very different to the headline value one developer might pay another developer for a fully serviced, permissioned parcel of land on a large strategic site.

Policy requirements

There is a range of sources of available information to cost the planned policy requirements that need to be tested.

For local standards, the Local Housing Delivery Group has been working to collate published sources of information and research on the costs of different types of standard typically used in Local Plans. It is important to consider the additional expenditure on compliance and assessment costs if these are not already included.

Information on the development cost of affordable housing should be available from existing assessments of affordable housing. This needs to reflect the likely type of affordable housing that will be required in policies, as well as up-to-date assumptions about the availability of grant.

As set out in the NPPE, infrastructure requirements should be considered and planned at the same time as development policies (NPPE, para 177). Therefore, those costs should be available as part of existing or developing infrastructure plans. The local partnership overseeing the assessment should include, or at least have close links with, infrastructure providers in order to obtain the most up-to-date and accurate costs.

As noted above, when considering infrastructure costs it is important to include the contribution to any strategic infrastructure that will be provided jointly with neighbouring authorities as part of the duty to cooperate.

Step 4: Viability appraisal and tests

Once assumptions have been agreed and inputs sourced, an initial viability assessment can be carried out. This may be in the form of high level tests followed by more detailed analysis.

The appraisal should be able to provide a profile of viability across a geographical range and/or range of different types of site. This will be far more informative than blanket averages for the whole area. Most appraisals should provide this.

Once this profile is established, it may also help to include some tests of case study sites, based on more detailed examples of actual sites likely to come forward for development if this information is available. This will allow a sense check of the profile.

The approach should also allow for consideration of the application of policy requirements that are particular to either specific types of development or particular geographical areas (in the way that some CIL charges have been set to vary depending on their viability across different sub-markets).

As proposed above, planning authorities may also wish to agree with partners to test viability at a range of Threshold Land Values. This would be run alongside other standard sensitivity tests that are likely to feature as part of any model.

Step 5: Review outputs, refine and revise the modelling

Once the outputs from the viability modelling have been produced, the planning authority should share these with its local partners to discuss and review the results.

Where consultants have been used to run the model, they need to be available to the wider partnership group in order to be able to explain any technical details that are included in the initial report and to give a view on the scope for further tests and modelling that may be requested.

Depending on the outputs from the model, the stakeholders and planning authority may wish to make some changes to the assumptions and inputs in order to get closer to an agreed balance between community aspirations and economic viability.

While some of these discussions may be possible using the ranges already used in the model (for example if different rates of affordable housing provision have already been considered), in other cases it may be necessary to go back and run the model again based on revised assumptions.

This should be based on an open and transparent process, with local members playing a full role and kept fully briefed on the outputs.

Any of the areas discussed in earlier steps could be revisited by the group in order to explore alternatives that might give a better balance.

However, there should be discussion among local partners where assumptions are being revised, since doing so on a unilateral basis will increase the risk of the outputs being contested at a later stage.

If the assessment indicates significant risks to delivery, it may be necessary to review the policy requirements and give priority to those that are deemed critical to development while reducing (or even removing) any requirements that are deemed discretionary. The planning authority may also consider whether allocating a larger quantity of land, or a different geographical and value mix of land, may improve the viability and deliverability of the Local Plan.

If there are persistent difficulties in squaring the costs of development with local policy aspirations, then stakeholders should continue to collaborate to explore alternative approaches to delivery and funding in order to improve the equation.

This might take the form of exploring the potential to change the application of policy requirements over time or applying requirements to more limited types of development or market areas. For example, it may be possible to reduce the provision of affordable housing required in the short term if development in some areas is deemed to be capable of delivering higher amounts in the medium term.

Partners should also consider alternative delivery models and what other sources of funding or land assets could be used in order to improve the viability equation.

Using sources of income (such as the New Homes Bonus) should be considered by the planning authority along with other revenue that may come (or unlock borrowing) as a result of development. Releasing public sector land on terms that aid viability (such as deferred receipts) should also be explored with partners.

The NPPF states: "Where safeguards are necessary to make a particular development acceptable in planning terms (such as environmental mitigation or compensation) the development should not be approved if the measures required cannot be secured through appropriate conditions or agreements." (NPPF, para 176).

The NPPF is therefore clear that viability considerations in relation to an individual development should not lead to an unsustainable scheme being granted planning permission.

So that such development is not inhibited unnecessarily, the need for any safeguards should be clearly justified through discussions with applicants and the

options for keeping such costs to a minimum should be fully explored

By contrast, in the context of the Local Plan as a whole (the subject of this advice), the objective of viability testing is to ensure the plan's housing and other development requirements are deliverable.

As already discussed, this is an iterative process. If an initial viability assessment determines that, for example, the plan's housing requirements are not deliverable, factors such as plan policies or the geographical distribution of housing land will need to be reconsidered and balanced until the plan is judged deliverable within the principles of sustainable development.

Keeping the viability of plan policies under review

"Any additional development plan documents should only be used where clearly justified. Supplementary planning documents should be used where they can help applicants make successful applications or aid infrastructure delivery, and should not be used to add unnecessarily to the financial burdens of development."

National Planning Policy Framework, para 153

Because of the key role of the viability assessment in identifying the cumulative impact of policies, once the plan is in place, additional costs to development should not be introduced that will alter the viability equation and potentially render the plan-wide test redundant.

Having established the viability of the Local Plan (and associated CIL charging regime), planning authorities should critically examine the financial implications arising from the subsequent adoption of any Supplementary Planning Documents (SPDs). These are not subject to the same independent testing applicable to Development Plan Documents and CIL charging schedules, and may undermine the soundness of the plan in relation to its viability. Any proposed SPD which materially affects the viability of the Local Plan should not be progressed without an appropriate and robust viability review that is proportionate to the SPD being prepared. Neighbourhood plans should also consider viability issues.

Similarly, because Local Plans will cover a period of 15 years or more, it is important that the policies it contains are subject to review.

This will enable planning authorities to take account of changes in market conditions, which might otherwise start to prompt significant numbers of challenges to plan policies at the point of specific site applications.

However, any review process should not be so onerous or unpredictable as to deprive planning authorities, developers, landowners and communities of certainty about the policy context when making decisions about land deals, managing

development, formulating masterplans or helping shape their area.

Hopefully, if the approach to viability testing of the Local Plan has been found sound through the planning process, a refresh of data and assumptions will be less onerous (particularly if an open source model has been used).

As noted earlier, frequent viability updates will be avoided if the plan includes a 'viability cushion', so that modest changes in the value of development variables, or changes in the types of sites being developed, do not render the Plan unviable and undeliverable.

Planning authorities will need to decide on the extent and frequency of any review (or partial review) process, taking account of the available resources and the points made above about the benefits of certainty.

As well as deciding on an appropriate review period, there may be pressure to conduct an earlier review when external economic changes are significant. One way to deal with this in a transparent way is to set out some simple indicators that would, if certain thresholds are exceeded, trigger the local consideration of whether to review plan policies.

Clearly, the over-riding indicator is the extent to which the flow of sites being delivered meets the plan's delivery assumptions. Other indicators could include house prices, finance costs, build costs and land values.

By monitoring these on an annual basis, planning authorities could consider whether a review of plan viability was needed any sooner than scheduled. The regular review of CIL charges, where in place, can also help to prompt a wider review of plan viability.

There are other 'dynamic' models that effectively index-link certain policy requirements, such as levels of affordable housing, to measures such as house prices and build costs. Planning authorities considering using these models should ensure they discuss this with other authorities already using them in order to be well informed on their impact in practice.