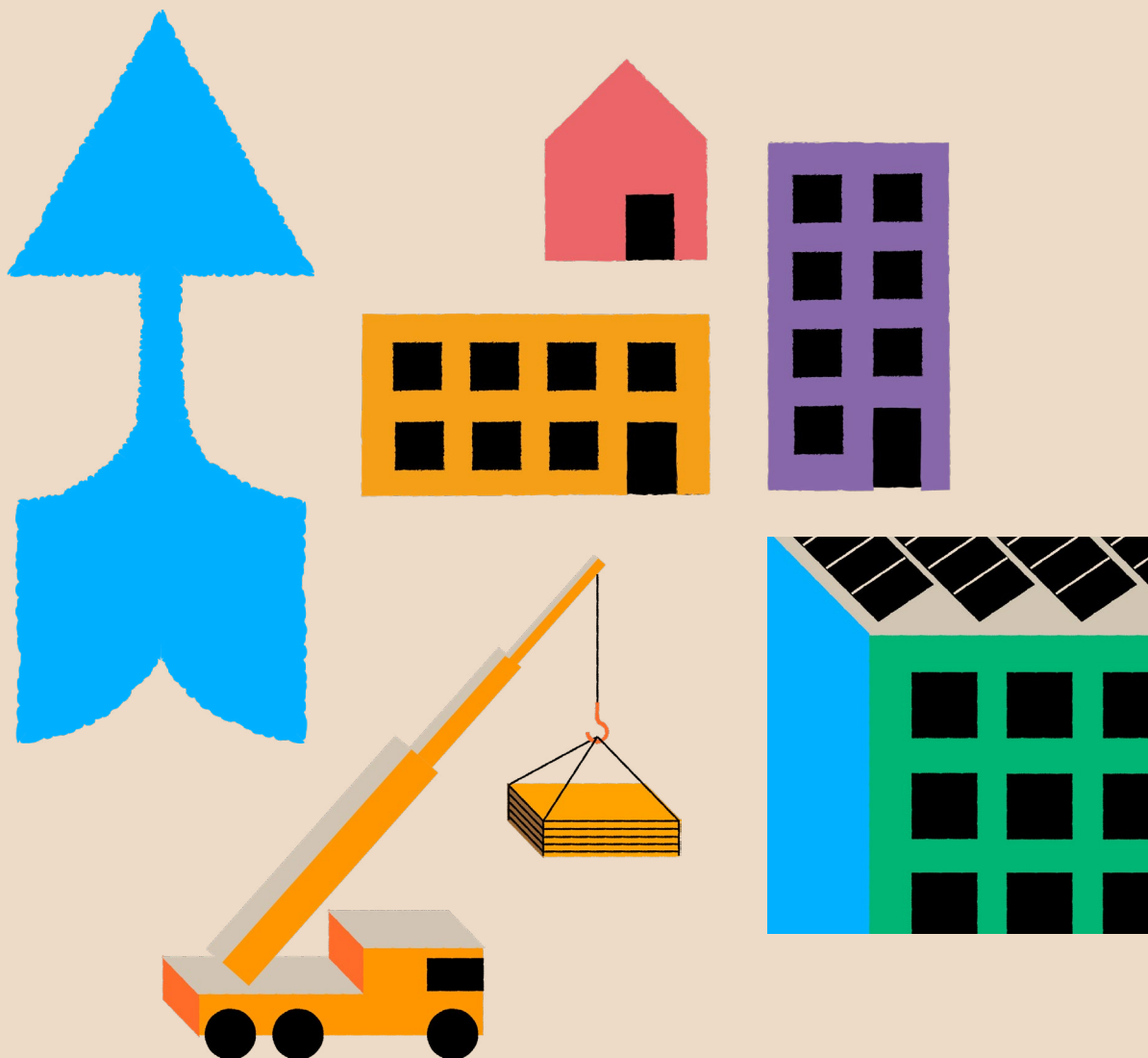


Development Viability in Planning: Guidance for Applicants

July 2024



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1. Introduction

- 1.0.1. Wandsworth aspires to ensure that all residents have access to good quality, affordable housing, as highlighted in the recent Developer Protocol. One method of achieving this is ensuring that the planning system contributes the maximum number of affordable homes wherever possible. Additionally, the Council is committed to pursuing the tenures that are most affordable to residents.
- 1.0.2. The planning system is currently predicated that economic viability forms part of the planning balance when assessing planning applications, however, the emphasis within National Planning Policy Guidance (NPPG) is that viability should be primarily at the plan making stage and assessing viability on a case-by-case basis should not be required. Plan-making viability assessments set policies that are viable in a general sense, national, regional, and local policy recognises that the economics of specific development proposals, at a specific point in time, may vary from this. The premise of viability as that policy complaint sites which provide the required level of planning obligations do not have to submit a detailed viability assessment. However, in specific circumstances, the planning system does make provision for applications to follow a viability-tested route, which is intended to verify that the maximum amount of planning obligations are secured for the benefit of residents, whilst ensuring that development remains deliverable.
- 1.0.3. The Wandsworth Local Plan, together with the London Plan, sets out the borough's Development Plan. This guidance document, in turn, sets out how the Development Plan policies should be applied, providing greater clarity for applicants, planning officers, decision-takers, and other interested parties including residents of the borough.
- 1.0.4. This document provides guidance for applicants, planning officers, and other interested parties on the implementation of the Development Plan across its life cycle, including any revisions to policy over time. Resultantly, the document may be subject to revisions to reflect an evolving policy position and is therefore a 'living document'.
- 1.0.5. Previously, the Council's Planning Obligations Supplementary Planning Document (SPD)(2020) provided guidance on affordable housing viability. However, this was adopted under a policy landscape which has since changed, and which continues to evolve. This guidance document can therefore be considered more up to date. Following the partial review of the Local Plan (commenced in 2024), this guidance is planned to be superseded by a revised SPD.

1.1. Current relevant policy

- 1.1.1. The Wandsworth Local Plan was adopted in June 2023. The adopted Local Plan sets out policy requirements including those for affordable housing on major sites, which are defined within the Local Plan as being sites of more than 10 dwellings. The Local Plan policy relevant to affordable housing is LP23.

- 1.1.2. Policy LP23 sets out the policy requirements for affordable housing within the borough, and applicants should ensure that applications maximise the delivery of affordable housing onsite, as the provision of affordable housing within Wandsworth is a very high priority given the high level of need and high numbers of households on the housing waiting list.
- 1.1.3. When submitting an application to the Council, an applicant should use the Viability Track Route as this ensures the Council is able to fully determine that the level of affordable housing is maximised onsite. This requires the submission of detailed viability evidence, which is set out in more detail below. Applicants are still able to follow the Fast Track Route which is set out within the Mayors Affordable Housing Supplementary Guidance dated 2017, however, this is not the preferred route by the Council. It should be noted that emerging local policy seeks to achieve higher affordable housing provision than required at London level.
- 1.1.4. The Council's highest priority is for on-site general needs affordable housing and conventional homes; therefore, schemes including student housing and build to rent housing are considered a lower priority. In relation to the tenure and housing mix provided onsite, the following components included within an application will be looked on favourably by the Council and prioritised wherever possible.
 - A. Social Rented housing should be maximised; whilst LP23 sets the minimum expectation, the Council's preference and its emerging policy is for a higher proportion of Social Rented tenure homes.
 - B. Preferably, any intermediate tenure homes should be delivered as London Living Rent or other forms of intermediate rented tenure in place of Shared Ownership, unless this significantly impacts on the amount of Social Rented housing provided.
 - C. The housing mix should include a good proportion of family sized dwellings which are within a Social Rented tenure.
 - D. Assess the ability of the site to provide specialist affordable housing for vulnerable households, including care leavers or similar.

1.2. Emerging relevant policy

- 1.2.1. Although the Wandsworth Local Plan was adopted in 2023, in recognition of the Borough's housing need, the Council and its leadership are committed to pursuing all available avenues to further improve the availability of affordable homes for residents.
- 1.2.2. Therefore, the Council is currently undertaking a partial review of its Local Plan, including LP23, to increase the affordable housing target, improve the tenure mix to provide a greater weighting towards Social Rented housing, and to assess the potential for seeking monetary contributions from sites delivering fewer than 10 dwellings.
- 1.2.3. In the intervening period, the Council considers it a priority to pursue the maximum possible affordable housing for all sites where economic conditions allow.

2. What is a viability assessment?

2.0.1. Economic viability is the process used if a development is unable to meet policy requirements within a Local Plan, more specifically related to determining the maximum amount of affordable housing that can be viably delivered in a site, or exceptional circumstances a payment in lieu.

2.0.2. The following methodology is generally used to determine the viability of sites which compares the Residual Land Value with the Existing Use Value of a site:

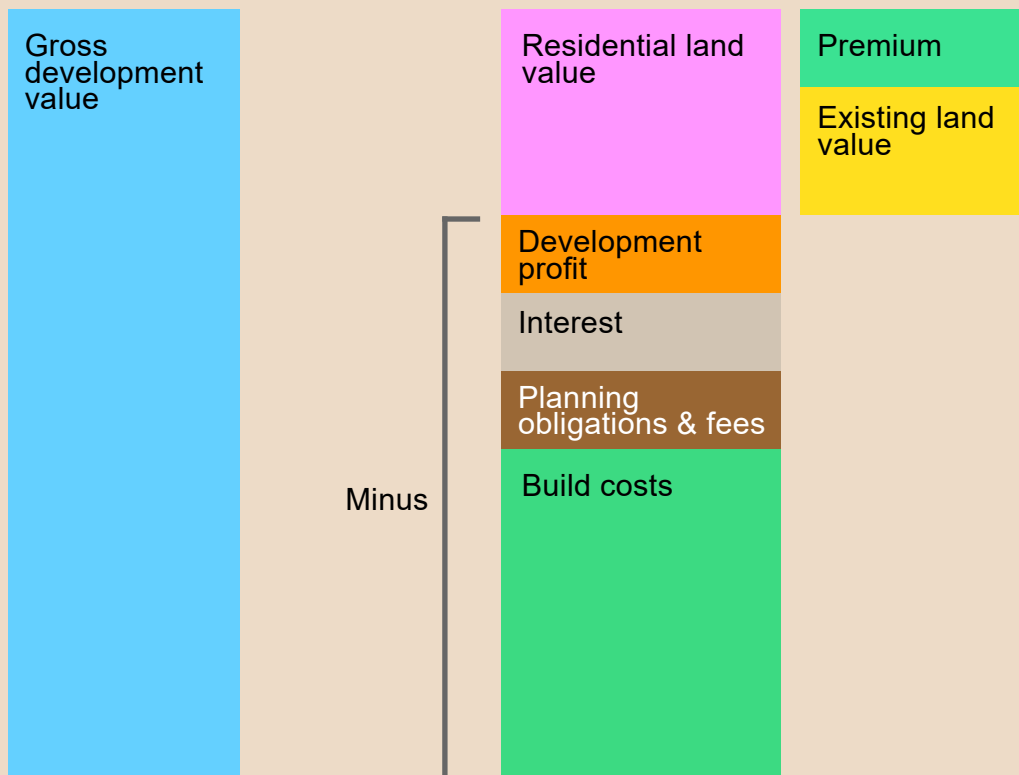


Fig 1: Mechanics of viability assessments

2.0.3. The above diagram shows the development costs i.e. the build costs, planning obligation costs, interest and developer profit are taken away from the Gross Development Value (GDV) of the scheme, which is the total estimated revenue of the scheme including the value of all the market housing, plus any commercial components of a development and the price an affordable housing providers (also known as a registered provider) will pay for the affordable housing. This then leaves the Residual Land Value, which is the amount remaining the developer has to pay for the land. This is then compared to the current land value, and is normally called the Benchmark Land Value, which includes the Existing Use Value of the site plus a premium to incentivise the landowner to release the site for development. If the Residual Land Value is larger than or equal to the Existing Use Value plus the premium, the development is viable. However, if the Residual Land Value is smaller than the Existing Use Value plus premium, the site is not viable.

2.0.4. The basic steps to assess viability are as outlined below. Because viability assessments are sensitive to changes in inputs, it is crucial that the assumptions made are robust. The Council will therefore not accept partially or poorly evidenced assessments, and it or its assessor will strongly challenge any assessments that appear to be overly pessimistic.

- The final value of the development is estimated, including all grant or subsidy.
- The costs of development (construction, fees, planning obligations, finance costs, developer profit, and all other costs) are deducted from this final value.
- This provides a “residual land value” (‘RLV’), which is the maximum amount the developer can allocate to the purchase of the site.
- This is compared to the “benchmark land value” (‘BLV’), which is generally calculated with reference to the site’s existing use and a premium to incentivise the release of the land by the landowner.
- Where the RLV is equal to the BLV, the development can be considered viable. Where it is greater, a surplus is available which can be used to enhance planning benefits.

2.0.5. In some instances, the value of the land can be included as a cost, with the realised profit as the output. In this case, the realised profit is compared to an agreed target return. Similarly to the above, where the realised profit equals or exceeds the target return, the development can be considered viable, and the planning benefits enhanced until either the surplus is eroded, or policy-compliance is achieved.

2.0.6. A more detailed overview of the process in the context of Wandsworth is provided in Section 3 below. Further detail on the specific cost and value inputs referred to above is provided in Section 4 below.

3. Process overview

3.1. When is a Viability Assessment required?

- 3.1.1. Wandsworth aims to optimise affordable housing outcomes for residents through all available channels, including the planning system. Generally, therefore, any development proposal that does not meet the Council's policy-compliant quantity and tenure mix for affordable housing, on site, without public subsidy, will require the further scrutiny afforded by a viability assessment.
- 3.1.2. Where the above conditions are met, however, an application may be eligible to proceed via the Mayor of London's threshold approach. The idea of this approach is to limit viability discussions and the time taken to negotiate planning obligations for a development including affordable housing, this process also removes the requirement for late-stage reviews in most cases. Although the Council understands the merits of the threshold approach (also known as the fast-track route), the application of this process within the borough is being reviewed as part of the Local Plan partial review to ensure that affordable housing provision is maximised locally.
- 3.1.3. Applicants should work proactively with officers at pre-application stage to try to achieve policy compliance. As policy is based on whole-plan viability testing, site-specific viability assessments should only be required in exceptional circumstances, rather than as the norm, as previously mentioned this approach is supported by the NPPG.
- 3.1.4. Wandsworth's Local Plan defines when a proposal can be considered policy compliant. Factors to consider (non-exhaustive) are the policies adopted at the time of application, the number and type of homes proposed, the site's existing or previous uses, and its ownership history. Further, viability assessments will usually be required where grant funding is sought.
- 3.1.5. Off-site affordable housing or payment in lieu of affordable housing is generally not accepted by the Council; however, in exceptional circumstances where this is to be accepted, viability testing will be required to establish the required contribution. However, if in future the Council requires affordable housing contributions from sites providing fewer than 10 homes, then this may be achieved through payments in lieu.
- 3.1.6. In keeping with London Plan policy, applications relating to estate regeneration will usually need to follow the viability-tested route to ensure that in addition to re-providing existing affordable housing on a like-for-like basis, the maximum amount of additional affordable housing is achieved. Typically, the level of engagement with existing residents and scrutiny applied to viability assessments will be especially high for estate regeneration schemes.
- 3.1.7. Appendix B provides a flow-chart which can be used to determine whether an assessment is required.

3.2. Process for applications following the viability-tested route

3.2.1. The table below outlines the stages for following the viability-tested route and the Council expects applicants to adhere to this process. This collaborative approach aims to ensure a smooth application process which is expected to result in mutually beneficial outcomes.

Stage	Step	Comment
Pre-Application	Submission (Pre-app)	The Council encourages the submission of pre-application Full Viability Assessments where the applicant expects to pursue the viability-tested route. As far as possible, the same information is expected to be provided as would be in the case of the full application submission. However, it is recognised that the pre-application stage is somewhat iterative, and that revisions may need to be made during and following this stage.
	Comment	Council officers, including Housing and Viability officers will provide comments and recommendations to applicants. The quality of advice will be determined by how far other elements, such as design, have progressed. Where required, third-party assessors may be appointed at pre-application stage.
	Revision / Discussion	Generally, more extensive discussion at pre-application stage will expediate the process once the full application has been submitted.
	Conclusion	Following discussions, the parties may or may not reach consensus on viability and affordable housing matters. If this results in an application switching to the fast-track route, this is likely to expediate the full application process. It should be noted, however, that any advice offered at this stage is provisional. This is especially true for viability inputs that change over time, such as development values and construction costs.
Application	Submission (Application)	The applicant should submit all required information relating to viability at the earliest opportunity. Required information is outlined in Section 3 of this guidance document.
	Verification	The Council and/or its assessor will verify that all necessary information has been submitted and that viability discussions can progress.
	Further Information	Where necessary, the applicant must provide any clarification or further information as requested by the reviewer in a timely manner.
	Assessment	The Council or its appointed assessor will carry out its review of the FVA and provide its conclusions in a report, which is to include an executive summary and is to be as robustly evidenced as would be expected of the FVA.
	Negotiation	Where there are disagreements between the parties, there will be a process of negotiation. If this is via meetings, minutes should be taken and made public. Where the discussions progress via written rebuttals and/or emails and letters, these should also be made public.

	Conclusion	Once the parties have exhausted all avenues of discussion, the final position(s) should be reported, including any remaining areas of disagreement. Sense-checking appraisal results may be appropriate at this stage.
	Determination	The Council's Development Management team will consider the outcome of the viability process, and this will be reflected in all advice given to the decision taker.
	S106 Drafting	Where the outcome of an application is a resolution to grant, the parties will need to agree terms for a Section 106 agreement. This will include provisions for early-stage (all applications) and late-stage review mechanisms (applications following the viability-tested route). Some larger, multi-phased developments may also require provisions for (a) mid-stage review mechanism(s).
	Review Mechanisms	If applicable, the developer must submit all relevant information associated with the review mechanism within a pre-determined period following the trigger event. This period will be defined within the S106 agreement, but the broad principles of the review mechanism process are outlined in Section 5 of this guidance.

3.2.2. Where a qualified external consultant is appointed to review the FVA on behalf of the Council, this appointment will be made by the Council, without input from the applicant.

3.2.3. All costs incurred in the reviewing of viability information are to be met by the applicant.

4. Information requirements and transparency

4.1. Information required

4.1.1. Wandsworth is committed to ensuring that the planning process, including viability negotiations, are as transparent as possible, with opportunity for residents and other interested parties to access, review, and comment on the process. This accords with policy at national and regional levels.

4.1.2. In all cases where an applicant chooses to follow the viability-tested route, the following documents must be provided:

- A financial viability assessment ('FVA') prepared by a suitably qualified practitioner, demonstrating the maximum reasonable affordable housing that the proposed scheme can support.
- An executive summary written in simple, jargon-free language, outlining the principles of the assessment and its findings.
- A scenario-test appraisal showing the outcome when a fully policy-compliant scheme is modelled.
- A statement confirming that all reasonable avenues have been exhausted to maximise grant funding to improve affordable housing quantum and tenure mix.
- Where a scheme is shown to be in deficit, a statement clarifying how deliverability can be achieved should be provided. This should include explicit assumptions about reduced but acceptable rates of return and/or assumptions made about revenue growth and/or cost savings.
- Generally, development values should be supported by a full schedule of accommodation, with prices for each proposed residential unit, although in some cases it may be acceptable to aggregate values on a rate per square meter/ foot basis for reporting and appraisal purposes.
- Generally, it is expected that the assumed construction costs will be supported by a full elemental cost plan prepared by a suitably qualified practitioner, although in some cases it may be acceptable to use indices such as the RICS's Building Cost Information Service ('BCIS').
- Generally, it is expected that the adopted benchmark land value will be supported by full details of how the value was arrived at, in the form of a valuation report, appraisal, or other appropriate method, which may be appended to or included within the FVA.

4.1.3. Insufficient or poorly evidenced viability information will not be accepted by the Council. As a minimum, this is likely to slow down the discussion process and reduce the quality of the advice that the Council's officers can provide. If a submitted FVA does not have the required outputs or sections required, the application may not be validated until the requested information is provided to the Council.

- 4.1.4. If it has not been adequately demonstrated that an affordable housing offer reflects the maximum viable, then decision takers may be compelled to refuse planning permission.
- 4.1.5. The executive summary which is to be provided with all FVAs should be reasonably interpretable by a lay reader. It is likely that this will include a summary of appraisal inputs adopted by the applicant or its assessor.
- 4.1.6. FVAs should also be accompanied by a working Argus Developer appraisal model, or a model constructed using equivalent alternative software. This must be made available to the Council and/or its assessors upon request.
- 4.1.7. Evidence which underpins the assumptions made in the FVA should either be from a public source or should be disclosed in full detail, so that the Council or its assessor can satisfy itself that the conclusions reached are a fair and reasonable assessment based on the currently available information.

4.2. Transparency

- 4.2.1. A core tenet of the planning process is that it should be open and transparent; viability tested applications should not be an exception to this. A transparent approach allows for a collaborative process, as well as fostering trust in the process between applicants, the Council, residents, and other stakeholders.
- 4.2.2. The Council's approach will be a presumption in favour of publishing FVAs and reviews in full unless there is specific justification for non-publication, for example, existing tenant rents or personal information. This is consistent with the NPPF requirement to facilitate community involvement in planning decisions, the PPG's encouragement of transparency in relation to viability¹, and the GLA's approach outlined in Mayoral guidance².
- 4.2.3. In exceptional cases full publication may not be possible; however, it will need to be demonstrated that the public interest in confidentiality outweighs that of publication. In such cases, a redacted version will be published, with only the relevant sensitive information obscured. It is not anticipated that there will be a need to completely avoid publication of viability information altogether.
- 4.2.4. Because FVAs submitted as part of pre-application discussions are deemed confidential, an FVA submitted for this purpose would not be publicly available but could be shared once a full application is submitted on the site.

¹Planning Practice Guidance – Viability para 010

²Mayor of London "Homes for Londoners" Affordable Housing and Viability SPG (2017) paras 1.18-1.25

5. Inputs for viability assessments

5.0.1. The main inputs to typical FVAs are shown in the table below. The list is non-exhaustive, and in some cases additional inputs may be included. Similarly, some of the inputs may not be included in all assessments. The inputs included within a viability assessment will be scrutinised by the Council and the Local-plan viability assessment will be considered as the starting point for the assumptions applied within submitted assessments, to ensure the level of affordable housing provided onsite is maximised.

5.0.2. Where inputs are noted as “application specific”, bespoke evidence relating to the site in question, at the time of the application will be required, as these inputs are highly specific to the proposed scheme’s location and characteristics and change over time. Where inputs are noted as “standardised”, there is a generally accepted range, usually expressed as a percentage of value or cost, which will tend to be adopted. This is detailed further in the paragraphs below.

Category	Input	Note
Revenue Inputs	Private Residential Values	<ul style="list-style-type: none"> • Application specific. • Can relate to sales or to capitalised income streams e.g. for BTR, PBSA, or PBSL. • Must be fully justified and supported by evidence. • Generally, this should include a full unit by unit price schedule.
	Affordable Housing Values	<ul style="list-style-type: none"> • Application specific. • Must be fully supported by a cashflow based on reasonable assumptions, or a suitably evidenced live offer from a Registered Provider.
	Commercial Values	<ul style="list-style-type: none"> • Application specific. • Can relate to sales or to capitalised income streams. • Must be fully justified and supported by evidence.
	Other Revenue Sources	<ul style="list-style-type: none"> • Application specific. • Any other sources of revenue should be declared.
	Grant Funding	<ul style="list-style-type: none"> • Application specific. • Applicants should demonstrate that reasonable avenues to grant funding have been explored.
Cost Inputs	Construction Costs	<ul style="list-style-type: none"> • Application specific. • Must be fully justified and supported by appropriate evidence. Generally, this will require a full, elemental cost plan, although in some cases indices such as BCIS may be appropriate. • Profiled as “s-curve” across the construction period.
	Professional Fees	<ul style="list-style-type: none"> • Standardised input. • Typical range is 8-12% of construction costs but should reflect the complexity of the development.
	Contingency Allowance	<ul style="list-style-type: none"> • Standardised input. • Typical allowance is c.5% but should reflect the specific risk and complexity of the development.

Finance Costs	<ul style="list-style-type: none"> Standardised input. Typical assumption is 100% debt finance. Profiled as “s-curve” across the construction period.
Marketing and Disposal Costs	<ul style="list-style-type: none"> Standardised inputs. Higher marketing and disposal costs should result in reciprocal changes to other elements e.g. higher assumed sales values and/or increased sales velocity.
Other Planning Obligations	<ul style="list-style-type: none"> Application specific. Should be as accurate as practicable at application stage. Relevant Council officers to be consulted as needed.
Other Development Costs	<ul style="list-style-type: none"> Application specific. Only costs that would be incurred by a generic, rational developer will be considered. Higher than usual site preparation costs may be reflected in a reduced benchmark land value. Higher than usual amenity or specification should be reflected by increased sales revenue.
Profit on GDV	<ul style="list-style-type: none"> Standardised input. Profit expressed as a percentage of the return. Can be broken down by planning use / tenure to reflect relative risks.
Profit on Cost	<ul style="list-style-type: none"> Standardised input. Profit expressed as a percentage of development costs.
Internal Rate of Return (‘IRR’)	<ul style="list-style-type: none"> Standardised input. A discount rate at which the net present value of the cashflow is equal to zero. Typically reserved for longer multi-phased developments.
Residual Land Value (‘RLV’)	<ul style="list-style-type: none"> Appraisal output showing the remaining amount of money after development costs and profit allowances have been deducted from the scheme’s final value. RLV is compared to BLV to ascertain surplus or deficit.

5.0.3. PPG and NPPF are clear in the preference for standardised inputs where possible; this will aid the process in remaining simple and transparent. Because planning permission is associated with land rather than an individual or entity, assessments should be carried out on the assumption of a generic, rational developer, and applicant-specific inputs should not be used.

5.0.4. Whilst the starting point for viability inputs is the whole-plan viability assessment, some inputs are inherently specific to the development and the date of assessment. Primarily, the scheme’s value and the base construction costs will be contingent on the scheme specifics and will vary over a Local Plan period. These inputs must therefore be robustly justified by the best available comparable evidence.

- 5.0.5. In most cases, GDV should be supported by a full price schedule of individual units. This should include reference to comparable transactions and justification for any adjustments made to this evidence. Simple averages across a generic radius or area are not appropriate.
- 5.0.6. Similarly, construction costs should usually be supported by a full elemental cost plan, produced by a suitably qualified practitioner. In some cases, particularly smaller, simpler developments, reference to indices such as the RICS's Build Cost Information Service ('BCIS') may be appropriate; however, indices such as these should be used with some caution.
- 5.0.7. In some instances, it is beneficial to use a fixed land cost, with profit being the output of the appraisal. Where an appraisal is showing a negative residual land value, this can cause errors in the appraisal model. An alternative approach is to fix the land cost at the assumed benchmark land value, with the appraisal showing a profit output. This can be compared to the target return to ascertain whether the scheme as proposed yields a surplus or in deficit.
- 5.0.8. Numerous measures of profit are available; however, the most commonly used is profit on GDV. Whilst national planning guidance recommends a range of 15-20% of GDV as appropriate for plan-making purposes, it should be noted that whole-plan viability is a necessarily conservative exercise. The level of profit should be representative of risk and the profit targets at the top of this range should be fully justified within any submitted FVA, rather than considering a higher level of profit as a default position.
- 5.0.9. Where an applicant seeks to proceed with a much lower profit return than expected, a full explanation should be provided as to how the project can be delivered, for example, through growth modelling. A simple statement referring to commercial decisions may not be satisfactory to officers and members where a deficit is significant (see Appendix A for definition of deficit).

6. Viability Review Mechanisms

6.1. Overview and purpose of review mechanisms

- 6.1.1. Policy and guidance are clear that achieving compliance with policies and targets can be a process taking place over the whole life cycle of a development rather than solely at application stage. One method of achieving this is through viability review mechanisms, which can take place at an early (pre-implementation), intermediate (during construction or between phases) or late (post-occupation) stage.
- 6.1.2. All review mechanisms are upwards-only. This means that if conditions have improved, the surplus is used to progress towards (or reach) policy compliance, whereas if conditions have worsened and a deficit arisen, there is no reduction in planning obligations. Viability assessments allow for developer's profit to accommodate market risk; it is not the role of the planning system to insulate developers against market downturns.
- 6.1.3. Relevant trigger points for undertaking reviews will be set out within the S106 agreement accompanying the planning permission, with the onus typically on the developer to notify the Council and provide all relevant information.

6.2. Deficits following viability discussions

- 6.2.1. Where viability discussions result in a scheme showing a deficit position (this is where the Residual Land Value is well below the determined Benchmark Land Value), the efficacy of review mechanisms are compromised unless a breakeven scenario is agreed. This can broadly be achieved in two ways:
 - GDV and/or construction costs can be adjusted until a viable position is reached.
 - The target return can be adjusted until a viable position is reached.
- 6.2.2. The Council's preference is for the latter approach. This is because a developer cannot unilaterally increase the value of its development or reduce its costs. However, a developer can choose to accept a lower return; indeed, this is implicitly the case where a deficit is deemed acceptable by an applicant.
- 6.2.3. The onus is on the applicant to demonstrate how a scheme can be delivered where a deficit is incurred. Sense-checks can include comparing the appraisal's RLV with the site's transacted price (if known) or calculating the actual profit by deducting the deficit from the target profit. Where a sense-checking exercise suggests an applicant is pursuing permission for a scheme which has no realistic prospect of becoming viable, the parties must consider whether the assumptions made are tenable, and revisit discussions if appropriate.
- 6.2.4. Where an applicant considers growth assumptions to be fundamental to achieving viability these assumptions should be included within the application-stage viability discussions. It is inconsistent to cite aspirational assumptions about growth prospects in justifying deliverability, but not include these assumptions when determining a reasonable level of planning obligations.

6.3. Early-stage review mechanisms

- 6.3.1. All major developments (providing 10 or more residential homes) will be required to include an early-stage review mechanism in its Section 106 agreement, regardless of whether the fast-track or viability-tested route is pursued.
- 6.3.2. An early-stage review mechanism is triggered if an agreed level of progress, termed “substantial implementation” is not achieved within an agreed timeframe, usually 24 months after the date of the agreement. It should be noted that substantial implementation is not the same as commencement or implementation as defined for, for example, the purposes of CIL. If substantial implementation is achieved before the agreed date, the early-stage review will not be triggered.
- 6.3.3. If triggered, the early-stage review will not take place until substantial implementation is achieved. Therefore, there is likely to be a gap between the triggering and the negotiation of the early-stage review mechanism.
- 6.3.4. Early-stage review mechanisms therefore serve two purposes. Firstly, since they can be avoided by substantially implementing the consent within an agreed timeframe, they serve as an incentive to deliver development. Secondly, if they are triggered, they provide an opportunity to secure an enhanced provision of on-site affordable housing if the viability of the proposed development has improved in the intervening period.
- 6.3.5. Where an early-stage review demonstrates a surplus is available, this should be used to enhance the on-site affordable housing, either by quantum or by tenure mix, until the Council’s strategic affordable housing target is achieved. If the surplus, or a remaining portion of the surplus, cannot fund an entire additional affordable home then this may be provided as a payment in lieu.
- 6.3.6. The early-stage review process has two stages, usually determined on a formula basis. The formulas can be found in the Mayor’s Affordable Housing SPG. Formula 1 calculates the available surplus at the time of the review, based on changes to values and costs in the period since the initial application. Formula 2 calculates how this surplus is allocated and the amount of additional affordable housing that the agreed surplus can support.
- 6.3.7. Early-stage reviews are expected to contribute any surplus determined until the point that the Council’s strategic affordable housing target is achieved. This may be a higher quantum than would have been required to be considered policy compliant at application stage and proceed via the fast-track route.

6.4. Mid-stage review mechanisms

- 6.4.1. Mid-stage reviews may be required for applications which fail to achieve a policy compliant level of affordable housing at application stage. Generally, this will only be the case on larger, multi-phased developments but can be negotiated at the Council’s discretion.

- 6.4.2. Mid-stage reviews will typically take place prior to later phases of development and, where a surplus is determined, should provide additional on-site affordable housing as determined by the relevant formulas in Mayoral guidance. The process is broadly similar to that of the early-stage review in that the first calculation is the amount of surplus (if any) that arises at the review, and the second calculation is used to allocate this surplus and determine the amount of additional affordable housing that can be provided.
- 6.4.3. Where actual revenues and costs are known (e.g. for completed phases) these should inform the review mechanism formulas. In practice for mid-stage reviews, it is likely that a combination of known and expected values and costs will be compared to their application-stage equivalents to determine whether a surplus has arisen in the intervening period.

6.5. Late-stage review mechanisms

- 6.5.1. Late-stage reviews will be required for all applications that fail to achieve a policy compliant level of affordable housing at application stage.
- 6.5.2. The late-stage review takes place when an agreed occupation or sale of the private sale residential homes is reached. An advantage of this is that most, if not all, actual development costs are known by this stage and can be compared to those assumed for the application-stage viability. Similarly, most of the actual revenue generated by the scheme is known, and the remainder can be estimated relatively reliably based on this.
- 6.5.3. Because these reviews take place at an advanced stage, any surplus determined is provided as a cash payment to the Council to fund other affordable housing projects elsewhere in the borough.
- 6.5.4. Different formulas are used for the late-stage reviews; again these are found in Mayoral guidance. The first step again uses a formula-based approach to determine the available surplus. In this case, the second formula calculates the contribution cap, which is a payment in lieu equivalent to the Council's strategic affordable housing target.

Appendix A: Glossary

Alternative Use Value ('AUV'): a basis on which Benchmark Land Value ('BLV') can be assessed. The value of the site in a use other than its existing use and the proposed use, accounting for all costs required to achieve this, and excluding any hope value associated with potential planning permissions. Must be realistic in planning and commercial terms. No premium to be applied (see definition below).

Build Cost Information Service ('BCIS'): a source of cost and price data used in the construction industry, widely used by quantity surveyors and viability assessors preparing cost plans and FVAs.

Benchmark Land Value ('BLV'): the value of the site without the benefit of the planning permission sought, in either its existing use ('EUV') or a realistic alternative ('AUV'), excluding any hope value associated with potential planning permissions.

Community Infrastructure Levy ('CIL'): a charge levied by the local planning authority on new development to mitigate the

Decision Maker: the person or body determining a given planning application, which can include planning officers, planning committees, the London Mayor, the Planning Inspectorate, or the relevant Secretary of State.

Deficit: the extent to which a proposal is unviable, where either the residual land value of the proposal is lower than the sites benchmark land value, or where the appraisal shows a profit outcome lower than the target return.

Development Costs: the cost associated with delivering the proposals. This includes, but is not necessarily limited to, the construction costs, allowances for contingency and professional fees, finance costs, marketing and disposal costs, and planning obligations other than those being determined by the viability assessment's outcome.

Early-stage Review Mechanism: a viability exercised carried out prior to implementation, usually where an agreed level of progress has not been achieved by an agreed date. The review considers changes in anticipated costs and values since the original assessment. This type of review can result in additional on-site affordable housing.

Existing Use Value ('EUV'): a basis on which Benchmark Land Value ('BLV') can be assessed. The value of the site in its existing lawful use and excluding any hope value associated with potential planning permissions. A premium (see definition below) may be added to incentivise the release of land for development.

Fast-track Route: one of two routes available for planning applications attracting an obligation to contribute to affordable housing. Generally, this route is available only where a fully policy-compliant contribution is made without the aid of grant funding. Applications proceeding via this route usually do not have to provide detailed viability information at the application stage and will not be subject to mid-stage or late-stage review mechanisms.

Financial Viability Assessment ('FVA'): an exercise undertaken to determine the maximum planning contributions, usually affordable housing contributions, that a proposed development can support whilst remaining deliverable. The assessment is undertaken from the perspective of a generic developer rather than being applicant specific. The relevant planning authority may carry out or commission a review of the assessment. The weight given to viability is a matter for the decision taker and is one part of the overall wider planning balance.

Gross Development Value ('GDV'): the total value of the completed development including income from sales, capitalised income streams, and any other revenue sources.

Late-stage Review Mechanism: a viability exercised carried out after the completion of the development, usually at an agreed level of occupation. The review considers variations in actual incurred and achieved costs and values since the original assessment. This type of review can generally result in monetary payments but not additional on-site affordable housing.

Mid-stage Review Mechanism: a viability exercised carried out between the implementation of phases of development, usually at agreed milestones. The review considers variations in incurred/achieved and anticipated costs and values since the original assessment. This type of review can result in additional on-site affordable housing in later phases.

Premium (on EUV): an allowance beyond the site's existing use value which is added to reflect the incentive required for the landowner to release the land for development. This should reflect the costs associated with replacement of the site as an asset and is not a means of including hope value in benchmark land values. Where a site represents an ongoing cost to the landowner, or where the site's existing use is not lost, a lower or no premium may be applicable. A premium is not added where an AUV approach is adopted.

Residual Land Value ('RLV'): a method of valuing a development site. Calculated as the total value of the completed development, minus all development costs, including the target profit return. Can be compared to a benchmark land value ('BLV') to determine viability.

Section 106 Agreement ('S106'): a legal agreement signed by the parties after a decision maker resolves to grant permission which outlines financial and non-financial obligations associated with the planning permission. The agreement is associated with the land rather than with the specific individual or entity that owns the site or successfully obtains the planning permission.

Strategic Affordable Housing Target: the local planning authority's stated target proportion of affordable housing as defined in policy at a given time. This may vary from the minimum affordable housing proportion required to, for example, proceed via the fast-track route.

Substantial Implementation: an agreed level to which the development must be progressed by an agreed target date (usually defined as a given period from the date the S106 is signed) in order that the early review mechanism is not triggered.

Surplus: the extent to which a proposal exceeds the minimum threshold to be considered viable, where either the residual land value of the proposal exceeds the sites benchmark land value, or where the appraisal shows a profit outcome greater than the target return.

Target Return / Target Profit: the minimum profit return required for a reasonable developer to deliver the proposed, accounting for the risks involved. Usually expressed as a percentage of

GDV or, less commonly, of cost, although alternative metrics may be used where appropriate. The allowance should reflect the risks associated with the specific scheme.

Viability-tested Route: one of two routes available for planning applications attracting an obligation to contribute to affordable housing. Generally, this route must be followed where policy compliance is not achieved at application stage or where grant funding is required to deliver the scheme. Applications proceeding via this route must provide detailed viability information at the application stage and will be subject to late-stage review mechanisms (and, where appropriate, mid-stage review mechanisms).

Appendix B: Decision tree – is a viability assessment required?

