



Development Viability Supplementary Planning Document

October 2017

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1. Introduction

Purpose of this Supplementary Planning Document

- 1.1. This Supplementary Planning Document (SPD) provides guidance as to how Development Plan policies should be applied in a development viability context when determining planning applications. It aims to provide greater clarity to both applicants and the general public and ensures that the principles of sustainable development are at the forefront of decision-making in Tower Hamlets.
- 1.2. This SPD is not planning policy but is guidance that supports the Local Plan by providing further detail on how we will implement our planning policies where viability is an issue. It is therefore a material consideration dependent on the circumstances of individual planning applications.
- 1.3. This SPD will ensure the assessment of the viability of planning applications is efficient, consistent and transparent, and will help to avoid delays in the decision making process.
- 1.4. It sets out how the Council will consider viability in accordance with the National Planning Policy Framework (NPPF), whilst ensuring for the basis of planning decisions in Tower Hamlets.
- 1.5. This SPD has been formed to be consistent with the adopted and emerging Local Plans.

How this SPD has been formed

- 1.6. The viability guidance set out in this SPD has been formed to take account of the Development Plan. In particular:
 - The NPPF;
 - Planning Practice Guidance associated with the NPPF;
 - The London Plan
 - Tower Hamlets' Local Plan. It has also been formed to be consistent with the Council's emerging Local Plan;
 - The Mayor of London's Housing Supplementary Planning Guidance (SPG);
 - The Mayor of London's Affordable Housing and Viability SPG.
- 1.7. This document has also had regard to the London Borough Viability Protocol which can be found on www.londonviability.org.uk.

2. Local and Policy Context

Tower Hamlets context

- 2.1. The delivery of homes is the biggest challenge for the borough. The borough's population is expected to increase from an estimated 301,000 at the end of 2016/17 to 395,000 by the end of the year 2030/31. Over the last 10 years, Tower Hamlets has experienced the fastest population growth in London and the borough has continued to transition from its industrial heritage to become a more attractive place to live. The delivery of housing in the borough is required, not only to respond to local need, but also to fulfil the borough's duty to cooperate with neighbouring boroughs and help meet strategic housing needs identified in the London Plan.
- 2.2. Tower Hamlets is expected to deliver 39,310 new homes, approximately 10% of the London Plan total London Housing target, by 2025. The Borough's ability to supply land for housing in these quantities is becoming increasingly limited as a significant proportion of available housing sites have planning consents or have been developed. Land is also needed to deliver the necessary infrastructure to ensure the borough is delivering homes supported by schools, open space, transport and health facilities.
- 2.3. However, demand for new homes in Tower Hamlets is healthy which has contributed to a relatively buoyant property market. The borough has a large number of granted planning consents and there is a significant development pipeline. In April 2017 the average house price in Tower Hamlets was £470,021; this is an increase of 2.9% from the year before (£456,740 in April 2016). Dips in residential values in the borough over the last 20 years have been relatively short lived, and have been more than offset by subsequent increases.
- 2.4. The challenge for Tower Hamlets is that high levels of deprivation and poverty exist in the borough, which provides a stark contrast to the wealth and prosperity that has grown around Canary Wharf and the City Fringe areas of the borough. There are nearly 20,000 households on the Common Housing Register with over 50% in high priority need. Evidence from both the Greater London Authority and the Tower Hamlets Strategic Housing Market Assessment estimate a need for an additional 46,458 homes by 2031.
- 2.5. The shortage of affordable homes has led to an extremely heated housing market. The private rented sector has doubled in size over the past 10 years but rents are beyond the reach of households on average incomes are well above Local Housing Allowances. Private market sales start at a minimum of £300,000 for an ex local authority right to buy flat and so even the lowest level of home ownership is beyond the mean of average income households.
- 2.6. For these reasons, the Council is in the process of reviewing the Local Plan to respond to these challenges and make sure the Council delivers a wide range of high quality homes suitable for the borough's existing and future households in terms of their size, need and income.

Policy Context

- 2.7. The National Planning Policy Framework (NPPF), Planning Practice Guidance (PPG) on Viability and Decision Taking, the London Plan (2015), the Council's

Core Strategy (2011) and the Council's Managing Development DPD (2013) establish that the key purpose of planning is the delivery of sustainable development. Sustainable development requires new housing, including affordable housing, to meet our housing needs. It also requires competitive economies, thriving town centres, efficient transport and effective infrastructure. Development is required to be in accordance with these Plans.

- 2.8. The NPPF states in Paragraph 173 that careful attention to viability should take place to ensure that the burden of required or necessary planning obligations, such as affordable housing, do not threaten the viability of development, and provide a competitive return to willing land owners and developers when taking the normal costs of development into account.
- 2.9. Assessing viability demonstrates the scale of planning obligations which are appropriate. However, the NPPF is clear that where safeguards are necessary to make a particular development acceptable in planning terms, and these safeguards cannot be secured, planning permission should not be granted for unacceptable development.
- 2.10. Paragraph 23 of the PPG states that the assessment of land or site value is a key consideration and an important input into a financial viability assessment. It states there are a range of acceptable approaches to assess the value of land, but there are common principles which should be reflected in all cases. Land valuations should:
 - Reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;
 - Provide a competitive return to willing developers and land owners (including equity resulting from those wanting to build their own homes); and
 - Be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.
- 2.11. The Mayor of London's Housing SPG adopted in March 2016 is relevant. Paragraph 4.1.4 states that the market value, alternative use value or existing use value (also known as current use value) plus a premium approach to identifying the benchmark land value can satisfy the NPPF's requirement to ensure a competitive return to a willing landowner. The Mayor supports the existing use value plus a premium approach as the most appropriate for planning purposes because it can be used to address need to ensure that development is sustainable in terms of the NPPF and Local Plan requirements. This SPD is consistent with the favoured methodology in the Mayor's Housing SPG.
- 2.12. This SPD takes account of the Mayor of London's Affordable Housing and Viability SPG. The SPG advocates an existing use value plus a premium approach to the establishment of benchmark land values. It also refers to a threshold approach to viability – this proposal is considered in this document.
- 2.13. The NPPF also requires that the costs of planning policy requirements should allow for competitive returns to a willing land owner and willing developer to

enable development to be deliverable. Paragraph 174 further states that Local Planning Authorities should assess the likely cumulative impacts of policies and standards on development, which should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle.

- 2.14. The Council has fully considered the cumulative impact of its policy requirements on development viability as part of the Examination of its Local Plan and Community Infrastructure Levy (CIL) Charging Schedule. These were found to be sound by independent examiners following a process of Public Examination which followed extensive public consultation.
- 2.15. This document has been prepared in line with the Council's emerging new Local Plan. It will be reconsidered on its adoption as well as on the adoption of other material considerations.

3. Key Requirements (KR) Overview

3.1. Below is a table that summarises the key requirements set out in this SPD:

Pre-application Advice	
KR1	Applicants are strongly encouraged to submit a draft Financial Viability Assessment ('FVA') when seeking pre-application advice where a proposal is likely to trigger a requirement to provide affordable housing or where viability is likely to be a relevant consideration in respect of achieving planning policy compliance.
Applications	
KR2	All planning applications ¹ which trigger a planning policy requirement to provide affordable housing, and the policy requirement is not met, or where viability is relied on as a material consideration, are required to provide a FVA.
KR3	The Council will have regard to the threshold approach to viability in accordance with the process set out in the Mayor of London's Affordable Housing and Viability SPG. The Council will keep this matter under review to ensure it is effectively meeting its objectives.
KR4	Where Estate Regeneration development is subject to an 'Options Appraisal' stage, in order to ensure options can be fully scrutinised by residents affected by the proposed regeneration, the developer is encouraged to make FVAs for each of the options available in accordance with the transparency principles set out in this document.
KR5	Applicants are required to meet the cost of the Council reviewing financial viability assessments and provide an undertaking to do so in order to for a planning application to be validated.
KR6	Financial viability assessments should be accompanied by an Executive Summary which outlines the key conclusions being drawn from the appraisal, and the Tower Hamlets Appraisal Inputs Summary Sheet.
KR7	Revised appraisals (with revised Executive Summary and the Appraisal Inputs Summary Sheet) should be submitted to the Council prior to referral for decision where the FVA changes throughout the planning application process.
KR8	FVAs should be accompanied by a fully testable and editable electronic/software model which explicitly shows the calculations and assumptions used in the assessment.
Transparency and Deliverability	
KR9	FVAs that support pre-application discussions will be treated as confidential.
KR10	<p>The Council will undertake the following actions in respect of making FVAs available to the public:</p> <ul style="list-style-type: none"> • The full FVA and Executive Summary, submitted in accordance with the Council's transparency requirements, will usually be published as soon as practicable following validation; • Revised full FVAs, Executive Summaries and assessments commissioned by the Council will usually be published prior to any Planning Committee meeting/hearing where the related application

¹ except where they meet the 'Threshold Approach' requirements set out in the Mayor of London's Affordable Housing and Viability SPG.

	is being decided, or where applicable prior to a delegated determination.
KR11	The Council may allow for exceptions to this in limited circumstances and only in the event that there is a convincing case that disclosure of an element of a viability assessment would cause harm to the public interest to an extent that is not outweighed by the benefits of disclosure. If an applicant considers that an exceptional circumstance is likely to arise, this should be raised at an early stage within the pre-application process.
KR12	FVAs cannot demonstrate that schemes as proposed are technically unviable; FVAs that may have previously been submitted showing this must be adjusted so that the viability impact of the proposed scheme is expressed in terms of the impact on the scheme's profit. Alternatively growth projections can be included in an FVA to account for any deficit.
KR13	An applicant should demonstrate how their proposed scheme is deliverable, taking into account their proposed level of planning obligations.
	Methodology
KR14	The Residual Land Value methodology is the most appropriate to use when undertaking a viability assessment for a planning application. In this approach, Development Plan requirements are included alongside other development costs, which are deducted from the Gross Development Value to determine the residual value that is available to pay for land.
KR15	Where schemes are identified as unviable at the proposed level of planning obligations, either growth assumptions should be included or the level of profit allowed for should be adjusted, to the extent that the scheme as proposed demonstrates viability.
KR16	Assumptions relating to development values should be justified with reference to comparable properties, appropriate market evidence and where relevant, arrangements with future occupiers, including rents and lease arrangements.
KR17	Development costs adopted within viability assessments are typically determined based on current day figures at the point of the planning permission. In most cases a specific assessment of build costs ('Cost Plans') will be required to be submitted.
	Benchmark Land Values
KR18	Benchmark Land Values (BLVs) should always reflect policy requirements, planning obligations and CIL charges.
KR19	In most cases, BLVs will be assessed with reference to existing use value (EUV) of the site, plus a financial incentive ('premium') that would ensure the release of the land from its existing use. The premium above EUV that is applied will generally not be expected to exceed 20% but will be considered on a site by site basis.
KR20	A realistic alternative scheme may be used to form a BLV, particularly where the site in question has no existing use value. It is not necessarily the case that a planning permission for the alternative use must be in place (however this is preferred), However the application of a particular alternative use will need to meet a number of criteria, such as: <ul style="list-style-type: none"> • The alternative use would be policy compliant and would secure

	<p>permission;</p> <ul style="list-style-type: none"> • There would be no additional costs or delay in securing that permission – or those additional costs and delays are assessed; • The alternative proposal is required to be worked up to an appropriate level of detail, as described in this SPD; • There is a real world demand for the alternative at the values assumed; • In the real world the landowner could really develop out the alternative rather than use it as a negotiating lever to force down affordable housing.
KR21	The Council will only accept the Purchase Price or the Market Value as the BLV of the scheme where these figures fully reflect policy requirements, planning obligations and planning contributions.
	Viability Reviews
KR22	A viability review mechanism will be required to be incorporated within S106 agreements for all application schemes that do not propose to provide a policy compliant level of planning obligations, such as affordable housing, due to viability.
KR23	Pre-Implementation Reviews: If substantial implementation (which can be agreed between the Council, the applicant and where appropriate the Greater London Authority) occurs after 24 months (at which point the initial viability assessment will be deemed to be out of date) a pre-implementation review will usually be triggered. This should take place within a 3 month period following substantial implementation.
KR24	Mid Term Reviews: In the case of phased developments, mid-term reviews will be required in respect of all phased schemes that require a review. The review will take place prior to implementation of later phases of a development.
KR25	Advanced Stage Reviews: Advanced stage reviews will be required on all schemes requiring a review. For residential led schemes, advanced stage reviews should be undertaken on sale of 75% of market residential units, and for other schemes, within a three month period prior to practical completion.
KR26	Viability Reviews will generally expect to be carried out in accordance with the formulas described in Appendix B but can be considered on a case-by-case basis.
	Affordable Housing: Payments in Lieu and Off-Site Delivery
KR27	Payment in lieu contributions must be calculated alongside negotiations related to FVAs and should generally accord to the formula approach* described in this document.

* Amendments made July 2018, to amend technical error.

4. Process Overview

A threshold approach to viability

- 4.1 The Mayor of London's Affordable Housing and Viability SPG, sets out a process whereby schemes that meet or exceed 35% affordable housing, without public subsidy, are not required to submit detailed viability information alongside relevant planning applications. The following key points should be noted concerning this approach:
- The 35% threshold will need to take into account of a range of affordable housing sizes (including family sized homes) and local tenure mix policies.
 - Schemes that meet the threshold will be the subject of an early stage review mechanism if the scheme is not implemented within 2 years.
 - Schemes that propose off site or cash in lieu contributions are not suitable in respect of the threshold approach.
- 4.2 The Council will have regard to the threshold approach to viability in accordance with the process set out in the Mayor of London's Affordable Housing and Viability SPG. The Council will keep this matter under review to ensure it is effectively meeting its objectives.

Estate Regeneration Schemes

- 4.3 Where Estate Regeneration development is subject to an 'Options Appraisal' stage, in order to ensure options can be fully scrutinised by residents affected by the proposed regeneration, the developer is encouraged to make FVAs for each of the options available in accordance with the transparency principles set out in this document.

Pre application advice

- 4.4 In accordance with the Planning Practice Guidance (PPG paragraph 001), we encourage potential applicants to seek pre-application advice prior to the submission of a full planning application. This is to ensure emerging development proposals comply with our adopted planning policies.
- 4.5 We strongly encourage the submission of a draft Financial Viability Assessment (FVA) as part of pre-application discussions where a proposal is likely to trigger a requirement to provide affordable housing or where any subsequent full application is likely to rely on a FVA to justify a departure from planning policy requirements. Failure to present a FVA which has been prepared in accordance with the principles set out in this SPD will limit the quality of advice Council officers are able to provide.
- 4.6 The level of detail that can be provided at the pre-application stage will vary from scheme to scheme and will depend largely on the scale of the proposed development and how advanced the emerging proposal is. The draft FVA will act as a useful tool in refining emerging proposals prior to submission of a full application.

Planning applications

- 4.7 All planning applications which trigger a planning policy requirement to provide affordable housing and the policy requirement is not met, or where viability is relied on as a material consideration, are required to provide a FVA. Where a Section 73 (S.73) application is submitted that relates to a permission that required a planning policy requirement to provide affordable housing, an FVA is required to be submitted where the S.73 alters the economic circumstances of the scheme. A change in economic circumstances may constitute, but is not limited to, where the scheme is being amended in a way that would increase its Gross Development Value.
- 4.8 Where a development proposal will lead to less than substantial harm to the significance of a designated heritage asset, an FVA may be required to be submitted to demonstrate that the proposal is securing the heritage asset's optimum viable use. Applicants can engage with the Council's Development Viability or Strategic Planning Team to clarify where a submission of an FVA is required.
- 4.9 Failures to submit an FVA in the circumstances set out in paragraphs 4.7 and 4.8 above will likely result in the application failing to meet validation requirements and will prevent officers having sufficient information to determine the application. The FVA should be prepared and presented in accordance with the guidance in this SPD and the Council's Local Validation Requirements Checklist.
- 4.10 The submission of a FVA with a planning application will ensure the Council has the information required to effectively review financial viability assessments at the outset, thereby reducing the likelihood that further evidence will be required during the application process.
- 4.11 FVAs should be accompanied by sufficient details to enable the Council to understand the scheme value and valuation assumptions relied upon by the applicant. Following a detailed review of a FVA, we may identify a need for further justification to support the chosen inputs in the financial viability assessment. Failure to provide further information may result in delays to the application or may affect an officer's recommendation.
- 4.12 A revised FVA should be submitted prior to referral for decision where material changes are made that could affect the viability of the proposal.
- 4.13 All FVAs should be accompanied by:
1. **A fully working software model** that can be tested (our preference is for Argus Developer²) however, for larger and more complex schemes, bespoke financial models are often produced using alternative software. We will accept alternative appraisal models in these circumstances.
 2. **An Executive Summary Report** which should provide a full supporting narrative to substantiate the inputs and assumptions made in the appraisal. This is to be a simplified version of the assessment that may aggregate costs

² Argus Developer is an industry standard software package widely used to assess the viability of development proposals.

provided they explicitly show the calculations and can be fully interrogated. It should summarise the key inputs, findings and conclusions for the lay reader;

3. An Appraisal Inputs Summary Sheet which should set out the key inputs and conclusions of the FVA. This should be submitted in Excel format. Please refer to Appendix A for the template of this Summary Sheet.

4.14 FVAs will be reviewed by the Council or referred to assessors who will usually be appointed under a competitive tendering process. Conclusions described in reviews are required to be backed up by evidence. Applicants will be required to meet the costs, as specified by the Council, associated with reviewing FVAs, including legal fees and cost consultancy fees if appropriate. We recognise that requiring payment of these costs prior to the work being carried out might be difficult and could delay the planning application process. Therefore, the Council will require the submission of a solicitor undertaking to pay the fees at the planning application validation stage. Such an undertaking may also be expressed in a Planning Performance Agreement.

4.15 Failure to submit a full FVA, Executive Summary and an Appraisal Inputs Summary Sheet will likely result in the associated application not being validated.

Grant Funding

4.16 All planning applications and related FVAs are required to account for amounts of grant funding that are likely to be available.

Build to Rent Schemes

4.17 The process for considering viability for Build to Rent schemes may vary slightly from conventional 'build for sale' schemes to account for the potentially distinct economics of this type of development.

5. Transparency, Deliverability and Information Requirements

Transparency

- 5.1 The Council recognises the importance of public participation and the availability of viability information in the planning process. This enables members of the public to ascertain whether viability evidence is reasonable and robust, whilst helping to maintain confidence in the planning system and the accountability of those undertaking the assessments. This is particularly relevant in circumstances where it is argued that the Council's affordable housing target or other policy requirements cannot be met due to financial viability.
- 5.2 Applicants can reasonably expect that FVAs (and accompanying documents) submitted in support of planning applications (not pre-application discussions) can be made available to the public alongside other application documents. In submitting information, applicants do so in the knowledge that it may be made publicly available. FVAs may be shown to Local Councillors where requested, even if the FVA in question hasn't been made available to the public.
- 5.3 The Council may allow for exceptions to this in very limited circumstances and only in the event that there is a convincing case that disclosure of an element of a FVA would cause harm to the public interest to an extent that is not outweighed by the benefits of disclosure. Given the significant benefits associated with the availability of information to the public as a part of the decision making process, and the other factors identified above, the Council anticipates that there would be very few exceptions. In addition, the Council may allow the submission of a FVA that aggregates potentially commercially sensitive inputs.
- 5.4 If an applicant wishes to make a case for an exception in relation to an element of their assessment being made publicly available, they should provide a full justification as to the extent to which disclosure of a specific piece of information would cause an 'adverse effect' and harm to the public interest that is not outweighed by the benefits of disclosure. Alongside this justification the applicant should submit an FVA that aggregates the information that the applicant considers should not be made publicly available. The Council will consider this carefully, with reference to the 'adverse effect' and overriding 'public interest' tests in the Environmental Information Regulations 2004 (EIR), as well as the specific circumstances of the case.
- 5.5 The Council will usually undertake the following actions in respect of making FVAs available to the public:
 - The full FVA and Executive Summary, submitted in accordance with the Council's transparency requirements, will usually be published as soon as practicable following validation;
 - Revised full FVAs, Executive Summaries and assessments commissioned by the Council will usually be published prior to any Planning Committee meeting/hearing where the related application is being decided, or prior to determination, whichever is earlier.

Deliverability

- 5.6 The Council has received FVAs development appraisals which indicate that a development would generate a significant deficit with the level of planning obligations as proposed by the applicant, even at a level lower than required by policy. This raises questions regarding the commercial basis of the proposed scheme and the terms under which development finance is likely to be secured. This would also appear to be at odds with general market conditions and the high rates of development within the borough (where not explained by circumstances specific to the site). FVAs cannot demonstrate that schemes as proposed are technically unviable; FVAs that may have previously been submitted showing this must be adjusted so that any deficit is expressed in terms of the impact on the scheme's profit – this will better inform the Council of the position of applicants where schemes demonstrate a deficit. Alternatively growth projections can be included in an FVA to account for any deficit.
- 5.7 An appraisal which shows a different level of planning obligations to be viable from that proposed by the applicant raises issues relating to the deliverability of a scheme and makes it difficult for the Council to make an informed decision. It also poses the risk of a lower level of planning obligations being sought by the applicant at a later date after planning consent has been secured.
- 5.8 An applicant should demonstrate how their proposed scheme is deliverable, taking into account their proposed level of planning obligations. The applicant must clearly demonstrate with reference to viability evidence that the proposed level of obligations is the maximum that can be provided and that the scheme is deliverable with this level of provision.
- 5.9 Where the applicant does not intend to build out the scheme themselves, they may be expected to provide evidence from a developer (with experience of delivering schemes of a similar type and scale) that the scheme is capable of being delivered on the basis of the evidence presented in the FVA.

Information requirements and assessment of submitted information

- 5.10 A number of FVA related documents must be submitted with planning applications. All of these documents can only be submitted on the basis that they can be made available to the public alongside other application documents. In submitting information, applicants do so in the knowledge that it may be made publicly available.
- 5.11 The following FVA related documents must be submitted alongside planning applications:
1. **An Executive Summary Report:** This should provide a full supporting narrative to substantiate the inputs and assumptions made in the appraisal. This is to be a simplified version of the assessment that may aggregate costs provided the full FVA explicitly breaks down the costs. It should summarise the key inputs, findings and conclusions for the lay reader;
 2. **A full Financial Viability Assessment:** This document will need to contain sufficient details to enable the Council to consider, interrogate and understand the financial viability of the scheme. This document should be formed in accordance with this SPD and the Council's Local Validation

Requirements Checklist. More specifically, it should contain detailed information on the following:

- Development Value;
- Scheme Details and Development Programme;
- Affordable Housing Values;
- Build and other Costs;
- Developer Profit;
- Benchmark Land Value;
- Planning Contributions;
- Development Finance;
- Working Appraisal Model (such as Argus Developer).

3. **An Appraisal Inputs Summary Sheet:** This should set out the key inputs and conclusions of the FVA. This should be submitted in Excel format. Please refer to Appendix A for the template of this Summary Sheet.

5.12 All full FVAs submitted (and Council reviews) must be accompanied by the following:

1. A statement of objectivity, impartiality and reasonableness: This is to confirm parties have acted with objectivity, impartially and without interference;
2. A confirmation of instructions and confirmation of no conflicts of interest;
3. A no contingent fee statement: This is a statement confirming that in preparing a report, no performance related or contingent fees have been agreed.

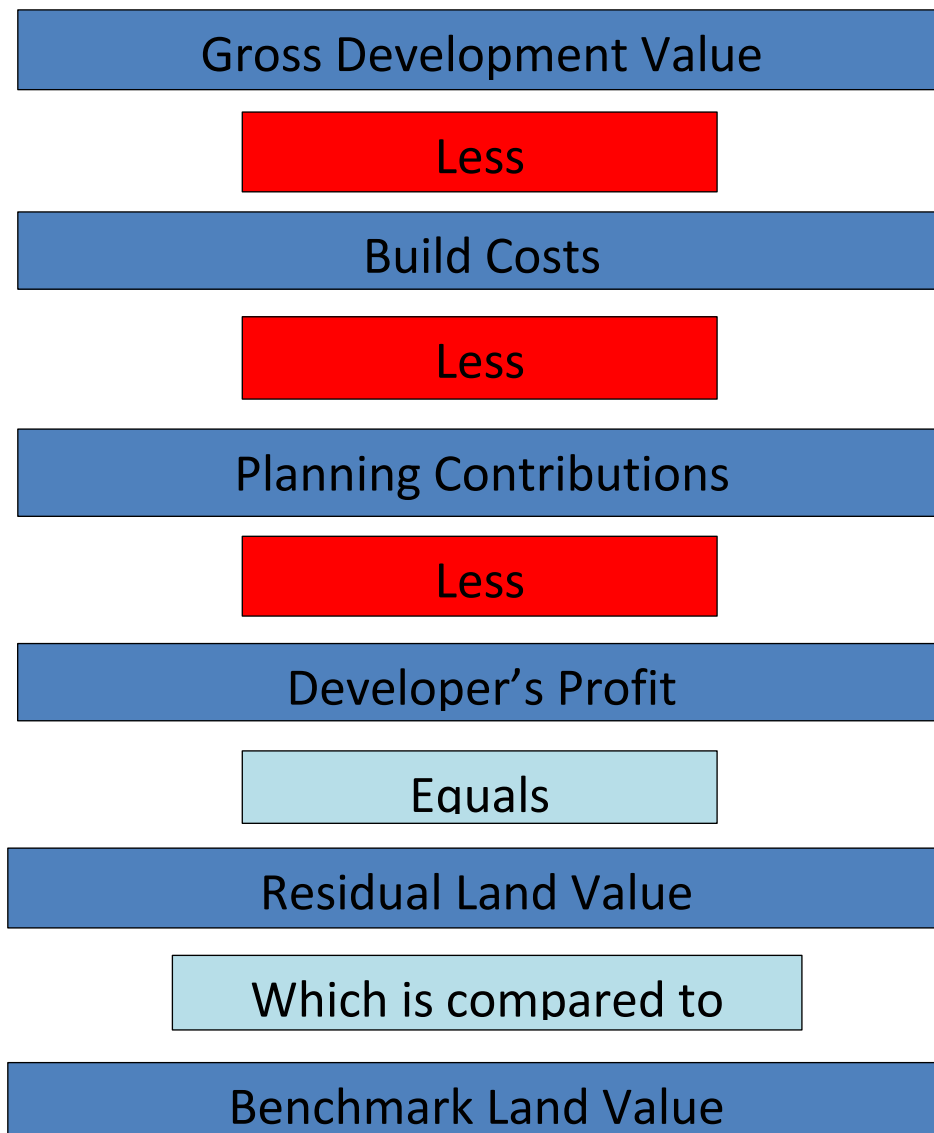
5.13 The Council will usually commission an independent assessment from a consultant to assess the inputs and conclusions of the submitted FVA information. The costs of this assessment will be met by the applicant.

6. Methodology: Financial Viability Assessments

Overview

- 6.1 FVA's should apply the 'Residual Land Value' valuation methodology in most cases. This involves establishing the 'residual' value that is available to pay a landowner once the costs of undertaking the development and a reasonable developer's profit are deducted from the Gross Development Value (GDV) generated by the development.
- 6.2 Where schemes are identified as unviable at the proposed level of planning obligations, the level of profit allowed for should be adjusted to the extent that the scheme as proposed becomes viable. This will help identify the level of profit/loss the applicant/developer is prepared to accept on a current day basis.
- 6.3 The following diagram outlines the 'Residual Land Value' methodology FVA submissions should accord to:

Diagram 1: 'Residual Land Value' methodology for forming Financial Viability Assessments



- 6.4 Please find below commentary specific to each of the components/stages set out in Diagram 1 above.

Gross development value (GDV)

- 6.5 This is the revenue of a proposed development, generally assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date. However, in some circumstances it may be appropriate to reflect growth when deriving the GDV.
- 6.6 GDV is determined by assessing the total value of a development based on the value of the individual uses within the development. This is derived from the sales values of any units or parking spaces to be sold, as well as the rental value of any properties to be rented which are capitalised using a 'yield', to give an overall capital value (including ground rents). Development values adopted within viability assessments are typically determined based on current day figures at the time of determination.
- 6.7 Assumptions relating to development values should be justified with reference to comparable properties, appropriate market evidence and where relevant, arrangements with future occupiers, including rents and lease arrangements. Information relating to other properties that is provided to justify assumed development values should be directly comparable to the site in question for it to be given appropriate weight, or should be adjusted to ensure appropriate comparison. Transactions or market data should be up to date (from at least within the last 6 months), within an appropriate distance from the site, and relate to new build properties. If, in exceptional circumstances, there is a lack of new build data it may be appropriate to provide information for existing properties, although a premium should be applied where this is the case.
- 6.8 Information relevant to comparable properties should be fully analysed to demonstrate how this has been interpreted and applied to the application scheme. Where an assessment refers to indices or other information sources generated by third parties, a full examination of the data and methodology used to inform the index would need to be provided for it to be considered acceptable.
- 6.9 Where market residential properties are valued on the basis that they will be rented, the Council may require the applicant to enter into a planning obligation that the property will not be sold within a certain timeframe. In such cases the ability to sell the property at the end of that timeframe should be taken into account when establishing a capital value for the property.

Build costs

- 6.10 Development costs adopted within viability assessments are typically determined based on current day figures at the point of the planning permission. Build cost assumptions should aim to factor in costs for items that are a requirement of planning policy. Justification should be provided where it is considered policy requirements cannot be met.
- 6.11 The RICS Build Costs Information Service (BCIS) is a publically available source of cost information which can be used in viability assessments. The selection of BCIS values must correctly reflect the specific nature, location and size of proposal, and be justified to show that an appropriate and reasoned

approach has been taken in estimating the costs. In such instances where costs are agreed by the Council, this would be an acceptable basis of cost inputs as part of a review mechanism, linked to the Tender Price Index (TPI).

- 6.12 In most cases it is likely to be more appropriate to rely on a specific assessment of build costs ('Cost Plans'). In these circumstances, costs should be fully justified based on a detailed specification of the proposed development and the intended construction approach. The information should be provided on an elemental basis with a full breakdown of costs into component parts. This should be benchmarked against commercial sources of information such as BCIS or Spon's price books. Costs should also be distinguished for different parts of the scheme such as market and affordable housing.
- 6.13 Cost Plans should provide a clear breakdown of the cost per sq. m of the proposed scheme and be accompanied by a list of any exclusions and assumptions. Where these are relied upon, these will be specifically reviewed by the Council who will usually appoint a cost consultant or quantity surveyor to review the submission on its behalf. In this instance, applicants will be required to pay the reasonable fees of the appointed cost consultant or quantity surveyor.
- 6.14 The Council will expect a clear correlation to be evident between a development's specification, assumed build costs and development values. Build costs and values should also be formulated on a consistent basis. Where current day values are adopted, build costs should not incorporate cost inflation. Professional and marketing fees adopted at the higher end of typical ranges would be expected to be associated with higher values.
- 6.15 It is important that any site-specific or abnormal costs are disaggregated and supported by robust evidence. Associated works must be directly related to the site and development as listed in the planning application (e.g. additional costs attached to remediation, protection of heritage assets on site etc) and required in order to enable the development to proceed. The Council will have regard to the nature of any abnormal costs that will apply and also the impact that this has on land value. It should not be assumed that abnormal costs would necessarily be borne exclusively at the expense of compliance with the Development Plan, as a site involving abnormal development costs is likely to attract a lower land value than could be achieved on a site where this was not the case.
- 6.16 The following table describes how other costs should be treated in FVAs:

Element	Description
Contingencies	Contingency allowances should: <ul style="list-style-type: none"> • be clearly identified; • be accompanied by an explanation as to what they are for; • show how they were calculated.
Enabling and demolition costs	Enabling works costs, including demolition, decontamination or utilities should be stated separately alongside evidence as to the amounts applied.
Finance costs	Finance costs should be included at a level which is evidenced by reference to

	the prevailing market rate.
Legal fees	Legal fees should be fully justified by reference to market rates. For larger developments, economies of scale are expected to occur, resulting in proportionally lower costs.
Professional fees	The level of professional fees should be stated separately for each discipline included, both as a percentage and the monetary amount.
Marketing costs	Estate agency sale and letting fees and other marketing costs should be fully justified. For larger developments, economies of scale will generally be expected to apply, resulting in proportionally lower costs.

Planning contributions

- 6.17 The Council can assist applicants in calculating the likely financial contributions arising from a development and it is important that these inputs are accurately reflected in any viability information submitted to the Council. This should be discussed at pre-application stage with an applicant submitting draft Section 106 (S106) Heads of Terms as a part of an application (see also Sections 3).
- 6.18 The Mayor of London introduced his Community Infrastructure Levy (CIL) Charging Schedule on 1st April 2012. The Council adopted its CIL Charging Schedule on 1st April 2015.
- 6.19 Mayoral and Borough CIL charges applied in FVAs should reflect any relief that will apply, such as social housing relief or charitable relief, and should be calculated in accordance with the CIL Regulations 2010 (as amended), for example, with existing floorspace discounted if relevant and the phasing of payments taken into account for phased developments. It is additionally important to ensure that the impact of the Mayoral and Borough CIL instalment policies are taken into account, as this will determine the timing of payments, and that likely indexation on CIL allowances should be applied.
- 6.20 The Council's Planning Obligations SPD provides guidance on which obligations apply following the adoption of the local CIL. These typically relate to non-infrastructure and site-specific requirements such as carbon offsetting and employment and training contributions but can extend to infrastructure related requirements.

Developer's profit

- 6.21 The most common approach for calculating developer's profit in viability assessments submitted as a part of the planning process is either as a factor of Gross Development Cost (GDC) or Gross Development Value (GDV). In this case the unit of measurement is monetary so that a development proposal's viability surplus or deficit can be easily quantified. Also, it is a comparatively stable measure in that a relatively small change in a scheme's development programme is unlikely to significantly change the developer's profit.

- 6.22 An alternative approach that has been applied on some longer term and phased developments is the use of Internal Rate of Return (IRR). This is a metric for measuring scheme viability which is typically used to provide a time weighted measure of an investment's return to help determine whether to commit investment capital.
- 6.23 The appropriate metric to assess profit will depend on the scale of the scheme and it's financing. We would expect schemes to demonstrate profit on cost and profit on value. The Council will take IRR into account if requested by the applicant, provided the development programme and timings of costs and values are fully justified.
- 6.24 Regardless of the measure of profit that is considered to be the most appropriate, the level of profit allowed for should reflect the risks associated with the scheme as well as the prevailing market evidence relating to acceptable levels of profit.
- 6.25 In most cases the Council expects that profit on residential development, including affordable housing, to be expressed as a % of GDV.
- 6.26 Where schemes are identified as unviable at the proposed level of planning obligations, the level of profit allowed for should be adjusted to the extent that the scheme as proposed becomes viable.

Benchmark land value (BLV)

- 6.27 The process for establishing an appropriate benchmark land value (BLV) for a viability assessment is one of the most important issues within a viability assessment because this indicates the threshold for determining whether a scheme is viable or not.
- 6.28 A development is deemed to be viable if the 'residual land value' is equal to or higher than the benchmark land value as this is the level at which it is considered that the landowner has received a reasonable return and will release the land for development.
- 6.29 In most cases, BLVs will be assessed with reference to existing use value (EUV) of the site, plus a financial incentive ('premium') that would ensure the release of the land from its existing use. This is called "existing use value plus" (EUV+). The premium above EUV that is applied will generally not be expected to exceed 20% but will be considered on a site by site basis.
- 6.30 A realistic alternative scheme may be used to form a BLV, particularly where the site in question has no existing use value. It is not necessarily the case that a planning permission for the alternative use must be in place (however this is preferred), However the application of a particular alternative use will need to meet a number of criteria, such as:
- The alternative use would be policy compliant and would secure permission;
 - There would be no additional costs or delay in securing that permission – or those additional costs and delays are assessed;

- The alternative proposal is required to be worked up to an appropriate level of detail, as described in the paragraph below;
- There is a real world demand for the alternative at the values assumed;
- In the real world the landowner could really develop out the alternative rather than use it as a negotiating lever to force down affordable housing.

6.31 All proposals that intend to use an alternative use to form the BLV have to be accompanied by:

1. A statement that sets out:
 - A description of the alternative scheme including floor areas;
 - Why the applicant considers that the alternative use would be policy compliant and would secure permission;
 - Evidence to demonstrate there is a real world demand for the alternative use scheme at the values proposed in the accompanying appraisal (see below);
 - In instances where there is a public benefit test to be applied (pursuant to Section 66 or 72 of the Planning (Listed Building and Conservation Areas) Act 1990 and Chapter 12 of the NPPF) the public benefits for the alternative scheme and details of how they compare with the proposed scheme that the application is the subject of;
 - Anything else the Council considers relevant in the context of the particular application.
2. A set of floor plans and elevation drawings (or elevation massing diagrams) for the alternative scheme proposed.
3. A site layout plan including basic servicing and transportation details.
4. An appraisal that demonstrates the residual land value of the alternative use scheme, prepared in accordance with the principles described in this SPD, incorporating realistic current day costs and values that are backed up by evidence. This appraisal should account for any delay that would apply in securing the permission for the alternative use.

6.32 The 'Market Value' of a proposed development raises concerns of inadequate reflection of policy requirements, circularity and inflated land values which inappropriately reduce planning obligations.

6.33 The Council will only accept the Purchase Price or the Market Value as the BLV of the scheme where these figures fully reflect policy requirements, planning obligations and planning contributions. Where these methods of BLV are proposed they will be required to be fully evidenced.

Build to Rent Schemes

6.34 The approach to assessing viability for Build to Rent schemes may vary from 'build for sales' schemes although this will be considered on a case by case basis.

6.35 Viability matters in this context should be treated in accordance with the requirements set out in the Mayor of London's Affordable Housing and Viability SPG. In particular:

- All homes on build to rent developments should be under single management;
- That these schemes will need to remain for rent for at least a period of 15 years and where reversion to sale products takes place that a clawback mechanism is applied to secure additional affordable housing if the 'distinct economics' of build to rent proposals result in a lower provision of affordable housing versus what would have been provided for a 'sale' scheme;
- Management standards: Longer tenancies should be available to all tenants. Formula linked rent increases should be included within tenancy agreements. There should be on-site management.

7. Viability Reviews

Overview

- 7.1 Where a development proposal cannot meet planning policy requirements due to viability and the Council resolve to grant planning permission, the Council will generally require the submission of a revised financial viability assessment following the substantial implementation of the scheme. This will ensure that improvements in scheme viability between the date that the planning permission was granted and the date the development was substantially implemented contribute towards meeting minimum policy requirements that were not possible at the date of consent. This approach is encouraged in relation to affordable housing in Policy 3.12 of the London Plan (2015).
- 7.2 Where applications are made under the 'Threshold' approach, Review mechanisms will be applied in accordance with the approach set out in the Mayor of London's Affordable Housing and Viability SPG.
- 7.3 The costs, values and other factors of a scheme can alter significantly from the point planning permission is granted to when it is substantially implemented. Viability reviews enable the applicant to continue to receive the level of profit required, as agreed at the date of consent. This means that viability reviews will not increase risk for the applicant as it will still allow for a competitive return.
- 7.4 As the level of planning obligations being provided from a development is a key consideration in decision-making, no viability review can result in the scheme providing a reduced level of planning obligations from the scheme that was the subject of the original permission.
- 7.5 All documents that relate to viability reviews will be subject to the same rules of disclosure as full FVAs, i.e. that they can be made available to the public alongside other application documents.

Timings

- 7.6 Viability reviews carried out at an early stage in the development or prior to the implementation of later phases have the benefit of increasing the likelihood that additional affordable housing can be provided on site. The advantage of undertaking viability reviews towards the end of a development on the other hand is that robust, up to date values and costs can be taken into account.
- 7.7 The Council will therefore require viability reviews to take place at the following stages:
 - Pre-implementation review: This is required if substantial implementation hasn't occurred within 24 months of planning permission. A definition of 'substantial implementation' can be agreed between the Council, the applicant and where appropriate the Greater London Authority at the application stage;
 - At an advanced stage of development (advanced stage review), a review will ensure that viability is accurately assessed and up to date. In addition, in view of the priority given to onsite delivery of affordable housing, where substantial implementation of a development does not occur within 24

months of the date of planning permission a pre-implementation review will be required;

- On phased developments: an additional viability review will be required at a mid-point stage in the development (prior to implementation of the second half/ later phases of the development) (mid-term review).

Deficits identified at application stage

- 7.8 If a scheme provides a higher proportion of affordable housing to that which has been demonstrated to be viable at application stage, it may be necessary to specify that a deficit is overcome before any surplus value is used towards the provision of additional affordable housing.

Viability review process

- 7.9 The Council will require an applicant to submit updated information for assessment by the Council at the point of the review. The Council will usually commission an independent review and the costs of this assessment will be met by the applicant. The review will assess changes to gross development value and costs, which are the key variables that are most likely to be subject to change. This will apply to the development as a whole (incorporating all uses) and be based on formulas (see Appendix B) to be included in the S106 agreement allowing for a transparent process. For completeness, the appraisal inputs and variables that are the subject of a viability review (i.e. base position vs. latest/achieved figures except where formulas state otherwise) are set out below:

- GDV (including the matters referred to in paragraphs 6.5 – 6.9 above) ;
- Base build costs including enabling costs;
- Abnormal costs;
- Professional fees;
- Legal fees;
- Marketing costs;
- Profit.

- 7.10 The formulas in Appendices B will generally be applied to determine whether a 'surplus' will be generated over and above required returns. The application of the formulas described can be considered on a case-by-case basis.

- 7.11 In the event of a surplus being identified through a review, the level of additional planning obligations (usually affordable housing) that will need to be provided (capped by the strategic affordable housing target) must be based on the (opportunity) cost to the developer of converting market housing into affordable housing as determined by the difference in value of market housing compared to its value as affordable housing. For other planning obligations that were not fully addressed at application stage, the level of any additional financial contribution (capped at a policy compliant level) will be determined by the initial formulas at each stage, as set out below.

- 7.12 An applicant's proposed approach to review mechanisms is required to be set out prior to the referral of any relevant scheme to the Council's development committees so this can be considered by the committee. The outcomes of

triggered review mechanisms will be fed back to the relevant development committee.

Pre-implementation reviews

- 7.13 Where a development has reached 'substantial implementation' within 24 months of the grant of planning permission, a pre-implementation review would not normally be required. If substantial implementation occurs after 24 months (at which point the initial viability assessment will be deemed to be out of date) a review will be required. This should take place within a 3 month period following substantial implementation.
- 7.14 The definition of substantial implementation is a matter that can be agreed between the Council, the applicant and where appropriate the Greater London Authority on a case by case basis but will seek to avoid a notional implementation of the scheme. If substantial implementation is achieved within a 24 month period but the development then stalls for a further period of 12 months, a further review will then be required.
- 7.15 Reviews which take place prior to implementation of a phased development should deliver additional on-site affordable housing in accordance with an 'Additional Affordable Housing Scheme' to be appended to the S106 agreement. This should identify the units to be converted to affordable housing in line with the Council's required tenure split.
- 7.16 Where there is remaining surplus which does not amount to the provision of one whole affordable housing unit, this surplus amount should be used as a contribution for off-site affordable housing or to provide any further planning obligations that were required but found to be unviable at application stage. The same applies in the case of mid-term reviews.
- 7.17 The pre-implementation review formula is set out in Appendix B. This operates in two stages, firstly to calculate the level of surplus available for onsite affordable housing (or other policy requirements) and secondly to determine the level of additional affordable housing floorspace deliverable from the surplus. Any surplus will be used to determine those units identified in the Additional Affordable Housing Schedule that will be converted to affordable housing up to the affordable housing target cap. For other policy requirements which take the form of a contribution, only Formula 1 in Appendix B will apply.
- 7.18 The Council's intended approach is to set out a clear basis for calculating the level of any additional requirements that could viably be provided while recognising that in some instances adjustments to the calculations may be warranted according to the circumstances of a specific proposal. For example, in circumstances where the conversion of different tenures would be appropriate, such as intermediate housing to social rented housing, the Council may apply an alternative formula which takes into account the difference in values of the relevant tenures.

Mid-term reviews

- 7.19 In the case of phased developments, mid-term reviews will be required which take place prior to implementation of later phases of a development. These should deliver additional on-site affordable housing in accordance with an Additional Affordable Housing Scheme to be appended to the S106 agreement.

- 7.20 Mid-term (and advanced stage) reviews should assess the development as a whole, taking into account values, costs and any surplus that has been realised in the initial stages of the development, as well as estimates for the subsequent phases. This is necessary to ensure that affordable housing provision is maximised and that other policy requirements that were not achievable at application stage, are met where viable. Where build costs were based on BCIS in the application stage assessment, these will be index linked from the date of the previous review.
- 7.21 Mid-term reviews will operate in two stages – the first to calculate any surplus based on the approach set out in the relevant formula in Appendix B, the second using the surplus to determine the level of additional affordable housing that can be provided based on Formula 2 (see section on pre-implementation reviews above).

Advanced stage reviews

- 7.22 Advanced stage reviews will be required on all schemes requiring a review. For residential led schemes, advanced stage reviews should be undertaken on sale of 75% of market residential units, and for other schemes, within a three month period prior to practical completion. This enables the assessment to be based on up to date, accurate information, while also retaining the ability to secure the additional provision of policy requirements. The outcome of this review will typically be a financial contribution towards offsite affordable housing provision or other policy requirements.
- 7.23 Any contribution payable in the event that a surplus is generated will be capped according to the level of contribution required by policy and associated guidance. For affordable housing contributions this will be based on the level of surplus required to provide additional affordable housing to meet the Council's strategic affordable housing target. The contribution and cap will be calculated in accordance with Appendix B.
- 7.24 In some instances adjustments to the calculations may be warranted according to the circumstances of a specific proposal. For example, where market and affordable housing values were clearly distinguished in the original appraisal calculation, it may be appropriate to allow for differential costs when determining the Advanced Stage Affordable Housing Cap.

8. Affordable Housing: Payments in Lieu and Off-Site Delivery

Payments in lieu

- 8.1 The development plan allows the Council to accept payments in lieu of affordable housing provision. These payments in lieu may be accepted where the Council considers it is not practical or viable to provide affordable housing on site or, failing that, off-site.
- 8.2 Payment in lieu contributions will be pooled to secure additional affordable housing provision, either on identified sites elsewhere or as part of an agreed programme for provision of affordable housing.
- 8.3 Payment in lieu contributions must be calculated by establishing the amount of affordable housing that is instead being delivered as private housing, and calculating the uplift in value achieved through delivering the relevant units as private housing instead of affordable housing*. ~~alongside negotiations related to EVAs, in accordance with the following formula:~~

$$\del{(A \times B) - (A \times C)}$$

~~A = No. of habitable rooms of on-site affordable housing requirement to be delivered as private housing.~~

~~B = Average value of market housing per habitable room*~~

~~C = Average value of affordable housing per habitable room (taking account of policy unit mix and tenure requirements).*~~

~~* Determined as part of the review.~~

- 8.4 The amount calculated in respect of the above ~~formula~~ approach* will be required to be appropriately index linked to ensure the monetary contribution provided onto the Council at the payment trigger date will reflect the amount of affordable housing the Council needs to deliver using the contribution.

* Amendments made July 2018, to amend technical error.

Off-site delivery

- 8.5 The development plan allows the Council to accept the delivery of affordable housing 'off site' in specified circumstances. 'Off-site' affordable housing will be treated as a contribution towards the Council's affordable housing target.

Glossary

Alternative Use Value (AUV): An alternative use value (AUV) is the value of a hypothetical scheme of development that is an alternative to the proposed scheme of development.

Benchmark Land Value (BLV): The benchmark land value the value below which the current use of the site will be continued. This is the value at which a reasonable landowner will be willing to release their site for development.

Community Infrastructure Levy (CIL): The Community Infrastructure Levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. Both a Local and a London wide CIL apply in Tower Hamlets.

Existing Use Value (EUV): Market value for the continuing existing use of the site or property assuming all hope value and any value arising from any planning permission or alternative use is excluded.

Financial Viability Assessment (FVA): A Financial Viability Assessment is an assessment of a scheme's financial viability. It can be used to assess whether a proposed scheme of development will proceed and whether planning obligations may need to be applied flexibly to enable a marginally viable proposed scheme of development to proceed.

Gross Development Value (GDV): Market value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.

Market Value (MV): The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion, subject to the special assumption that planning consent has been granted for the proposed scheme of development.

National Planning Policy Framework (NPPF): The National Planning Policy Framework sets out government's planning policies for England and how these are expected to be applied.

Planning Performance Agreement (PPA): A planning performance agreement is a project management tool which local planning authorities and applicants can use to agree timescales, actions and resources for handling particular planning applications.

Planning Practice Guidance (PPG): This a series of guidance documents (with one specific to Viability) relating to how the policies described in the NPPF should be applied.

Premium: Benchmark land values (BLV) will usually be calculated with reference to the existing use value (EUV) of the site, plus a premium that acts as a financial incentive that would ensure the release of the land from its existing use. This is called existing use value plus (EUV+). The incentive is the "+" of the "EUV+".

Residual Land Value (RLV): The RLV is a calculation of the MV of the site assuming planning consent for the proposed scheme of development using the residual method of valuation.

Royal Institution of Chartered Surveyors (RICS): The RICS is a professional body that accredits professionals within the land, property and construction sectors.

Section 106 (S106): Section 106 (S106) Agreements are legal agreements between Local Authorities and developers and are linked to planning permissions. They can also be known as planning obligations and can cover a wide range of matters that, in Tower Hamlets, include the provision of Affordable Housing as well as other contributions and requirements.

Appendix A: Appraisal Input Summary Sheet

The completion of this document is mandatory and is a validation requirement. A new version of this sheet must be submitted with every change in an applicant's viability position. An Excel template will be available.

Appraisal Component	Assumption	Quantum	
Gross Development Value	Average Market Sales Values (£ per sq. m NIA)		
	Lowest Market Sales Values (£ per sq. m NIA)		
	Highest Market Sales Values (£ per sq. m NIA)		
	Average Affordable Sales Values (£ per sq. m NIA)		
	Car Parking Values (£ per space)		
	Ground Rents (£ per unit per annum)		
	Yield Applied to Ground Rents (%)		
	Commercial Rental Value 1 (£ per sq. m)		
	Yield Applied to Commercial Rental Value 1 (%)		
	Commercial Rental Value 2 (£ per sq. m)		
	Yield Applied to Commercial Rental Value 2 (%)		
	Gross Development Value (£)		
	Costs	Construction Costs per sq. m GIA (£)	
		Construction Costs Total (£)	
Professional Fees (% of construction cost)			
Professional Fees Total (£)			
Marketing Costs (% of construction cost)			
Marketing Costs Total (£)			
Disposal Fees (% of construction cost)			
Disposal Fees Total (£)			
Finance Cost (% of construction cost)			
Finance Costs Total (£)			
Developer Profit (£)			
Contingencies (% of construction cost)			
Contingencies (£)			
Developer Profit		Residential (Market): % on GDV	
	Residential (Affordable): % on GDV		
	Residential (Blended): % on GDV		
	Commercial: % on Cost		
	Internal Rate of Return (IRR): %		
Planning Contributions	Total CIL Liability: £		
	CIL Liability accounting for relevant reliefs: £		
	S106 Financial Contributions: £		
Residual Land Value	Residual Land Value (£)		
Benchmark Land Value and Acquisition Information	Land Acquisition Costs (£)		
	Benchmark Land Value (£)		

Appendix B: Formulas for application in reviews

Formula 1: To calculate the 'policy surplus' available for onsite affordable housing (or other policy requirements) at pre-implementation and mid-term (for phased schemes) review stages

$$\text{'Policy Surplus'} = ((A - B) - (C - D) - P)$$

Where:

A	Review Stage GDV as determined at the time of review
B	<ul style="list-style-type: none"> Application Stage GDV as determined at the time planning permission was granted; or Where it was agreed at application stage that there was a deficit against the BLV, a 'breakeven' GDV can be used, i.e. the application stage GDV can be inflated to the extent of the agreed deficit.
C	Review Stage Build costs as determined at the time of review
D	Application stage Build costs as determined at the time planning permission was granted
P = (A - B) * Y	Developer profit on change in GDV (£)
Y	Developer profit as a percentage of GDV (%) as determined at the application stage
(A - B)	Difference in GDV between time planning permission was granted and time of review
(C - D)	Difference in build costs between time of planning permission and time of review

Formula 2: To determine the amount of additional onsite affordable housing floorspace for pre-implementation and mid-term reviews

$$\text{'Additional London Affordable Rent Habitable Rooms Requirement'} = ((E * F) \div (A - B)) \div D$$

$$\text{'Additional Intermediate Habitable Rooms Requirement'} = ((E * G) \div (A - C)) \div D$$

Where:

A	Average value of market housing p/sq.m
B	Average value of London Affordable Rent housing p/sq.m
C	Average value of Intermediate housing p/sq.m
D	Average habitable room size for scheme (m ²)
E	Surplus profit available for additional affordable housing (as determined by Formula 1) (£)
F	Percentage of surplus profit available for additional affordable housing to be used for low cost rent housing (%) (with reference to Local Plan Tenure Split)
G	Percentage of surplus profit available for additional affordable housing to be used for intermediate housing (%) (with reference to Local Plan Tenure Split)

The additional social rented and intermediate habitable rooms figures will be used to determine those units identified in the Additional Affordable Housing Schedule to be converted to affordable housing.

Formula 3: To calculate the additional financial contribution payable to the Council at advanced review stages, towards affordable housing or other policy requirements not viable at application stage

$$\text{'Contribution'} = ((D - H) - P) \times 60\%$$

Where:

A	GDV achieved on sale of at least 75% of residential units and GDV from other parts of the development sold / let and other income receipts.
B	Estimated GDV for parts of the development that are yet to be sold/ let and other income sources.
C	<ul style="list-style-type: none"> Application Stage GDV as determined at the time planning permission was granted; or Where it was agreed at application stage that there was a deficit against the BLV, a 'breakeven' GDV can be used, i.e. the application stage GDV can be inflated to the extent of the agreed deficit.
D = (A + B) - C	The change in GDV at the time of review.
E	Actual build costs incurred at the time of review.
F	Estimated build costs for remainder of the development.
G	Total build costs determined as part of the assessment of viability at time planning permission was granted (or as determined in previous Review - e.g. early review).
H = (E + F) - G	The change in build costs at the time of Review, which is subtracted from the change in GDV to establish whether additional value has been generated as a result of increased values or reduced costs.
P = (A + B - G) * Y	Developer profit on surplus GDV (£)
Y	Developer profit as a percentage of GDV (%)
60%	Any surplus GDV, after deducting the developer profit on surplus, will be shared between the LPA and the developer on a 60:40 split in favour of the Local Planning Authority.

Formula 4: To calculate the 'advanced stage cap' which is the maximum additional affordable housing contribution payable at advanced stage reviews

$$\text{'Advanced stage cap'} = (((A * D) - (B * D)) * E) + (((A * D) - (C * D)) * F)$$

A	Average market housing values p/sq.m
B	Average low cost rent values p/sq.m
C	Average intermediate rented housing values p/sq.m
D	Average habitable room size for scheme (sq.m)
E	Low cost rent shortfall on-site (habitable rooms) (Determined at the time planning permission was granted or as updated following previous review)*
F	Intermediate housing shortfall on-site (habitable rooms) (Determined at the time planning permission was granted or as updated following previous review)*

* = Shortfall in the relevant tenure of affordable housing by habitable room in the consented scheme, when compared with the policy target and local plan tenure split.