



WELCOME

Thank you for joining. The event will begin shortly

Aims of the 1947 Club

- Furtherance of Social and Professional Contacts
- Providing assistance to Branch RICS Matrics
- Preservation of the history and tradition of the 1947 Club

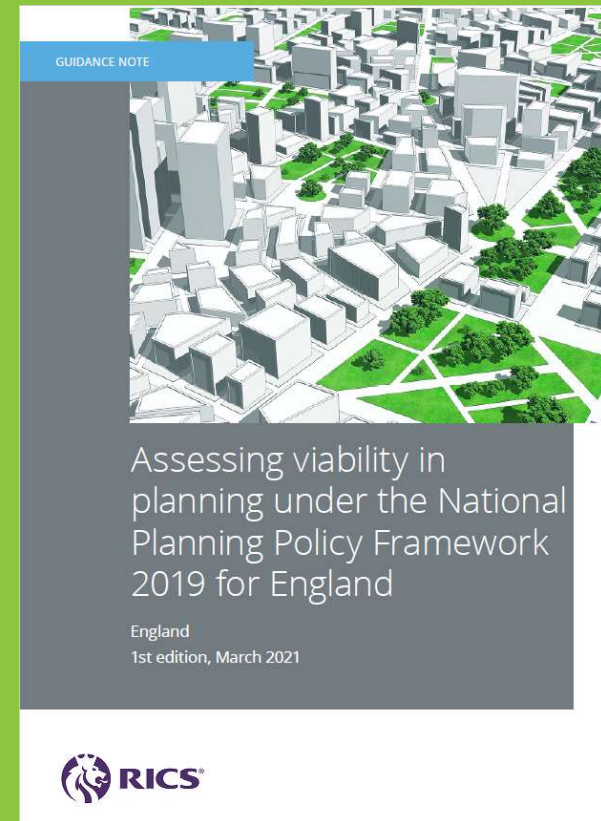
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Assessing Viability in Planning – implications of the 2021 RICS Guidance Note

Prepared for the 1947 Club CPD Programme
24th September 2021



Presenters

- Atam Verdi MRICS
 - Exec Director
 - Member of the national RICS Planning Policy Panel & Regional Board
- Brett Devenish MRICS
 - Director
 - Newcastle Office established 2021



AspinallVerdi - Viability



- Specialist Property Development Consultants
- RICS P&D Surveyors / Registered Valuers
- Whole Plan Viability Studies (CIL & S106)
- Financial Viability Assessments for S106
- Heritage - Conservation Deficit / Enabling Dev. Appraisals
- Funding
 - Funding requirement
 - Land Value Uplift (Public Funding – Benefit Cost Ratio)

Agenda

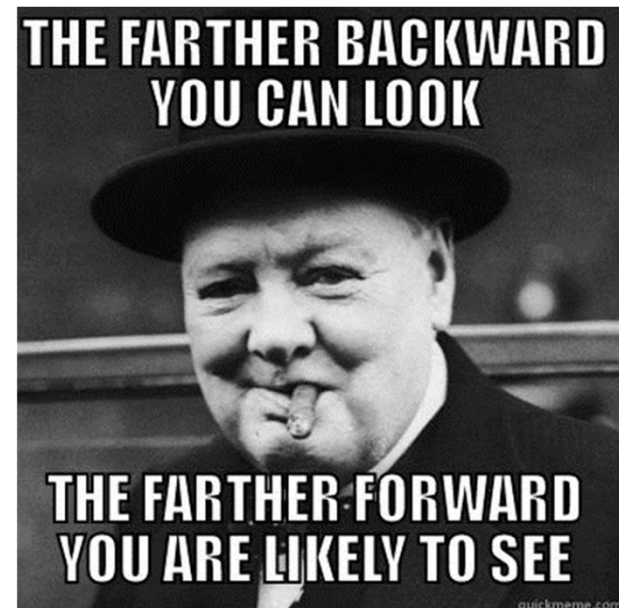
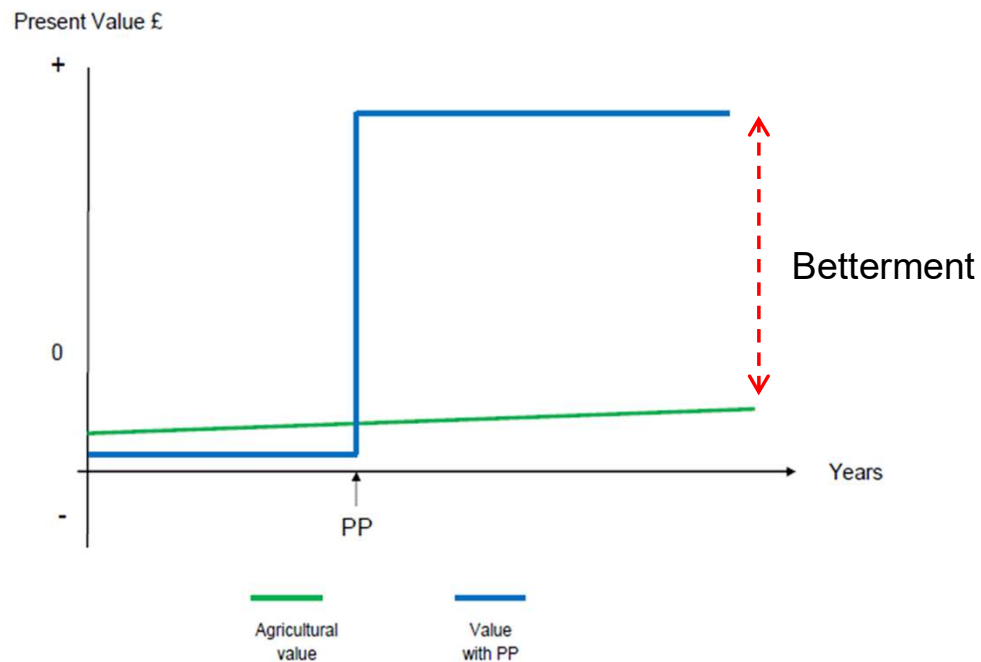
- Why financial viability is relevant in the planning context
 - NPPF
 - PPG
 - Guidance
- RICS Professional Statement - Financial Viability in Planning: conduct and reporting
- RICS Guidance Note - Assessing Viability in Planning

Agenda

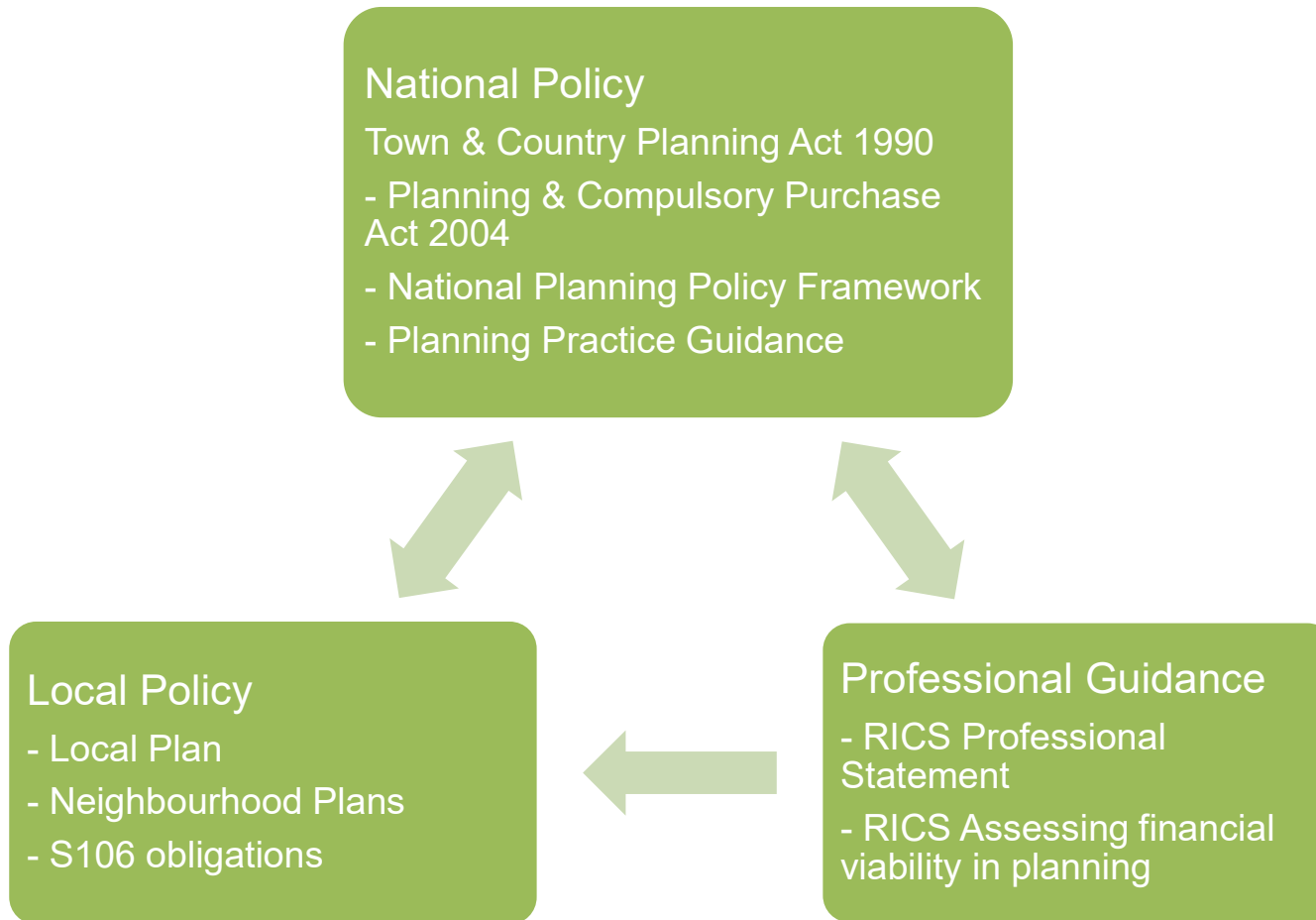
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'Ancient' History

- Town & Country Planning Act (1947) – 'nationalised development'
- Land value driven by its allocated (intended) use



Overview – Policy & Guidance Framework



n.b. NPPF and PPG subject to change

NPPF..1

- **Para 2 NPPF** - “....Planning law requires that application for planning permission be determined in accordance with the development plan, unless material considerations indicate otherwise....”
- **Para 34 NPPF** – “Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.”

NPPF..2 - Changed Emphasis - Revised (2019/21)

- Paragraph 173 of the *old* NPPF has been removed -

.. ‘contributions or other requirements should, when taking account of the normal cost of development and on site mitigation, provide acceptable returns to a willing land owner and willing developer to enable the development to be deliverable.’

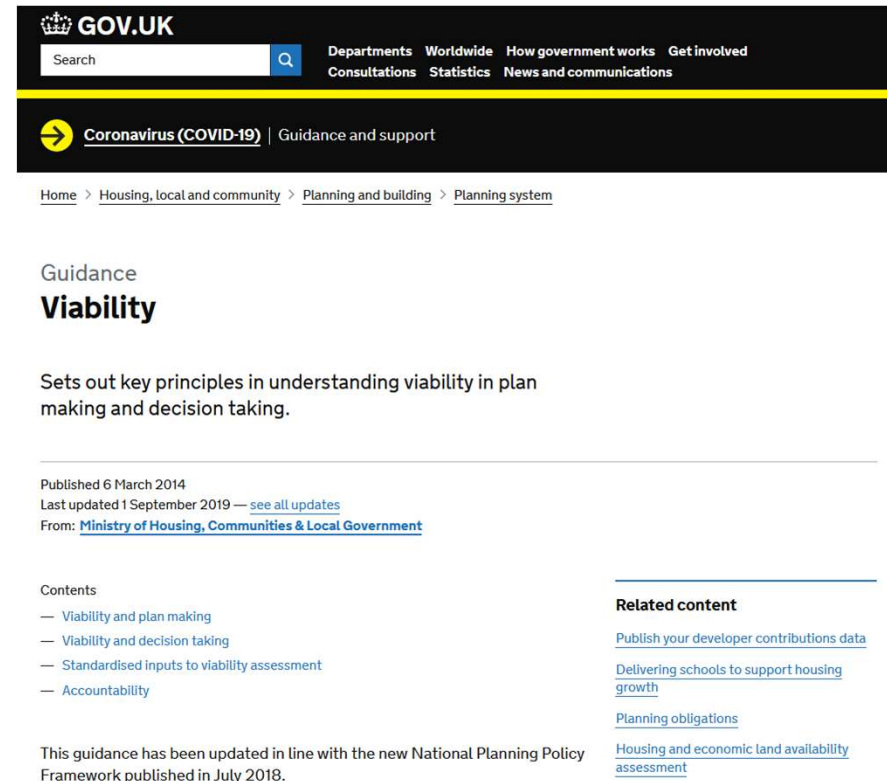
- Instead there is a greater focus on viability at plan making level (paragraph 58 of NPPF) -

Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable.’

- **Para 58**

Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

- Four Sections
 - Viability & plan making
 - Viability & decision taking
 - Standardised inputs into viability assessment
 - Accountability



The screenshot shows the GOV.UK website page for 'Viability' guidance. At the top, there is a search bar and navigation links for 'Departments', 'Worldwide', 'How government works', and 'Get involved'. Below this is a yellow banner for 'Coronavirus (COVID-19) | Guidance and support'. The breadcrumb trail reads: 'Home > Housing, local and community > Planning and building > Planning system'. The main heading is 'Guidance Viability'. The text states: 'Sets out key principles in understanding viability in plan making and decision taking.' Below this, it says 'Published 6 March 2014' and 'Last updated 1 September 2019 — see all updates'. The source is listed as 'From: Ministry of Housing, Communities & Local Government'. There are two columns of links: 'Contents' with links for 'Viability and plan making', 'Viability and decision taking', 'Standardised inputs to viability assessment', and 'Accountability'; and 'Related content' with links for 'Publish your developer contributions data', 'Delivering schools to support housing growth', 'Planning obligations', and 'Housing and economic land availability assessment'. At the bottom, a note states: 'This guidance has been updated in line with the new National Planning Policy Framework published in July 2018.'

www.gov.uk/guidance/viability

Viability Assessment Guidance



Past

- Homes and Communities Agency, Investment and planning obligations - Responding to the downturn, Good Practice Note (July 2009)
- Local Housing Delivery Group, Viability Testing Local Plans, Advice for planning practitioners (June 2012) (the 'Harman' report)

Present

- MHCLG – PPG Viability
- RICS Professional Statement - Financial viability in planning: conduct and reporting (1st Edition, May 2019)
- RICS, Guidance Note - Assessing viability in planning, (1st edition, March 2021) – new

- CIL - Statutory Regulations (2010)
- CIL - Guidance (Feb 2014)

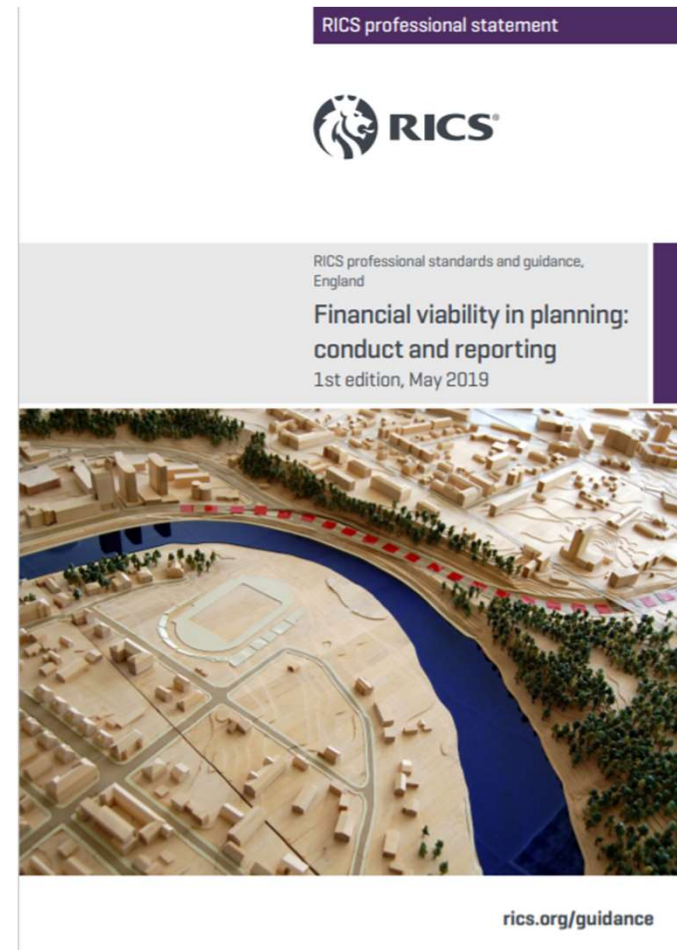
- Refer to www.aspinallverdi.co.uk/blog for further analysis

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RICS Financial Viability in Planning: Conduct & Reporting

- Binding on all RICS practitioners
 - Improve standards
 - Maintain public trust
- Effective 1st September 2019
- Suitably qualified practitioner
- 14 mandatory requirements

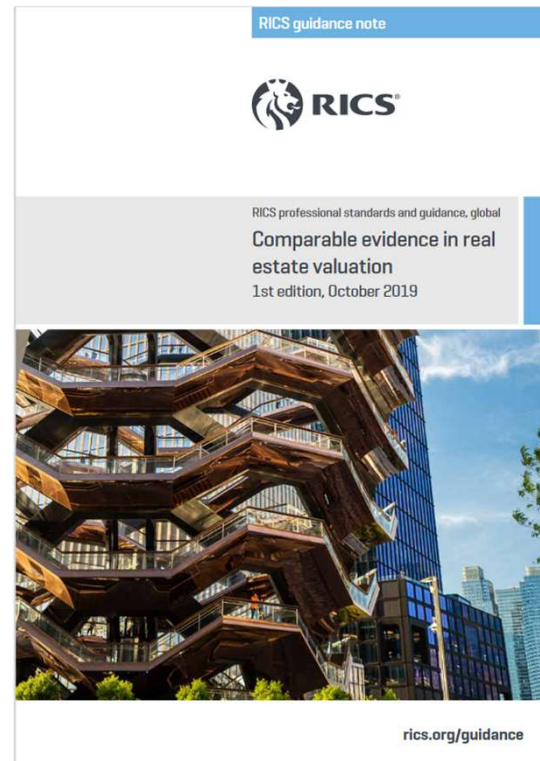
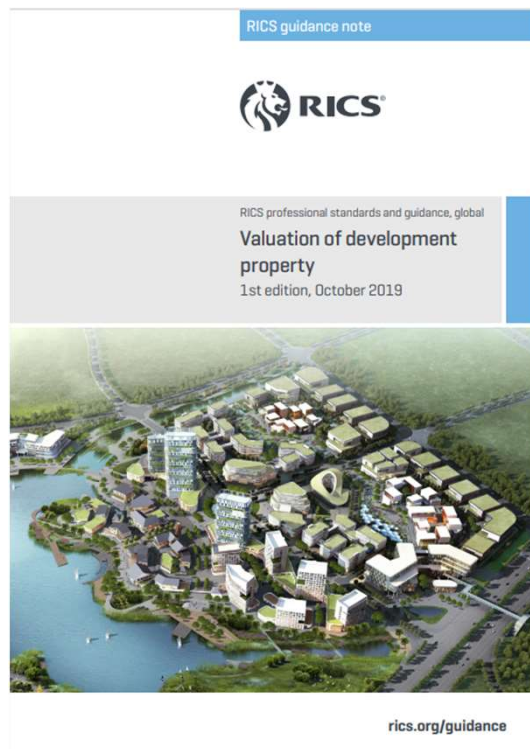


RICS PS Mandatory Requirements

1. Objectivity, impartiality and reasonableness statement
2. Confirmation of instructions and absence of conflicts of interest
3. No contingent fee statement
4. Transparency of information
5. Confirmation where RICS member is acting Area Wide or scheme specific FVAs
6. Justification of evidence and differences of opinion
7. Benchmark land value and supporting evidence
8. FVA Origination, reviews and negotiations
9. Sensitivity analysis (all reports)
10. Engagement
11. Non-technical summaries (all reports)
12. Author(s) sign off (all reports)
13. Inputs to reports supplied by other contributors
14. Timeframes for carrying out assessments

Related Guidance Notes

- Comparable evidence in real estate valuation (1st ed. 2019)
- Valuation of development property (1st ed. 2019)
- Valuation of land for affordable housing (2nd ed. 2016)



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Viability Assessment Principles (*former GN*)

“ An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and market risk adjusted return to the developer in delivering that project”

RICS Financial Viability in Planning 2012

- Evidenced based – *but reasonable*
- Independence
- Transparency
- Relevant

- **NPPF and PPG has made an explicit intervention**

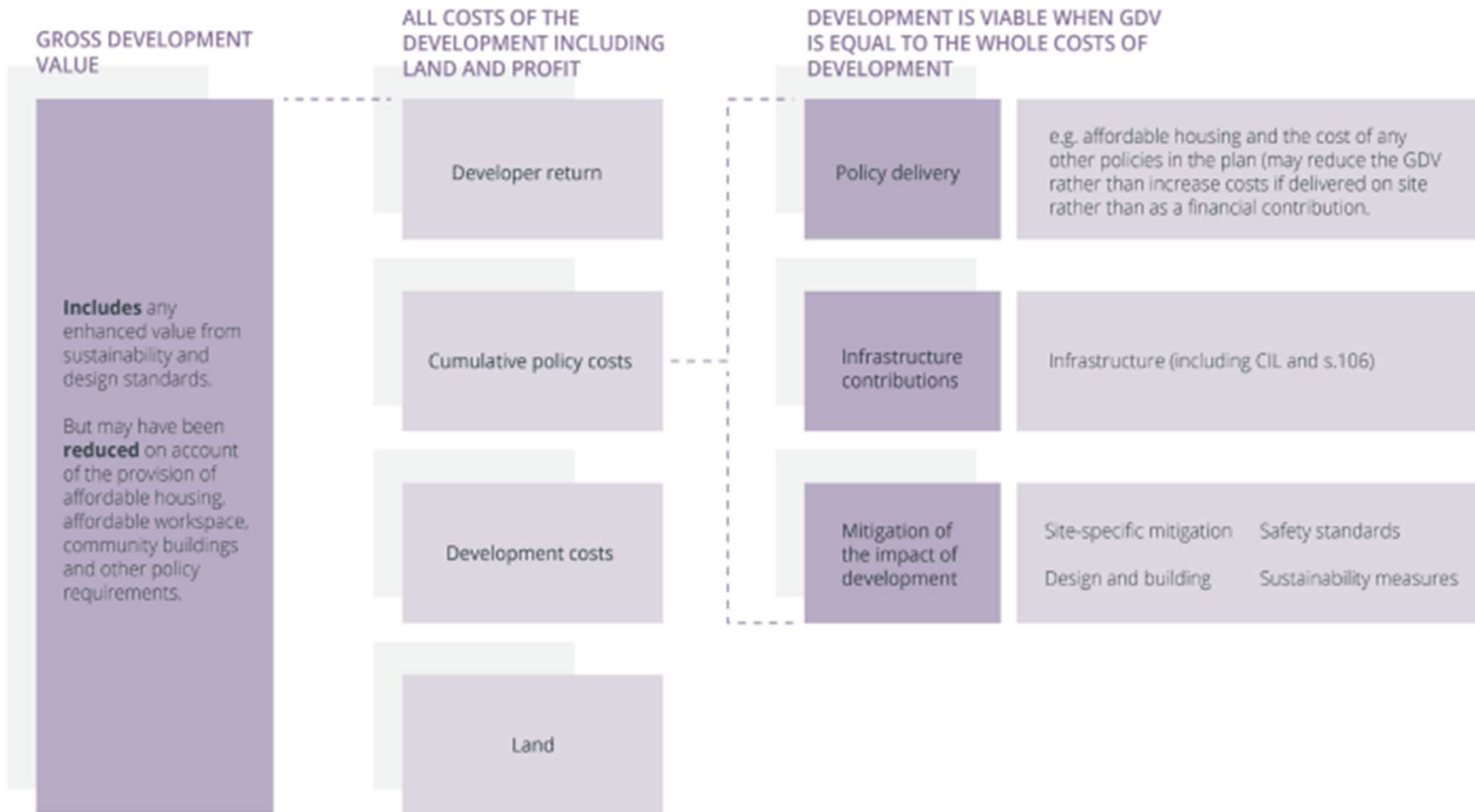
RICS GN – Foreword

- High Court Decision – Parkhurst Road Ltd v Secretary of State for Communities and Local Government (2018)
- Price paid was being used as a justification to reduce obligations (which would in turn serve to further increase land values)
- NPPF has shifted the focus to the plan making stage
- ‘government’s intention in...national planning policy and practice is to more firmly integrate the delivery of planning policy into the operation of the market.’
- ‘An assessment of viability for planning purposes is distinct and separate from a market valuation ...in accordance with RICS – Global Standards’.

Red Book and RICS Guidance

- Section 2.2
- FVAs for planning purposes are carried out under the NPPF/PPG – an ‘authoritative requirement’ in the Red Book
- Govt requirements take precedence, but Red Book professional standards still apply – including
 - Statutory and other authoritative requirements
 - Financial Viability in planning: conduct and reporting RICS Professional Statement
 - PS1 and PS2 of the Red Book

Viability Framework / PPG para 010



Viability & Plan Making - WPV

- Para 34 NPPF and Para 001 PPG
 - Plans should set out the contributions expected from development.
 - ...policy requirements should be informed by evidence of infrastructure and affordable housing need, and proportionate assessment of viability that takes into account all relevant policies...including ...CIL and Section 106.requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types or location of sites or types of development.
- At the Plan Making level therefore
 - Typologies and locations are important

Whole Plan Viability (plan making)

- Para 002 PPG
 - ...total cumulative cost of all relevant policies will not undermine deliverability of the plan.
 - ...responsibility of plan makers in collaboration with the local community, developers and other stakeholders...
 - ...Policy requirements, particularly affordable housing, should be set at a level ... that allows for the planned types of sites and development to be deliverable, without the need for further viability assessment at the decision making stage.
- Para 003 PPG
 - ...does not require individual testing of every site or assurance that individual sites are viable.
 - Use site typologies and assessments of samples....key sites⁴ on which the delivery of the plan relies.

WPV - Typologies

- Para 004 PPG
 - Location (market areas)
 - Whether greenfield or brownfield
 - Size of site /development
 - Types of development
- The characteristics used to group sites should reflect the nature of typical sites that may be developed within the plan area and the type of development proposed for allocation in the plan

WPV – Strategic Sites

- Para 005 PPG
 - Important to consider the specific circumstances of strategic sites
 - Testing is relevant and specific consultation is needed with such sites to ensure that inputs are appropriate
- Para 002 – Consultation – PPG emphasis on engagement
 - It is the responsibility of plan makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting of plan policies should be iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers.
 - It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant.

Decision Taking – Para 008 PPG

- Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.
- Applicant justifies the need for the FVA
- The weight to be given to a viability assessment is a matter for the decision maker
 - Is the plan and evidence underpinning it up to date
 - What has changed since the plan has been adopted
 - Transparency of assumptions behind evidence submitted as part of viability assessment
- Reduced contributions due to market cyclicity precluded under para 009 PPG

Standardised Inputs

- Paras 011 to 019 – set out the approach for FVAs
- GDV – market evidence from existing developments
- Costs including
 - Build costs; abnormal costs; site specific infrastructure costs; costs of policy requirements, finance costs, professional, project management, sales, marketing and legal costs
 - N.B. abnormal costs also need to be reflected in assessment of BLV
- Land Value – based on EUV + premium approach
- Profit – reflective of evidence and market practice
- ‘Stand Back’

Developer's Profit

- For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. (para 018 PPG)
- Decision taking – specific circumstances of the development need to be taken into account
 - Risk i.e. listed buildings or uncertainties in the market
 - Nature of the development – i.e. Build to Rent / Affordable Housing

Review Mechanisms – Para 009 PPG

- Plans should set out circumstances where review mechanisms may be appropriate...
- Review mechanisms are not a tool to protect the return to the developer, but to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the project
- Reviews are capped at the policy-compliant level of contributions

BLV – PPG...1

- PPG introduced the concept of Benchmark Land Value
 - approach to the question of input land cost
- “.....under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan ...” (paragraph 012 PPG)
- “... Assessment of costs should be based on evidence which is reflective of market conditions ...” (paragraph 012 PPG)
- Establishing Benchmark Land Value (paragraph 013 PPG)
 - “...established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner...”
 - “...the premium ... should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land ... should provide a reasonable incentive in comparison with other options available ... while allowing a sufficient contribution to fully comply with policy requirements.”

BLV – PPG...2

- First component: EUV (paragraph 015 PPG)
- Second component: Premium (paragraph 016 PPG)
 - Arbiter: Plan maker / decision maker
 - Iterative process informed by professional judgement
 - Adjusted market evidence cross check to BLVs from other viability assessments
 - “Any data ...”
 - Requesting data on the price paid or expected to be paid
- Alternative Uses – as an informative (paragraph 017 PPG)
 - Extant permissions
 - Reasonable prospect
 - Market demand
 - n.b. AUV = no premium

Note: all routes lead back to “EUV plus” (paragraph 013 PPG) when reporting

- 5 step process
 - Step one – determine the EUV (appendix B)
 - Step two – assessment of AUV where appropriate (appendix C)
 - Step three – assess the premium above EUV .. Market evidence can include BLV from other viability assessments (appendix D)
 - Step four – determine the residual value of the site or typology using actual or emerging policy requirements
 - Step five – cross-check the EUV+ approach to the determination of the BLV of the site by reference to land transaction evidence...any adjustments necessary...quality of land, site scale, market performance, building use types and reasonable expectations of local landowners'

Build to Rent (BTR) – Para 019 PPG

- Different approach to valuation – Investment approach - assessment of long term income stream (less management and maintenance costs)
- Affordable housing – provided as affordable private rent
- Plan Makers can set the levels of affordable private rent and discounts
- ‘...developers may propose alternatives to the policy’ – discounts and proportions
- Provide two sets of figures – one BTR and one Build to Sale – would enable authorities to compare and understand the differences...

Sensitivity Testing



- RICS Professional Statement – *mandatory* requirement for FVAs to include *proportionate* sensitivity analysis to examine the effects of the changes to the inputs
- Accepted practice in WPV to enable the LPA to understand the effects of differing policy requirements (e.g. viability buffer)

Balance (RLV - TLV)	1,622,303	AH - % on site						
		10%	15%	20%	25%	30%	35%	40%
0	43,922,358	36,896,160	29,863,035	22,822,523	15,771,693	8,707,076	1,622,303	
10	42,001,173	35,079,806	28,151,654	21,215,741	14,269,657	7,308,730	326,721	
20	40,079,726	33,262,727	26,439,668	19,608,518	12,766,398	5,909,276	(969,003)	
30	38,157,115	31,445,445	24,727,050	18,000,487	11,262,693	4,509,096	(2,264,727)	
40	36,234,114	29,627,103	23,013,806	16,391,753	9,758,116	3,108,081	(3,561,170)	
CIL £psm	50	34,310,148	27,808,658	21,299,904	14,782,428	8,252,515	1,705,779	(4,858,223)
60	32,386,089	25,989,002	19,585,177	13,171,969	6,746,192	302,417	(6,155,276)	
70	30,460,785	24,169,158	17,869,943	11,560,953	5,238,903	(1,101,284)	(7,452,819)	
80	28,535,418	22,348,137	16,153,507	9,948,906	3,730,319	(2,504,985)	(8,751,239)	
90	26,608,723	20,526,653	14,436,560	8,335,780	2,220,732	(3,909,587)	(10,049,659)	
100	24,681,796	18,704,218	12,718,520	6,721,800	710,021	(5,314,728)	(11,348,545)	
110	22,753,657	16,880,855	10,999,455	5,106,840	(801,657)	(6,719,868)	(12,648,369)	
120	20,824,918	15,056,886	9,279,566	3,490,367	(2,313,336)	(8,125,971)	(13,948,193)	
130	18,895,280	13,231,468	7,558,524	1,872,730	(3,825,653)	(9,532,593)	(15,248,666)	
140	16,964,473	11,405,185	5,836,101	253,809	(5,338,881)	(10,939,214)	(16,549,933)	
150	15,032,947	9,577,961	4,112,533	(1,365,847)	(6,852,110)	(12,347,082)	(17,851,200)	
160	13,100,152	7,749,354	2,387,683	(2,985,502)	(8,366,316)	(13,755,225)	(19,153,505)	
170	11,166,096	5,919,373	661,412	(4,606,421)	(9,881,139)	(15,163,561)	(20,456,253)	
180	9,230,965	4,088,110	(1,066,220)	(6,227,737)	(11,395,962)	(16,573,266)	(21,759,119)	
190	7,294,606	2,255,420	(2,793,852)	(7,849,250)	(12,912,344)	(17,982,972)	(23,063,386)	
200	5,356,664	421,154	(4,522,487)	(9,472,275)	(14,428,805)	(19,393,566)	(24,367,652)	

Reporting requirements

- RICS Professional Statement (conducting and reporting)
 - The report must include
 - EUV
 - Premium
 - Total BLV
 - AUV – where appropriate; and
 - Market evidence and all supporting considerations, including BLVs from other FVAs. Assumptions and justifications.
 - Sensitivity analyses

Questions?



NEXT EVENT

Friday 29th October

Measured Surveys – IPMS

Presented by Tom Pugh FRICS - **HOLLIS**

Are you a Chartered surveyor and interested in becoming a Member of the 1947 Club? – contact a Committee member or send a message through LinkedIn

www.the1947club.co.uk

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