

28/08/2020

Dear Sir/ Madam

**Response by the Home Builders Federation to the consultation on the refined issues and options consultation**

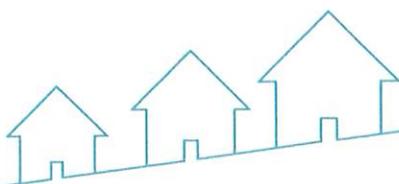
1. Thank you for consulting the Home Builders Federation (HBF) on the refined options for the next Test Valley Local Plan. The HBF is the principal representative body of the housebuilding industry in England and Wales and our representations reflect the views of discussions with our membership of national and multinational corporations through to regional developers and small local housebuilders. Our members account for over 80% of all new housing built in England and Wales in any one year and we hope you find these comments helpful in taking forward your local plan.

**Plan Period**

2. The Council correctly note that the local plan should have at least 15 years from the point at which the plan is adopted. Given the uncertainty over the how long plan take to be prepared and examined we would suggest that the Council plans for a period beyond this minimum in order to ensure it is achieved. As such we would suggest as a minimum the Council plans for at least a 18-year plan period from the point at which the Council fixes its evidence on housing needs using the standard method. The reason for this recommendation is that the standard method effectively creates the starting point in any plan as it uses the current year as the start of the base period for the calculation of the local housing needs assessment. This is set out in paragraph 2a-004 of PPG states that that the first step in calculating need using the standard methodology:

*"Taking the most recent projections, calculate the projected average annual household growth over a 10-year period (this should be 10 consecutive years, with the current year being the first year)."*

3. PPG goes on to state in paragraph 2a-008 that the LHNA can be relied upon for a period of two years from submission. Given that the standard method seeks to wrap up under, or over, delivery from previous years through the affordability adjustment it is not appropriate to include years prior to the base date for the affordability evidence used in the assessment of housing need being undertaken



within the plan period. As such it would be appropriate to start the plan period from the base date of the affordability data used in the LHNA and allow for 2 years for submission, examination and adoption. On this basis an 18-year plan period would ensure that the plan is consistent with the minimum 15-year plan period required by the NPPF and guidance on local housing needs assessments in PPG.

### **Housing Requirement**

4. We would agree with the Council that the application of the standard method results in a local housing need assessment (LHNA) of 550 dpa. However, the NPPF recognises this figure is a minimum and outlines in Planning Practice Guidance that there will be circumstances where local planning authorities may need to plan beyond this minimum. One scenario is where the housing needs of a neighbouring area cannot be met. The consultation document states that at present there is no evidence of any unmet needs in neighbouring local authority areas. The Council will need to ensure that this remains the case. In particular the Council will need to engage closely with Southampton City Council who are currently preparing a new local plan. This local plan will need, on the basis of their current LHNA to increase housing supply above levels of delivery seen in the last ten years. Given that the City's administrative boundary is tightly drawn it may be difficult for it to meet its own needs and it will be necessary for neighbouring authorities such as Test Valley to work with the City Council to ensure their development needs are met.
5. The Council note that the standard methodology is likely to change prior to the publication of future iterations of this plan. The Government's proposals have now been published for consultation and we note that on the basis of the standard method being proposed Test Valley LHNA would increase to just over 800 dpa. It would be prudent for the Council to start considering how it would deliver this higher level of housing need.

### **Housing distribution and Housing Market Areas (Q1 and 2)**

6. When examining the use of housing market areas (HMA) in plan preparation it is important to consider the changed guidance with regard to the assessment of housing needs. The 2012 NPPF introduced HMAs as a means for considering wider cross boundary housing needs as part of the objective assessment of housing need. In the case of Test Valley, it was considered that the Borough fell into two housing market areas with the southern boundary being largely defined by the extent of the Partnership for Urban South Hampshire (now the Partnership for South Hampshire). The 2012 NPPF was clear that the needs of HMA must be met in full and as such required Council's in the same HMA to work together.
7. The 2019 NPPF no longer relies on HMAs for the assessment of housing needs. Unmet need for housing similarly is not based solely on HMAs with Councils being

asked to consider this on the basis of neighbouring areas. In brief the Council can meet its own minimum housing needs anywhere in the Borough as long as that approach is considered to be sustainable, there is no need to base delivery of its own needs on HMAs.

8. The main function of HMAs in the 2019 NPPF is with regard to cross boundary co-operation on strategic matters and the preparation of statements of common ground as set out in paragraph 61-017 and 61-018 of PPG. The HMA is used to ensure that the key issue of housing needs and distribution across boundaries are addressed and met effectively. As such an HMA could indicate that any unmet needs that may arise neighbouring borough, such as Southampton, should be met as close as possible to where those needs arise and in line with commuting and migration patterns. But as outlined earlier it does not need to define how the needs of Test Valley are met.
9. We would, therefore, recommend that the Council does not look to distribute housing on the basis of HMAs but on the basis of the principle of delivering sustainable patterns of development. This would consider evidence on commuting patterns and migration used to identify HMAs but ensures the distribution of development and the spatial strategy is not constrained by using HMAs.
10. Finally, with regard to housing distribution it will be important that the Council ensure that a wide variety of sites, both in terms of location and size, must be allocated. This will ensure that needs can be met consistently over the plan period and avoid a situation where delivery focuses on a small number of larger sites that deliver homes at the end of the plan period. The Council has recognised that the NPPF requires them to ensure that 10% of its housing requirement is delivered on identified sites of less than 1ha. It is important to stress that these must be identified in the plan or brownfield register and not include any element of small site windfall as these by definition are not identified sites.

#### **Settlement Hierarchies (Q4, 5, 6 and 7)**

11. Whilst we recognise that the settlement hierarchy can be a useful tool in considering the which settlements are more sustainable options for development on the basis of existing services. However, what such hierarchies often fail to consider is whether development could either increase services in a settlement or secure existing services to maintain the sustainability of a settlement in the long term. We would suggest that as part of any consideration within the settlement hierarchy is a recognition of those smaller settlements where development could offer opportunities for improving or maintaining services such as shops, schools, and public transport links.

12. Similarly, we would support the proposed approach where groups of rural communities are considered together and that the proximity of smaller villages to services in larger settlements is also a factor in the settlement hierarchy. Focussing solely on services in each settlement would fail to recognise that interaction and symbiotic relationships between communities which in many cases would be strengthened by development rather than adding to any perceived additional pressure on services.

### **Settlement Boundaries (8, 9, 10, 11 and 12)**

13. Logic dictates that any settlement boundary should reflect any recent developments and any development with planning permission. In addition, it will be important that the boundary reflects any allocations made in the new local plan. However, in defining the settlement boundary we would suggest that the Council looks at a looser boundary perhaps defining them on physical features which extend beyond the curtilage of buildings and include any elements of open space associated with that settlement. Such an approach may offer opportunities, especially in smaller settlements, for further development to support smaller developers as well as potentially deliver land to support those wanting to build their own home.
14. If the Council decide to maintain a tighter boundary to settlements, we recommend that a policy is included to provide some flexibility for development on the edge of settlements. One approach to supporting development on the edge of settlements that has been recently been found sound is policy HOU5 in the Ashford Local Plan and is set out below.

*“Proposals for residential development adjoining or close to the existing built up confines of [list settlements] will be acceptable provided that each of the following criteria is met:*

- a) *The scale of development proposed is proportionate in size to the settlement and level, type and quality of day to day service provision currently available, and commensurate with the ability of those services to absorb the level of development in combination with any planned allocations in the Local Plan and committed development in liaison with service providers;*
- b) *The Site is within easy walking distance of basic day to day services in the nearest settlement and/or has access to sustainable methods of transport to access a range of services*
- c) *The development is able to be safely accessed from the local road network and the traffic generated can be accommodated on the local and wider road network without adversely affecting the character of the surrounding area*
- d) *The development is located where it is possible to maximise the use of public transport, cycling and walking to access services*

- e) *Conserves and enhances the natural environment and preserves or enhances any heritage assets in the locality; and*
- f) *The development (and any associated infrastructure) is of a high-quality design and meets the following requirements:*
  - i) *It sits sympathetically within the wider landscape*
  - ii) *It preserves or enhances the setting of the nearest settlement*
  - iii) *It includes an appropriately sized and designed landscape buffer to the open countryside*
  - iv) *It is consistent with the local character and built form, including scale, bulk and the materials used*
  - v) *It does not adversely impact on neighbouring uses or a good standard of amenity for nearby residents*
  - vi) *It would conserve biodiversity interests on the site and/or adjoining area and not adversely affect the integrity of international and nationally protected sites in line with Policy.”*

15. This approach allows the Council to take a more flexible approach that is proportionate to the size and nature of the settlement without compromising the integrity of the Council's spatial strategy and settlement hierarchy. In particular such an approach will better support the Council maintaining the vibrancy and vitality of its rural communities by delivering both market and affordable homes to meet the needs of such areas.

#### **Self and custom build housing (Q13, 14 and 15)**

16. It is important that the Council consider its approach to supporting those who wish to build their own homes. Whilst we acknowledge it is important for local plans to provide support within policy to self and custom build housing, we do not consider that such policies should seek a proportion of large sites to provide plots for such homes. Firstly, PPG is clear that when seeking to meet the demand for self-build plots Council's should engage with landowners to identify suitable sites for self and custom build housing. Requiring all large sites to provide plots takes no account of whether such sites are suitable or and will provide the type of plots required by self-builders nor does it seek to engage landowners in the process. As such we consider blanket policies to be inconsistent with national policy. We would suggest that the more appropriate approach, and one that is consistent with national policy, is for the Council to be proactive in identifying suitable sites, including the Council's own land, that would be suitable for self-build plots and then engage with landowners with regard to their allocation for such development. Importantly such an approach may identify additional sites and as such provide a greater variety of development opportunity rather than just deliver a unit on a larger site in a different way.

17. Secondly the Council will need to ensure that its evidence is robust. Whilst PPG recognises that the Self Build register will be a key piece of evidence in estimating the need for self-build plots it also notes that consideration will need to be given to the robustness of this data and what alternative sources of evidence is available. In addition, the HBF are concerned that such registers are rarely revisited by local authorities and as such may not provide an accurate assessment of the demand for self-build homes. We have noted that when Councils have revisited their registers in order to confirm whether individuals wish to remain on the register, numbers have fallen significantly. This has been the case at both Hart and Runnymede. In Runnymede for example more stringent registration requirements were applied in line with national policy and saw the numbers of interested parties on the register fall from 155 to just 3. These are not isolated cases with similar falls happening in East Cambridgeshire, Fareham and Basingstoke and Deane when modest fees are required to continue to be on the self-build register. This suggests that the majority of those that sign up to the registers in reality lack the commitment, time, and finances to take on a self-build project.
18. Finally, if the Council do include a requirement for self-build plots on some sites it is important that it includes a clause as to when such plots will be returned to the developer should they remain unsold. We would suggest that should plots allocated for self and custom build housing remain unsold after six months marketing they should be returned to the developer to be built as market housing.

#### **Viability in plan making**

19. The viability assessment is still to be published and without this evidence it is not possible to comment on whether the Council's policy requirements, such as those for affordable housing, are viable and the plan as whole is deliverable. The 2019 National Planning Policy Framework (NPPF) requires development viability to be resolved through the local plan and not at the planning application stage. The aim of this approach is to ensure that, as outlined in paragraph 57 of the NPPF, decision makers can assume that development which is in conformity with the local plan is viable and to, ultimately, reduce the amount of site by site negotiation that takes place.
20. As such it will be important that the Council's approach to its viability assessment and the costs it places on development are cautious to take account of the variability in delivering the range of sites that will come forward through the local plan. To support local planning authorities in preparing their viability evidence the HBF has prepared a briefing note, attached to this response, which sets out some common concerns with viability testing of local plans under the latest guidance and how these should be addressed. We trust this note will be of help in defining preparing the viability assessment and please contact us if you have any questions regarding our concerns on this matter.

## Conclusion

21. We hope these representations are of assistance in taking the plan forward. Should you require any further clarification on the issues raised in this representation please contact me.



## PART 1: WHAT IS VIABILITY APPRAISAL?

### INTRODUCTION

Housing land supply is critical to the Government's housing delivery objectives. A vital part of deliverability is that the development of land must be viable. The Government's approach to viability is clearly set out in the National Planning Policy Guidance (NPPG). It states how viability is critical to the soundness of local plans, the setting of CIL and the delivery of sites for housing. It is important that emerging practice is transparent and simple and that as much as possible of the new methodology can be agreed between all parties involved in housing delivery.

All stakeholders in the planning process are at the start of the journey of understanding and implementing the new approach. The aim of this guidance is a contribution to the emerging practice – putting forward the industry issues that must be addressed in order to ensure that local plans are deliverable and sites come forward for development. Without a robust approach to viability assessment land will be withheld from the market and housing delivery will be threatened, leading to unsound plans and delivery targets not being met.

Throughout this report references are made to "Viability Testing in Local Plans - Advice for planning practitioners". (LGA/HBF - Sir John Harman) June 2012 as "The Harman Report" and the RICS report "Financial Viability in Planning", 2012 as "The RICS Guidance".

### WHAT ARE IMPLICATIONS OF THE NEW VIABILITY GUIDANCE?

Viability is now a key issue for local plans and their test for soundness. It is acknowledged that land value must reflect policy requirements, but such requirements must be able to demonstrate that proposed sites in the plan are viable and that policy requirements will not prevent land from being brought to the market by landowners.

With simplification and standardisation at the heart of the new process it is accepted that a typology approach is necessary for plan-wide assessment, However, for specific sites on which the local plan relies to ensure delivery targets are met a more detailed, site specific assessment will usually be required.

Under the new guidance it is necessary to assess at what level of land value landowners will continue to be willing to sell land in the market. This benchmark land value (BLV) must be realistic in terms of existing use value of the land and a reasonable landowner's premium. This is known as EUV+ (existing use value plus a landowner's premium).

All policy requirements (including all development management policy requirements) must be included in the viability assessment. It is also vital that, as recommended in the Harman Report, a reasonable buffer is included within the assessment. Calculations cannot be at the margins of viability, without any buffer, as to do so will threaten the delivery of sites where assumptions change over the life of the plan.

In order to best reflect the policy requirements of local authorities, the risk profile of developers and the land value requirements of landowners, partnership working is essential in order to maximise the chance of delivery matching requirements of the local plan.



## WHAT IS THE LOCAL CONTEXT?

Local context is an assessment of:

- Current and emerging local needs and demands
- Local plan strategy and delivery priorities and intentions
- Spatial characteristics of the local area
- Market and affordability characteristics of the local area
- Current and historic delivery rates
- The policy circumstances under which previous consents that led to delivery were granted.

## WHAT ARE THE KEY STAGES OF A LOCAL PLAN VIABILITY ASSESSMENT?

Local plan viability assessment should:

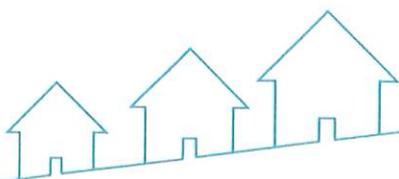
- Follow the guidance in the NPPG
- Facilitate early engagement between all stakeholders, including developers
- Seek to assist understanding by simplifying and standardising inputs
- Address each stage of NPPG's residual appraisal approach in sequence
- Identify reoccurring issues experienced across the country and formulate these into simple questions to be addressed if the process is to be robust
- Finally assess resultant BLV and the issues that must be balanced to ensure the Plan can be found sound, the necessary land supply identified and delivery of dwellings secured

## HOW WILL ADDRESSING THESE ISSUES EARLY AND IN PARTNERSHIP LEAD TO BETTER PLANNING?

If the Plan lead system with viability and deliverability at its heart is to work, we need all interested parties to work together, in partnership. The NPPG strongly encourages such an approach in order to strike the right balance between the aspirations of developers / landowners and the aims of the planning system. Failure to work collaboratively risks failing to delivery housing needs and aspirations and failing to significantly boost housing supply.

Advantages of partnership working are to increase understanding, reduce plan making time, improve transparency, provide communities with certainty and, ultimately, deliver better local plans of which we can all be confident that allocated sites will be delivered where, when and how they are expected to be delivered.

Joint working will provide a clear benchmark for development management decision making and will ensure that any consideration of post plan adoption policy formulation (SPD's etc) are unlikely to give rise to further burden that makes development unviable.



## **PART 2: A STEP BY STEP APPROACH TO VIABILITY APPRAISAL**

### **a) Sales / Revenue**

Viability appraisal should be specific to the local planning authority area and fully evidenced from local examples. Evidence should be drawn from actual prices achieved in sales, derived from the best possible comparable sources. Such comparables must be fully critiqued (new build and second-hand market) / adjusted as necessary so that they can be relied upon to provide a robust position for future sales. Care must be taken to reflect the strong likelihood that within each LPA area there may be geographic variations in value which must be fully understood and applied to both site specific and typology viability work.

Market strength and anticipated sales rate are fundamental components dictating cash flow. Care should also be taken in determining the correct market mix for an area / based on SHMA / local market evidence / settlement & site characteristics.

Affordable housing revenue must also be fully justified against comparable transactions with registered providers and the correct % reductions from OMV must be applied for all types of subsidised/affordable housing (including private sector solutions such as shared ownership and discounted market sale).

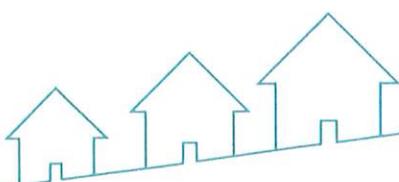
#### **Common concerns:**

- Sales evidence used is based upon Net Sales Area instead of Gross Internal Area which significantly inflates the price per square foot thus distorting viability work
- The use of headline advertised "For Sale" prices. These prices are usually the aspirational prices for a homebuilder and do not reflect the final price achieved in negotiation with the purchaser which ordinarily involve discounts to secure the purchase.
- Actual sold prices from Land Registry/Hometrack – These prices omit incentives such as extra internal features / carpets / part exchange costs / developer deposits etc.
- Internal areas obtained from Energy Performance Certificates are used in revenue / coverage calculations. However, these generally do not represent actual Gross Internal Area as the calculation methodology is different.

### **b) Coverage**

Coverage assumptions (the quantum of sales coverage per net developable acre (NDA) must be contextual and reflective of the type and form of development envisaged and the context within which it is to be placed. It should be calculated on the basis of coverage per NDA and all parties should agree over what type of floorspace is included or excluded.

It needs to be reflective of all development management policies that will be in play which will affect the eventual scheme coverage (eg: scale, massing, amenity distances, space standards, accessibility standards, site topography, car parking levels, drainage, landscaping, biodiversity net gain etc.)



## Common concerns

- Each site is different and may have major constraints to site coverage within its boundaries, dependent upon its size and scale
- A failure to understand mix and type of homes that achieve very different quantum of coverage per NDA.
- For plan making, reasonable assumptions should be based on the expected nature of the scheme, the local housing need / demand objectives, site context and how the application of development management policies has previously affected coverage.

## c) Net Developable Area (NDA)

It is inappropriate to apply generic gross to net rates across entire regions. Discussion should be had in typology work based upon the nature and characteristics of the sites proposed to be allocated in a plan with comparable schemes examined to ensure % gross to net rates are robust. NDA should always be contextual and informed by policy requirements – including open space / sustainable drainage requirements / environmental requirements such as biodiversity net gain and suitable alternative natural green space (SANGS), etc.

## Common concerns

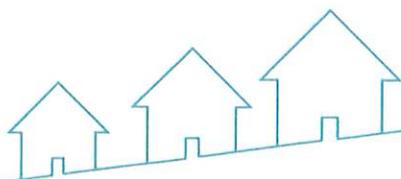
- That the approach taken is over simplistic and leads to inaccurate assumptions that are then multiplied across a plan area
- All stakeholders promoting sites should be able to fully engage with the process to ensure that assumptions are realistic and achievable.

## d) Costs

Assessment of costs should be based on evidence which is reflective of local market conditions. Costs should seek to be drawn from appropriate published and recognised data sources. All parties involved in site promotion should assist in ensuring all matters are taken into account. A partnership approach must ensure that all costs are accounted for and can be explained transparently and inputted into the viability assessment in a manner that all stakeholders can readily understand.

## Unit Build Cost (UBC)

The appropriate data should come from the Building Cost Information Service (BCIS). However, it is important to understand what these published costs actually include and exclude. Careful consideration must be given to the type



and scale of sites, type of developers, contextual matters that impact upon design and all DM applicable policies. Recognition should be given to regional variation and that build cost inflation will be a key factor in forward planning such that median figures should be only the starting point from which site-specific assessment can be applied.

New build housing is, by its nature, high specification (internal fit out / kitchens / bathrooms / heating) and this is reflected in BCIS which reflects Building Regulations at a particular point in time. Design or specification enhancements above this level fall within abnormal costs (see below). Care should be taken to use the most up to date and correct BCIS categories.

### Common concerns

- There is often a lack of understanding about what is included in standard measures of costs. The BCIS cost is only the cost of the house itself and is based upon a flat site with standard foundations.
- BCIS does not account for plot works (drives / paths / fencing / walls / gardens & plot landscaping / connections / detached garages) nor any costs associated with more complex ground / gradient conditions
- Although BCIS does include standard site management / overhead costs this is only to the extent of the items it measures, not full costs.
- BCIS does not account for any site externals or their overhead sums which are explained below.

### External costs

These are the base costs usually experienced on a simple, flat, unconstrained, clean site ready for building. It includes standard plot works (again based upon a standard site) covering estate roads and footpaths, sewers, drainage connections, utility provisions and connections, mains connections, street lighting, signage to adoptable standards – all based upon simple connections to existing systems / shallow excavations etc.

### Common concerns

- The costs associated with plot and site construction are commonly missed altogether or incorrectly included as part of the unit cost
- The general overheads of a development company are often completely ignored
- There is a difference between a standard cost and an extra over cost as a result of site-specific conditions – both must be accounted for but usually in different places (see abnormalities below)
- Any % of unit cost calculation to allow for externals must be very carefully considered in the context of all of the above with comparables used as evidence – if a % range is to be used it must be agreed with local developers and based upon real examples



## Abnormal Infrastructure costs

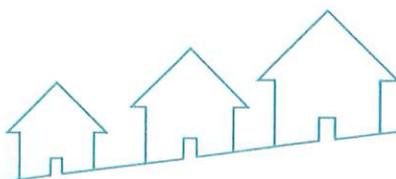
All of the above costs effectively deal with the costs associated with the base construction costs of the houses themselves (Unit build cost) alongside the standard external costs (External costs). Abnormal infrastructure costs are all those costs over and above the standard costs outlined above that are required in order to deal with site specific conditions and meeting all planning and technical requirements.

For example, in relation to external costs detailed above, in addition to the standard cost will be all costs specific to the scheme such as ground conditions / levels and topography / upgrading of utilities if insufficient capacity / drainage / contamination / additional specification required by design or development management policy requirements etc.

There are a huge range of abnormal infrastructure costs that need to be accounted for over and above standard external costs which need to be taken fully into account on a site-specific basis. Any attempt to apply standard rates whilst undertaking plan wide typology viability work should be treated with caution.

The following bullet points give some examples to assist understanding and are not to be treated as exhaustive:

- For larger development sites due recognition needs to be made of the additional cost of, for example, spine roads etc. required to service individual development parcels in addition to the estate roads which will form part of the standard costs
- Ground and enabling works – cut and fill costs associated with topographically challenging sites to allow building plateaus / effective road gradients / capping layers associated with gas / grouting / mine shafts / ground stabilisation / demolition and clearance works / remediation of contamination / subsoil conditions / dealing with groundwater / archaeological investigations / temporary haul routes etc
- On and off-site highway works – extra over road widths for bus routes / cycle route provision / single sided roads / improvements to offsite roundabouts / junctions necessary to mitigate impact / enhanced public realm works / large areas of garage courts etc
- Surface and foul water drainage – attenuation on site via SUDS / tanking / oversized pipes / permeable paving / off site sewage work upgrading / diversions etc
- Utilities – off-site upgrading / need for sub stations / primary sub-station / diversions etc
- Foundations and underbuild – costs associated with pile / raft / extra deep foundations / extra build costs dealing with levels / land retention to unit and plot build
- Ecology and landscape – laying out and maintaining new open space, habitat, screening & bunding associated with the development
- Elevational and sustainability enhancements – in order to address local design requirements / contextual features / local materials / sustainability requirements over and above Building regulations / noise attenuation with increased insulation and window specification etc.



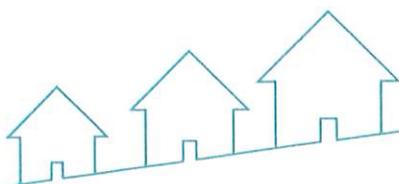
## Common concerns

- Issues associated with effective site development are often hidden within the need to comply with other planning and/or technical requirements and are, therefore, missed or not fully understood. Commonly, only the most visible ones such as sustainable drainage or a need for a link road are picked up regularly.
- Provision needs to be made to deal with situations that may be unclear at the early stages of planning but become hugely important as sites progress
- Understanding as many of these issues early is key but to ignore them is folly – this is a key area for plan makers and developers working in partnership
- Caution is needed and plan assumptions must not be on the margins of viability. A clear buffer must be included within all viability assessments.

## Policy Requirements

Policy Requirements in their widest sense also cover a number of the issues identified in the abnormalities section above. However, to keep matters simple we have sought to split out the physical / technical matters (in abnormalities above which normally come from condition discharge / meeting technical standards) from the monetary / land use items which we aim to pick up here.

- S106 contributions – all costs associated with mitigation payments needed in order to make the development acceptable in planning terms – education / health / sports / art / public transport / police / SANGS / training / ongoing management etc + any associated indexation / fees
- S106 works – all costs associated with works / items required – play areas / allotments / community building / sports pitch / school or school expansion / landscape improvement / local tariffs for net biodiversity gain / SANGS etc
- CIL – all payments required as a result of existing or proposed CIL whilst ensuring that no double counting occurs with S106 items + any associated indexation / fees
- Mix Policy – the effect that specialist housing provision may have on land value that is not covered by affordable costs allowed for in revenue or coverage – requirements for private rented, self-build, extra care, sheltered housing
- Non-residential uses – costs associated with servicing / marketing / construction of local centres etc
- Land / Third Party costs – these are interlinked with contractual matters yet they are regularly occurring issues - eg ensuring clean title / JR & covenant insurance / vacant possession from tenant farmers / mines and minerals payments / ransoms such as Railtrack Shared Value Policy



## Common concerns

- Obvious S106 contributions are very visible. However it is important to also include those matters where it is harder to quantify the cost.
- CIL is particularly difficult to deal with if it is considered after the local plan viability stage. New guidance suggests that CIL should be considered as an integral part of local plan viability assessment. If this is not done it will reopen the widespread use of application level viability assessment (contrary to NPPF ) as schemes considered viable at a policy compliant level will no longer be so.

## Contingency

All development schemes require a degree of contingency planning built into the viability to cover a wide range of matters. Issues as mundane as bad weather to more complex political policy issues such as quality control/snagging and government proposals for improved customer satisfaction. Due to their uncertainty, these costs are best dealt with as a % of total build costs including fees (Unit, External and Abnormals) with the % being dependent upon the complexity of the scheme and scale of site abnormals to contend with. The actual % should reflect the opinion of independent QS companies and be backed by clear evidence.

## Agent Fee costs

All development transactions usually require agents acting on behalf of the parties and an allowance needs to be made for this in overall viability work. Usually this cost is around 1-2% of land value (Harman Review) but local evidence should be obtained including from the Public Sector Estate Departments.

## Legal Fees costs

All development transactions require legal representation in order to ensure each party is protected and understands their respective contractual commitments. Again, a standard assumption of 0.75-1.5% of land value (Harman Review) is generally sufficient unless there is robust local evidence to the contrary (although this can be much higher should the land purchase involve multiple landowners).

## Marketing Costs (sales)

Housing development is sales driven without which a house builder will not receive the revenue essential for continued investment and build. Advertising and marketing is crucial to this process and allowances must be made for this in viability. This is generally assumed to be 3-5% of the value of the development depending on strength / quality of the market (Harman Review) unless there is robust local evidence to the contrary.

## Professional Fees

The development process requires huge input from a wide variety of disciplines from design and engineering to ecologists and archaeologists The process is complex and requires expert opinion and guidance throughout. This must



be accounted for in viability work with the level dependent upon the complexity of the site, in particular, the extent of abnormal costs.

An allowance of 8% to 10% of all costs and up to 20% for complex sites (Harman Review) should be made unless there is robust local evidence to the contrary.

For larger development sites a range of professional fees associated with the servicing of the land need to be specifically considered – these will be in addition to the fee allowance based off Build Costs.

Discounting should not be applied for larger development companies simply because they have internal resources as this is still an identifiable cost that is not included within the general company overhead. It therefore needs to be accounted for within the viability assessment.

## General Finance Costs

The development of land requires significant financial investment on behalf of the developer. This requires finance to be raised at the prevailing market rate, reflective of the risk profile considered appropriate by the particular lending institution. This needs to be allowed for in all viability assessment.

The HCA currently uses a range of 5-7%. The HBF recommends 6.5% to 7% across the whole housebuilding sector. However, this is an annual finance rate and a cashflow will need to be produced. Quantity surveyors vary in their preference for applying this to a 'funds' or a 'cash' position. Industry preference is to use 'funds'. However, should 'cash' be used a 'credit rate' should not be used once the scheme goes 'cash positive'.

### e) Profit

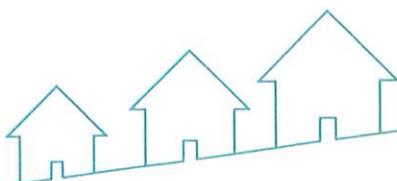
A fair and reasonable profit for developers reflective of the particular risk profile of the specific scheme must be secured if viability is to be established. As part of this, an acceptable cash flow (return on capital employed – ROCE) must also be secured which is key to scheme delivery. The Harman review suggested a minimum ROCE of 25% but made it clear that this would depend on site specific risk.

Developers should be incentivised to build and the degree of risk they must take to facilitate this should be reflected in the margin received / planned for as well as ROCE. The NPPG clearly outlines what it considers a reasonable assumption for plan making as 15 – 20% of GDV but stresses that alternative figures can be used dependent upon risk profile.

The RICS Guidance states that not only should the direct risks within the scheme be considered but also the broader market risks such as the strength of the local market. The risk profile of a scheme will be affected by the timing of the delivery, the complexity of the scheme and the cashflow for specific projects, particularly where significant upfront investment is necessary to facilitate development.

Thus, it is unlikely that adoption of a single standard plan wide benchmark would be appropriate as it is unlikely to reflect an appropriate risk profile for specific projects. The NPPG also indicates that where affordable housing guarantees an end sale a reduced level of profit may be justified as risk is significantly reduced.

Achieving an acceptable profit is an essential part of effective scheme delivery – if it is eroded too far this will act as a deterrent to investment or result in no investment at all.



## f) Benchmark Land Value (BLV)

Fundamentally, the application of the step by step approach above arrives at a residual value which is the amount of money left over to purchase the site at a level that ensures policy compliance – this is a key objective of the new NPPG approach.

That value is to be based upon EUV+ whereby the combination of EUV and premium provide a reasonable incentive for a reasonable landowner to bring forward land for development. NPPG states that this will be arrived at via an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. This should assess market evidence, reflect the cost of policy compliance, take account of all site / market specifics and importantly reflect the reasonable expectations of landowners. Alternative use value may also be informative in establishing BLV.

As recognised in the RICS Guidance, achieving a suitable BLV requires a balanced judgement to be made. If that balance is not correct it could lead to a disincentive for owners to bring land to the market. This would seriously undermine the delivery agenda with the aim of significantly boosting supply which requires the widest range and choice of sites possible to maximise market absorption. It is illogical and counterproductive to effective plan making / boosting housing supply to seek to plan at the margins of viability and thus jeopardise site delivery and plan soundness.

Achieving an acceptable land value cannot, therefore, be a one-sided debate and is the key area that all must come together on as early in the process as possible utilising an effective format with senior representation on all sides with the necessary expertise and evidence to back up key viability judgements / assumptions.

### Common concerns

- The circumstances of each and every owner is different – some need to sell, some don't / some have a requirement to reinvest, some don't / some can act independently, some cannot. These are all important matters that help to establish reasonable incentive to sell.
- Land is a hugely important / unique commodity and as such it cannot be treated in the same way as most other commodities. It involves legacy issues / personal attachment issues / local community issues / inheritance issues / lifespan issues in an ever changing world. All of these matters are also important in establishing what is a reasonable incentive to sell.
- Taxation must also be factored in – inheritance tax planning / corporation tax / Capital Gains Tax must be taken into account when determining reasonable incentive. There is a probable 20% impact from CGT on all land transactions.
- Fundamentally, there is little understanding of landowner considerations within the planning process yet without it the plan led system and housing delivery will be undermined.



## **PART 3: CONCLUSION AND USE OF THIS GUIDANCE**

### CONCLUSION

The aim of this guidance is to set out a clear interpretation of the NPPG. It encourages early collaboration between all interested parties in order to understand the components of Plan viability. Consistency is the key, as is the need to ensure legitimate costs are fully accounted for in a transparent manner that all stakeholders can understand. It provides a platform for establishing a Plan led evidence base and where there is disagreement, a format that an EIP can use to focus debate and discussion having agreed as much as possible via Statements of Common Ground.

Dealing with this vital issue via an industry wide, HBF methodology, allows for this consistency and continuity with all stakeholders. We hope that it will assist in reducing delays to the plan making process and make the best use of resources in both plan making and again at EIP.

The principles adopted herein are equally applicable to plan-wide or site-specific viability assessment. With more strategic sites this work should also be accompanied by cashflow information to ensure all key projects are deliverable.

### RECOMMENDED USE OF THIS GUIDANCE

- To act as a starting point for Plan led viability and stakeholder involvement.
- To help ensure that the methodological approach of all parties is consistent and straightforward.
- To ensure that LPA expert appointments are instructed to work on this consistent basis
- To provide a basis of narrowing differences down early in the process to assist more informed decision making and more robust plan formulation.
- To act as a checklist / platform for Plan examination at EIP that is transparent / understandable to all, thus allowing focused debate and speedier / better decision making.



