RICS PROFESSIONAL STANDARD

Assessing viability in planning under the National Planning Policy Framework 2019 for England

England

1st edition, March 2021

Effective from July 2021

RICS®

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Foreword

Following concerns over the way viability assessment practice was developing, particularly after the High Court decision on Parkhurst Road (*Parkhurst Road Ltd v Secretary of State for Communities and Local Government & Anor* [2018] EWHC 991 (Admin) 27 April 2018), MHCLG revised the National Planning Policy Framework (NPPF) in July 2018 and updated the national Planning Practice Guidance (PPG). Subsequently the NPPF was revised again in 2019, albeit not in respect of viability. Further amendments continue to be made to the PPG.

Previously in financial viability assessments, the prices paid for land in the market were sometimes used as a justification by developers for being unable to deliver planning policy requirements, introducing an element of circularity within the process. Higher land prices reduce developer contributions and reduced developer contribution expectations can fuel higher land prices. The PPG now makes explicit that this should not occur under the new approach. Market valuations of land will need to take account of this stronger expression of policy requirements.

The government's approach shifts the focus of viability assessment to plan making. The purpose of viability assessment in the plan-making stage is to test, on an area-wide basis, whether the planning policies in a plan are realistic, and that the total cost of the policies will not undermine the deliverability of the plan. This is necessarily at a more strategic level, and the PPG indicates that testing should be proportionate – for instance, not all sites need to be assessed for viability in plan making, assurance is not required that all sites are viable, and site typologies can be used. Estimates across site typologies are inherently broader, and a balance needs to be struck: the viability assessment should be sufficiently detailed to provide a fair assessment but not so detailed that it makes the plan-making process overly complicated or expensive.

Where planning applications comply with the up-to-date policies set out in the plan, further FVAs are not necessary. An applicant can still choose to submit a viability assessment at the planning application stage, but they will need to be able to demonstrate good reasons to justify this. The decision maker will decide what weight to give their viability assessment, having regard to the plan policies, whether the evidence underpinning them is up to date and whether there have been changes in site circumstances since the plan was brought into force. As such, where up-to-date planning policies are in place, there is a higher bar to justify the viability assessment. The PPG is clear that the price paid for land is not a justification for failing to accord with plan policies.

The government's intention in changing national planning policy and practice in this area is to more firmly integrate the delivery of planning policy into the operation of the market. Planning policy benefits the market in many ways. It results in sustainable development that meets the needs of the population and ensures that places function well and prosperously; the market equally benefits from these outcomes. An assessment of viability for planning

purposes is distinct and separate from a market valuation for secured lending or company accounts purposes in accordance with the current edition of RICS Valuation – Global Standards. The figures produced in a viability appraisal for planning purposes are to assist in the delivery of local planning policy in accordance with the NPPF and PPG.

In August 2020, the government published a White Paper, *Planning for the Future*. This sets out proposals to further reform the system of developer contributions, replacing s.106 planning obligations and the Community Infrastructure Levy (CIL) with a new Infrastructure Levy. While this new approach is in development, the current system of developer contributions continues to apply.

The current edition of RICS' Financial viability in planning: conduct and reporting is mandatory for all RICS members carrying out financial viability assessments. The present document supplements and gives added guidance to RICS members and other stakeholders in the planning process on undertaking and understanding financial viability assessments (FVAs) in both a plan-making and decision-taking context. This professional standard is based on the NPPF and PPG as at the date of publication. It is up to all users to check any subsequent updates of either document.

RICS standards framework

RICS' standards setting is governed and overseen by the Standards and Regulation Board (SRB). The SRB's aims are to operate in the public interest, and to develop the technical and ethical competence of the profession and its ability to deliver ethical practice to high standards globally.

The RICS Rules of Conduct set high-level professional requirements for the global chartered surveying profession. These are supported by more detailed standards and information relating to professional conduct and technical competency.

The SRB focuses on the conduct and competence of RICS members, to set standards that are proportionate, in the public interest and based on risk. Its approach is to foster a supportive atmosphere that encourages a strong, diverse, inclusive, effective and sustainable surveying profession.

As well as developing its own standards, RICS works collaboratively with other bodies at a national and international level to develop documents relevant to professional practice, such as cross-sector guidance, codes and standards. The application of these collaborative documents by RICS members will be defined either within the document itself or in associated RICS-published documents.

Document definitions

Document type	Definition
RICS professional standards	**Set requirements or expectations for RICS members and regulated firms about how they provide services or the outcomes of their actions.** RICS professional standards are principles-based and focused on outcomes and good practice. Any requirements included set a baseline expectation for competent delivery or ethical behaviour. They include practices and behaviours intended to protect clients and other stakeholders, as well as ensuring their reasonable expectations of ethics, integrity, technical competence and diligence are met. Members must comply with an RICS professional standard. They may include: • mandatory requirements, which use the word 'must' and must be complied with, and/or • recommended best practice, which uses the word 'should'. It is recognised that there may be acceptable alternatives to best practice that achieve the same or a better outcome. In regulatory or disciplinary proceedings, RICS will take into account relevant professional standards when deciding whether an RICS member or regulated firm acted appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS professional standards into account.
RICS practice information	**Information to support the practice, knowledge and performance of RICS members and regulated firms, and the demand for professional services.** Practice information includes definitions, processes, toolkits, checklists, insights, research and technical information or advice. It also includes documents that aim to provide common benchmarks or approaches across a sector to help build efficient and consistent practice. This information is not mandatory and does not set requirements for RICS members or make explicit recommendations.

Glossary

This glossary uses definitions from the glossaries of the National Planning Policy Framework and RICS standards and information current at the date of publication. These documents may be updated from time to time and the definitions may change.

This glossary defines terms that are used primarily in viability testing or that have a precise meaning in a viability context. A supplementary glossary appears at the end of this professional standard, which defines terms in more general use.

Term	Definition
Abnormal costs	Costs that are associated with abnormal site conditions such as contamination, flood risk, substructure, listed buildings, etc.
Affordable housing	Housing, for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers), and which complies with one or more of the definitions set out in the NPPF glossary relating to either affordable housing for rent, starter homes, discounted market sales housing or any other affordable route to home ownership.
Alternative use value (AUV)	PPG paragraph 017 defines this as 'the value of land for uses other than its existing use'. The alternative use is limited to those uses that would fully comply with up-to-date development plan policies, including for example any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped, this will be considered as an AUV when establishing the benchmark land value (BLV).
Area-wide assessment	See *Viability in plan making.*
Assessor	The surveyor or other 'suitably qualified practitioner' instructed to undertake the financial viability assessment (FVA; PPG paragraph 020).

Term	Definition
Benchmark land value (BLV)	The value to be established on the basis of the existing use value (EUV) plus a premium for the landowner (PPG, paragraph 013) or the alternative use value (AUV) in which the premium is already included. PPG paragraph 014 is clear that there 'may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.'
Comparable transaction evidence/ comparable evidence	A transaction used in the valuation process as evidence to support the valuation of another property (current edition of RICS' Valuation of development property). Land transaction evidence must be compliant with or adjusted for plan policy requirements.
Construction cost	All costs of base construction and construction breakdown, from project start to the practical completion of the construction process. PPG paragraph 012 refers to build costs and also to appropriate data sources for those costs.
Cost projection or change	Projections of the amount of growth or decline in the costs of development as part of a cash flow approach to an FVA (see Chapter 4).
Date of valuation	The date of valuation in a decision-taking context is the date upon which the planning authority or the Secretary of State resolves to grant or refuse a planning application. In plan making, the date of valuation is the date of the adoption of the local plan following its testing by an independent examination inspector.
Decision-taker	The local planning authority (LPA), planning inspector or any other body required to make decisions based on the evidence and reports of the assessor(s). The PPG also refers to the 'decision-maker'.
Deliverable	To be considered deliverable, sites for housing should be available now, offer a suitable location for development now and be achievable with a realistic prospect that housing will be delivered on the site within five years (see NPPF glossary for expanded definition).
Development appraisal	A financial appraisal of a development. It is normally used to calculate either the residual site value or the residual development profit, but it can be used to analyse or determine other outputs (current edition of RICS' Valuation of development property). In FVAs for planning purposes, the primary role is to determine residual land value in accordance with the process set out in Chapter 5.

Term	Definition
Development contributions	Contributions expected from development set out in local plans, often tied to the grant of development permissions and often secured through s.106 planning obligations (under s.106 of the *Town and Country Planning Act* 1990). Contributions may include the provision of affordable housing, education, health, transport, flood and water management, and green and digital infrastructure, including site-specific mitigation. Transport infrastructure can be secured through s.278 agreements, under s.278 of the *Highways Act* 1980 (see *Planning obligation*).
Development contributions (continued)	Contributions can also be secured through the Community Infrastructure Levy (CIL) in areas where this has been introduced by the charging authority.
Development cost	The total cost of undertaking a development, excluding developer profit and the cost of the land. See Chapter 5 for the application of land value in an FVA.
Development/ developer profit/return	The amount by which, on completion, the estimated income of a development exceeds the total outlay. This can be expressed in various forms (based on the current edition of RICS' Valuation of development property). For the purpose of plan making, the PPG states that 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 the planned development. A lower figure may be more appropriate for delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. See also *Discount rate*, *Internal rate of return (IRR)*, *Net present value (NPV)*, *Return on cost/value*, *Risk-adjusted return* and *Target return/profit* for definitions of the different types of profit metric.

Term	Definition
Development plan	The development plan is defined in s.38 of the *Planning and Compulsory Purchase Act* 2004 and includes adopted local development documents as prescribed by s.17 of the *Planning and Compulsory Purchase Act* 2004, which contain the development planning policies for an area. These are commonly called a local plan, but can consist of other development plan documents prepared by LPAs such as core strategies, site allocation plans, development management policy documents, minerals and waste plans, etc. (see *Local plan*). In addition to this, in London, the London Plan is part of the development plan that sets out strategic policies. Neighbourhood plans introduced under the *Localism Act* 2011, when duly made, are also part of the development plan for that neighbourhood area. Where there is a conflict between development plan documents, it is the last document to be adopted/approved that has precedence (s.38(5) *Planning and Compulsory Purchase Act* 2004). In dealing with planning applications, LPAs are under a statutory duty to determine an application in accordance with the development plan, unless material considerations indicate otherwise (s.38(6) *Planning and Compulsory Purchase Act* 2004). The development plan does not include supplementary planning documents or supplementary planning guidance.
Development risk	The risk associated with carrying out, implementing and completing a development, including site assembly, planning, construction, post-construction letting and sales (current edition of RICS' Valuation of development property). The return for the risk is included in the developer return and the PPG makes it clear that it is the developer's job to mitigate this risk, not plan makers and decision takers.
Emerging policies/plan policies	Policies in emerging plans that are going through the statutory procedure.
Existing use value (EUV)	EUV is the value of land in its existing use, with no expectation of that use changing in the foreseeable future (based on the current edition of RICS' Valuation of development property). PPG paragraph 015 advises specifically that the EUV excludes hope value from any assessment of the existing use value. *International Valuation Standards* 104 paragraph 150.1 defines current/existing use as 'the current way an asset, liability, or group of assets and/or liabilities is used'.

Term	Definition
Financial viability assessment (FVA)/viability assessment	The assessment of viability (see *Viability in plan making* and *Viability in decision taking*), sometimes referred to as a development or economic viability assessment. The PPG refers to it as a viability assessment, while RICS professional standards refer to it as a financial viability assessment. It is a report assessing the financial viability of a development or development typology. Any viability assessment should follow the government's recommended approach to assessing viability, as set out in PPG paragraph 010. For consistency in all RICS guidance, a viability assessment will be referred to as a financial viability assessment (FVA) throughout this document.
Gross development value (GDV)	The aggregate market value of the proposed development, assessed on the special assumption that the development is complete on the date of valuation in the market conditions prevailing on that date. Where an income capitalisation approach is used to estimate the value of the completed development, the prospective purchaser's costs are explicitly deducted to determine the market value, which in turn identifies the expected total contract value. In these circumstances, GDV should include a deduction for anticipated purchaser's costs only. The seller's costs are deducted to obtain the net development value (based on the current edition of RICS' Valuation of development property).
Gross development value (GDV) (continued)	Section 6.3 and Appendix B of the current edition of RICS' Valuation of development property make it clear that the timing of the GDV and projections in value are such that the date of valuation and market conditions referred to above can be assumed as at the date of their occurrence.
Hope value	An element of market value in excess of the existing use value (EUV), reflecting the prospect of some more valuable future use (current edition RICS' of Valuation of development property).
Infrastructure	Infrastructure can be secured through s.106 obligations and the Community Infrastructure Levy (CIL). Infrastructure funded through the CIL includes roads and other transport facilities, flood defences, schools and other educational facilities, medical facilities, sporting and recreational facilities, and open spaces as defined in s.216(2) of the *Planning Act* 2008.

Term	Definition
Minimum return	The amount of the premium above the EUV that it is considered a reasonable landowner would be willing to accept for their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements (PPG paragraph 013).
Planning obligation	A legal obligation entered into under s.106 of the *Town and Country Planning Act* 1990 to mitigate the impacts of a development proposal (NPPF). See also *Developer contributions* for more detail of planning obligations.
Planning purposes	A financial viability assessment for 'planning purposes' means an assessment carried out for the purposes described in the NPPF and PPG on viability in statutory planning. All measures of value in the assessment are for that purpose and guided by the authoritative requirement of the PPG, which takes precedence over any other RICS professional standards.
Plan policy-compliant	Policy-compliant means a development that fully complies with up-to-date plan policies (PPG paragraph 002). Developments that have policy requirements reduced because of viability are not plan policy-compliant.
Premium	The premium should reflect the minimum return at which a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with plan policy requirements (PPG paragraphs 013 and 016).
Return on cost/ value	The ratio of profit to either the costs of the development or the value of the completed development. PPG paragraph 018 identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making. The PPG acknowledges other alternative returns according to the type, scales and risk profile of planned development. Affordable housing provision often attracts lower risk and lower returns (see also *Development/developer profit/return*).
Scheme typology	Represents the type of development likely to come forward as part of the plan. Scheme typologies relate to development schemes with similar characteristics, such as proposed use, location, scale and value.

Term	Definition
Site-specific assessment	Relating to the viability assessment of a single development site or project.
Site typology	Relating to sites with similar characteristics, such as existing or proposed land use, location, scale, brownfield or greenfield.
Standardised inputs	'Standardised inputs' in PPG paragraph 020 means appropriate inputs to underpin valuations, and that the normal hierarchy of evidence quality for those inputs can apply (for example, the current edition of RICS' Comparable evidence in real estate valuation sets out primary, secondary and tertiary data sources). These should all be clearly set out. Standardised inputs are not specifically defined in the PPG, but it does set out the evidence and approach to FVA inputs and evidence in paragraphs 010 to 019.
Value change or projection	Projections of the amount of growth or decline in the capital or rental value of the project as part of a cash flow approach to an FVA (see Chapter 4).
Viability in plan making	The process of assessing viability at the plan-making stage by looking at whether the value generated by a development is more than the cost of developing it (PPG paragraph 010).
Viability in decision taking	The process of assessing viability at the decision-taking stage by looking at whether the value generated by a development is more than the cost of developing it (PPG paragraph 010).

1 Introduction

1.1 Background

1.1.1 The UK government's planning policies for England and its expectations of how these are to be applied, including the consideration and treatment of viability, were previously contained in the National Planning Policy Framework (NPPF) 2012 and the Planning Practice Guidance (PPG) 2014. RICS published the 1st edition of the *Financial viability in planning* guidance note in 2012 to provide practical guidance to its members on the implementation of these policies.

1.1.2 In 2018, the government revised the NPPF and PPG on viability. The NPPF and PPG were further revised in 2019 in relation to decision taking and the transparency of the viability process. All references to the PPG can be taken to refer to the viability section of the PPG unless expressly stated otherwise.

1.1.3 In response, RICS has published two documents:

a The current edition of RICS' Financial viability in planning: conduct and reporting, in order to address professional behavioural matters and to clarify reporting requirements. This includes mandatory requirements for RICS members carrying out viability assessments.

b The present document, which replaces the 2012 *Financial viability in planning* guidance note. It provides guidance for carrying out and interpreting the results of viability assessments under the NPPF and the updated PPG.

1.1.4 This professional standard sets out best practice for the implementation of the revised current planning policy. The NPPF and PPG are the 'authoritative requirement', as defined in the current edition of RICS Valuation – Global Standards (commonly known as the Red Book). This means that any valuation-based requirements in the PPG take precedence over any other valuation basis or approach set out in the standards. The implications of this are set out in this professional standard, particularly in Chapter 2.

1.1.5 The PPG refers to viability assessments, whereas previous guidance has referred to them as financial viability assessments. For consistency with the previous guidance note and the current edition of RICS' Financial viability in planning: conduct and reporting, the present document refers to such assessments as financial viability assessments (FVAs) throughout.

1.1.6 It is important that practitioners and other stakeholders in the process keep themselves aware of any changes to government policy and guidance, and the effect they may have on the advice contained in this professional standard. Following any relevant amendments to the PPG and/or NPPF, where RICS considers it necessary to clarify the extent to which existing advice remains applicable, it will do so. In particular, RICS may revise its existing advice and/or provide new advice. If so, notification of this will be published on our

website, and will have the same regulatory status as this professional standard. Unless and until such notification is published, this professional standard should be treated as having continued unaltered effect.

1.2 National Planning Policy Framework and Viability Planning Practice Guidance

1.2.1 The NPPF sets out the government's planning policies for England and how these should be applied. It provides a framework within which locally-prepared plans for housing and other developments can be produced. It reinforces the delivery of sustainable development in accordance with up-to-date local plans. It asserts the plan-led system as the main determinant when it comes to exercising choices about what and where to develop and the granting of planning permission. This is in accordance with section 38(6) of the *Planning and Compulsory Purchase Act* 2004, which requires the following:

> 'If regard is to be had to the development plan for the purpose of any determination to be made under the planning Acts the determination must be made in accordance with the plan unless material considerations indicate otherwise'.

1.2.2 Development plans are important in ensuring high-quality, sustainable and viable development. To ensure the deliverability of the development, plans need to contain policies that, taken as a whole in the context of the development envisaged by the plan, are not likely to make the development required to deliver the plan financially unviable. At the plan level, **viability** is a tool that is used to ensure planning policies are realistic and their cumulative cost does not undermine deliverability of the plan, taking account of a variety of factors, including the reasonable expectations of landowners and developers. The PPG is clear that it is the responsibility of site promoters to engage in plan making; to take account of any costs, including their own profit expectations and risks; and ensure that proposals for development are policy-compliant (PPG paragraph 006). At a site-specific level, viability can be used to assess the financial impact of planning policies on individual development schemes.

1.2.3 An important component of financial viability is the provision of development contributions (NPPF paragraph 34 and PPG paragraph 002). If development contributions are set too high, landowners may not release land. The extent to which landowners may decide to hold onto land will depend on various factors: the supply of, and demand for, housing and other uses in the locality; the location of the land relative to other developments in the area; whether the land is a strategic site essential to plan delivery; and landowner expectations in relation to a changing planning regime. Paragraph 002 of the PPG states that an FVA 'should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative cost of all relevant policies will not undermine deliverability of the plan'. Plan-makers will need to consider these factors when setting developer contributions at levels that allow a 'suitable' return for the developer (PPG paragraph 018) and a 'minimum return at which it is considered a reasonable landowner would be willing to sell the land' (PPG paragraph 013).

1.2.4 The likely behaviour of landowners in deciding whether to sell their land is a consideration, but some changes to planning policy and practice will affect the value of land. PPG paragraph 002 states that the 'price paid for land is not a relevant justification for failing to accord with relevant policies in the plan'. It also states that landowners and site purchasers 'should consider this when agreeing land transactions'. This may take time to achieve, and plan-makers may seek to balance these influences through successive plans in order to maximise developer contributions. Viability should inform landowners about reasonable expectations, having regard to planning policy and their options. Landowners and their advisers also need to be aware that some plan-makers have powers to acquire land compulsorily. They will also be aware of the LPA's call for sites to inform choices about allocations of land for development. Where that option is a consideration, assessors should also be aware of the valuation basis applied to compulsory acquisition.

1.2.5 The NPPF requires plans to 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, and green and digital infrastructure; NPPF paragraph 34). Such policies should not undermine the delivery of the plan. The PPG sets out additional guidance for carrying out FVAs for both plan-making and decision-taking. As indicated previously, future amendments to the NPPF or PPG take precedence over the contents of this professional standard.

1.2.6 The most common uses of FVAs are:

- formulating planning policy through plans that include policies seeking the payment of infrastructure contributions, and the delivery of new urban extensions and/or new settlements
- assessing the composition, quantity and timing of planning obligations, including affordable housing, which is expected to be met on site, unless off-site provision or an appropriate payment in lieu can be robustly justified
- estimating viable compositions of affordable housing tenures
- assessing applications that incorporate enabling development for heritage assets and other forms of enabling development
- assessing the bulk, scale and massing (and specification relative to cost and value) of a proposed scheme
- reviewing land uses
- assessing continuing existing uses in terms of obsolescence and depreciation
- dealing with heritage assets and conservation issues
- carrying out pre-commencement viability reviews, and reviews throughout the delivery period of the development
- testing the viability of a policy, scheme, or permission that underlies a Compulsory Purchase Order and

- testing the viability of developments and their capacity to make contributions through the Community Infrastructure Levy (CIL) to inform CIL charging schedules.

1.2.7 CIL charging schedules are not formally part of the relevant plan, but they should generally be consistent with that plan and should be viability tested in a similar way. There are benefits to undertaking infrastructure planning for the purpose of plan making and setting the levy at the same time.

1.2.8 Paragraph 002 of the PPG states that FVAs are required primarily at the plan-making stage and that it is the role of site promoters to engage in plan making. Once policies on developer contributions have been set in the plan, planning applications that comply with them should be assumed to be viable (NPPF paragraph 57). Where applicants do not feel that policy-compliant obligation levels are viable, it is up to them to demonstrate whether there are any particular circumstances to justify the need for an FVA at the decision-taking stage. The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan. Landowners and site purchasers, as well as those advising them, should consider this when agreeing land transactions.

1.2.9 The definition of policy compliance was a major point at issue in cases decided under the Viability PPG of 2014. Paragraph 002 of the PPG states that 'policy compliant means development which fully complies with up-to-date plan policies. A decision-maker can give appropriate weight to emerging policies'. Policy-compliant does not mean a lower level of affordable housing than has been agreed in viability testing.

1.2.10 Paragraph 57 of the NPPF also gives guidance to plan-makers regarding the weight to be placed on FVAs when making decisions:

> '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.'

1.2.11 The assessment of the benchmark land value (BLV) is an important part of the FVA. The PPG identifies the existing use value (EUV) plus a premium as the primary approach for assessing the BLV, but recognises that an alternative use value (AUV) ignoring a premium can also be used in some circumstances. Chapter 5 and related appendices provide guidance on how to assess the BLV based on the principles set out in PPG paragraphs 013 to 017. This includes advice relating to the assessment of the AUV, EUV and premium.

1.2.12 Regarding transparency, NPPF paragraph 57 and PPG paragraph 010 state that 'any viability assessment should follow the government's recommended approach to assessing viability as set out in this Planning Practice Guidance and be proportionate, simple, transparent and publicly available'. This applies to FVAs carried out to support plan making (unless the plan was submitted on or before 24 January 2019 and so being examined under

the transitional arrangements under NPPF Annex 1) and decision taking. Paragraph 010 states the following:

> 'Improving transparency of data associated with FVA will, over time, improve the data available for future assessment as well as providing more accountability regarding how viability informs decision taking.'

1.2.13 The current viability process set out in the NPPF and PPG is summarised in Table 1, and the rest of this professional standard identifies the new approach to FVA.

The role of viability assessment in plan making and development management		
	Plan-making stage	**Development management stage**
Purpose	To inform policy making by LPAs, including policies that require contributions to be made, as well as the deliverability of allocated sites.	To inform decision taking by LPAs.
Requirement	**Required** to test viability of plans; typology approach advocated, as well as individual site assessment for key strategic sites.	**Not envisaged as necessary where an up-to-date local plan is in place**, unless the applicant can demonstrate particular circumstances that justify the need for an FVA at the application stage. The weight given to the assessment is a matter for the decision maker, having regard to all the circumstances of the case.
Process	Lead taken by LPA. • FVA prepared by assessor appointed by LPA and published as part of evidence base underpinning local plan. • Stakeholders, including landowners, may appoint their own advisors who can provide evidence and assessments that the LPA and examination inspector can take into account during the relevant examination process.	Lead taken by applicant. • Initial FVA prepared by assessor appointed by applicant. • LPA may appoint an assessor (often at the applicant's expense) to advise on whether to accept the FVA. • If accepted, initial FVA is reviewed by LPA's assessor, who may then prepare an FVA in response.

The role of viability assessment in plan making and development management		
Evidence base	FVA informed by wide evidence base of values and costs that reflect the location and types of development likely to come forward across the plan area. Costs and values will be based on average rates from comparable schemes.	FVA informed by evidence of costs and values appropriate to the specific site and scheme. FVA undertaken at plan-making stage should be referred to where available. FVA will reflect detail set out in planning application, in terms of size and built form of the proposed scheme. Detailed build cost plan and schedule of value should be provided.
Benchmark land value	BLVs are generally based on EUV plus premium. Occasionally, AUVs may be used where an LPA wishes to test the viability of different types of development. A range of BLVs may be tested for both specific sites and site typologies to enable policy making.	BLVs are based on EUV plus premium as the primary approach. If the BLV is based on the AUV, this will be based on a detailed alternative scheme for the application site. Policy is already in place, so the BLV or AUV will need to reflect any relevant requirements.

Table 1: Revised process for area-wide and site-specific FVAs

2 FVAs in planning and development

2.1 The FVA framework

2.1.1 Viability has become an increasingly important consideration in planning in England. Whether preparing policy or considering a specific site proposal or scheme, viability is inherently linked to the ability to satisfy planning policy, and to deliver regeneration objectives and economic development as well as meet housing need. It is important therefore that all plan-makers and decision-takers – including government, local planning authorities, the Planning Inspectorate and all those involved in neighbourhood plans – have a good understanding of land and property markets. Planning policy and practice are a major influence on markets and prices, so LPAs must be cognisant of the impact their decisions may have on the price and delivery of land, as well as all the other options that landowners have. Developers, landowners and valuers should also understand and give proper consideration to the legal and policy framework of the planning system, and fully reflect planning policies in commercial decision taking and the pricing and valuation of development land.

2.1.2 The NPPF and PPG set the framework for an FVA. The Red Book is clear that the requirements of the PPG or any other overriding authority take precedent over any Red Book requirements or guidance (see section 2.2).

2.1.3 Paragraphs 010 to 019 of the PPG – under the general heading of 'Standardised inputs to viability assessment – what are the principles for carrying out a viability assessment?' – set out how an FVA should be approached. The PPG provides guidance on each of the main inputs into the viability assessment, and also discusses the different approaches that can be taken to the input data in either plan making or decision taking. Paragraph 010 of the PPG sets out the FVA framework and states the following:

> 'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return'.

2.1.4 Requiring assessments of the GDV, the costs of development, the value of the land and a return to the developer, the FVA process represents a residual valuation framework as set out in the current edition of RICS' Valuation of development property. The FVA must be supported by appropriate evidence; at the plan-making stage that evidence is informed by engagement with developers, landowners, infrastructure and affordable housing providers.

Chapters 3 to 5 of this professional standard give detailed advice on the application of these principles, which are set out in paragraphs 011 to 018 of the PPG.

2.1.5 Practitioners should note the comment in PPG paragraph 014 that states:

> 'There may be a divergence between BLVs and market evidence; and plan-makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners'.

The PPG is clear that market evidence can be used as a cross-check for BLV, but should not be used in place of BLV. RICS notes that there is peer reviewed, RICS Research Trust-funded research (Crosby and Wyatt, *Financial Viability Appraisal in Planning Decisions: Theory and Practice* (2015)) to support this divergence, and different assumptions made could also be related to standardised inputs described later in this guidance. Therefore, there should not be an expectation that every viability assessment will accord directly with transaction market evidence. The approach set out in this document acknowledges these possibilities, and the recommended approach to the assessment of BLV set out in this document is designed to identify both apparent divergences and the reasons for them. BLV should not be assumed to equate to market value. It is based on PPG requirements and a prescribed method that may not accord with assumptions and methods used to assess the price paid for land in the marketplace at any particular point in time. Recognising this possible divergence between BLV for planning purposes and prices paid in the market, PPG paragraph 011 states that 'Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan'.

2.2 Application of the Red Book and related RICS guidance

2.2.1 FVAs are not valuations as such, but there is significant valuation content within an FVA. For that reason, these valuation aspects are within the jurisdiction of the Red Book and other RICS mandatory standards. All RICS members carrying out FVAs must adhere to these provisions. The implications of this are detailed in paragraph 2.2.3.

2.2.2 Undertaking an FVA is a complex process requiring significant expertise and knowledge. Gaming of the process – one stated reason for the UK government's new NPPF and PPG – can happen under these circumstances. The complexity of this guidance reflects the complexity of the process and the need to ensure objectivity and professional integrity in the viability process.

2.2.3 FVAs for planning purposes are carried out under the NPPF/PPG; this is regarded as the 'authoritative requirement' in the Red Book. This means that the UK government's technical requirements on the assessment of viability take precedence, but Red Book professional standards still apply. RICS members undertaking this work must adhere to the following:

- statutory and other authoritative requirements (including the NPPF and the PPG)

- the current edition of RICS' Financial viability in planning: conduct and reporting; it provides the mandatory requirements for the conduct and reporting of valuations in the FVA, and has been written to reflect the requirements of the PPG
- PS 1 and PS 2 of the Red Book.

2.2.4 This and other RICS standards and information are intended to assist practitioners in applying the government's required approach and should be referenced as appropriate, including the current editions of RICS':

- Valuation of development property
- Comparable evidence in real estate valuation
- Valuation of land for affordable housing. This is being updated in response to this professional standard and Valuation of development property.

2.3 Viability principles

2.3.1 The planning process works within a market context to deliver sustainable development supported by appropriate infrastructure. Successful planning policies are intended to improve the environment and enhance value for all stakeholders in the process, and development contributions add to that value enhancement.

2.3.2 Local planning authorities (LPAs) will have housing and commercial development needs that are likely to require the provision of infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure, and affordable housing). The final plan policies need to specify the appropriate level of development contributions that are required to meet those needs.

2.3.3 Other stakeholders will have requirements and expectations. Developers will expect to make a return, and landowners may have other options available to them and may not have to release land for development. Unless LPAs are contemplating the use of compulsory purchase powers to achieve their planning objectives, they will usually rely on landowners identifying their land as a potential development opportunity in response to an LPA 'call for sites'. However, the FVA may need to take into consideration the other options open to the landowner.

2.3.4 Landowner expectations are a very important element in the voluntary release of land for development, but these expectations may include individual criteria, such as cultural ties to the land, that create different values to individual owners and may impact on the release price of that land. The viability assessment system has to operate on a more objective level, and landowners and other stakeholders in the planning process cannot expect assessors to include subjective individual criteria when producing objective market evidence. The reasonable landowner is not defined in the PPG but is not interpreted in any other property market valuation as the actual owner. The other options open to the landowner in PPG paragraph 013 should be interpreted as those that may add value to the

land. Market valuation definitions within valuation standards include the concepts of willing buyer and willing seller at that value.

2.3.5 One of the options for landowners is to wait for a better market environment. Land and property markets are cyclical, and the development process also changes over time, as do planning and other policies. These changes have substantial effects on both values and costs, and these changes can occur over the short term.

2.3.6 In contrast to short-term fluctuations within markets, plans can last for a number of years. Plans need to consider potential changes to the planning and development environment over the plan period and the effect that might have on proposed plan policies. Landowners should be aware of the possibility that land allocated in the plan but not brought forward during the life of the plan may not have that allocation renewed in a reviewed plan.

2.3.7 In addition to change over time, development land value is ultimately a function of the residual value of the development potential of the site, including a range of development options, once all relevant costs have been deducted. It is particularly prone to valuation variation at the date of valuation, caused by a range of input assumptions at the valuation date.

2.3.8 Value change over time and the inherent valuation variation within a residual valuation can have a significant impact on the distribution of development revenues. All FVAs should address this issue, whether over the plan period at the plan-making stage, or over the development period at the decision-taking stage.

2.3.9 Valuation variation can be addressed in three different ways: first by the use of mandatory sensitivity testing of viability assessments; second by the use of site-specific assessments when deemed appropriate; and third by including policies that require the use of review mechanisms within individual planning agreements, whereby additional contributions can be obtained if development returns increase significantly above expected returns.

2.3.10 Sensitivity testing is addressed in Chapter 4 and the current edition of RICS' Valuation of development property. All FVAs should include testing of alternative economic scenarios and the sensitivity of individual inputs such as projections of values and costs. The use of sensitivity testing in an FVA is a mandatory requirement of the current edition of RICS' Financial viability in planning: conduct and reporting.

2.3.11 PPG paragraphs 007 and 009 reflect on the impact of market cyclicality during the life of the plan. Paragraph 007 gives market downturns as one example of the justification for a site-specific FVA, but it is restricted to 'a recession or similar significant economic change'. This implies the exclusion of normal market cyclicality, which is embedded in the level of developer return.

2.3.12 Review mechanisms are addressed in PPG paragraph 009 and in Chapter 3 of this professional standard. Paragraph 009 states:

> 'Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the project.'

But in the event of a recession or other significant economic change, such as the immediate aftermath of a major economic shock like that caused by the COVID-19 pandemic, the LPA may wish to review the plan to ensure plan delivery.

2.3.13 The level of developer return is an important factor in FVAs. The level of return is related to the level of risk in the development process:

> 'Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks' (PPG paragraph 018).

Market cyclicality is a development risk and is accounted for in the risk-adjusted developer return used in the FVA. At the date of assessment, these risks are based on expected outcomes that may turn out to be different. The development cash flows that are modelled in the FVA should be those cash flows that are expected (subject to the detailed guidance in Chapter 4 on costs, values and any projections, and that contained in the current edition of RICS' Valuation of development property). The developer's target return in the FVA takes account of any unexpected variation away from this cash flow (i.e. an actual outcome that varies from the expected outcome). The risk-adjusted return has already compensated the developer for taking on that particular risk. A review intending to reduce developer contributions based on reduced income or increased costs would be an attempt to protect the developer return and is precluded under PPG paragraph 009.

2.3.14 The outcome of an FVA should not be viewed as a financial certainty. Plan-makers and decision-takers will need to exercise judgement over the level of uncertainty, informed by the sensitivity analysis, attached to each FVA and make their judgements bearing in mind the two major policy imperatives of ensuring maximum development contributions and the delivery of land for development.

2.3.15 The level of uncertainty regarding both valuations and market cyclicality, the use of generic typologies and less fine-grained data in plan making, and the number of other factors that drive development values make it particularly important to treat the FVA as indicative rather than definitive in terms of the viability of development when assessing the level of contributions across a plan area. PPG paragraph 002 constrains plan-makers not to use this variation to stretch the level of contributions beyond what is indicated as viable. The PPG envisages that the policy requirements should be set without the need for further viability assessment at the decision-taking stage. Equally, developers and landowners should adjust their expectations to fit the requirements of the planning policy.

2.4 Viability framework

2.4.1 PPG paragraph 010 defines the viability process as 'looking at whether the value generated by a development is more than the cost of developing it. This includes looking at

the key elements of gross development value, costs, land value, landowner premium, and developer return.'

2.4.2 This is a residual valuation framework, as set out in Figure 1 and detailed in the current edition of RICS' Valuation of development property. In many instances, an FVA will have regard to not just a single policy's impacts, but a cumulative impact of policy requirements and developer contributions. None of the costs are fixed, and movements in one will impact on the amount available for the others.

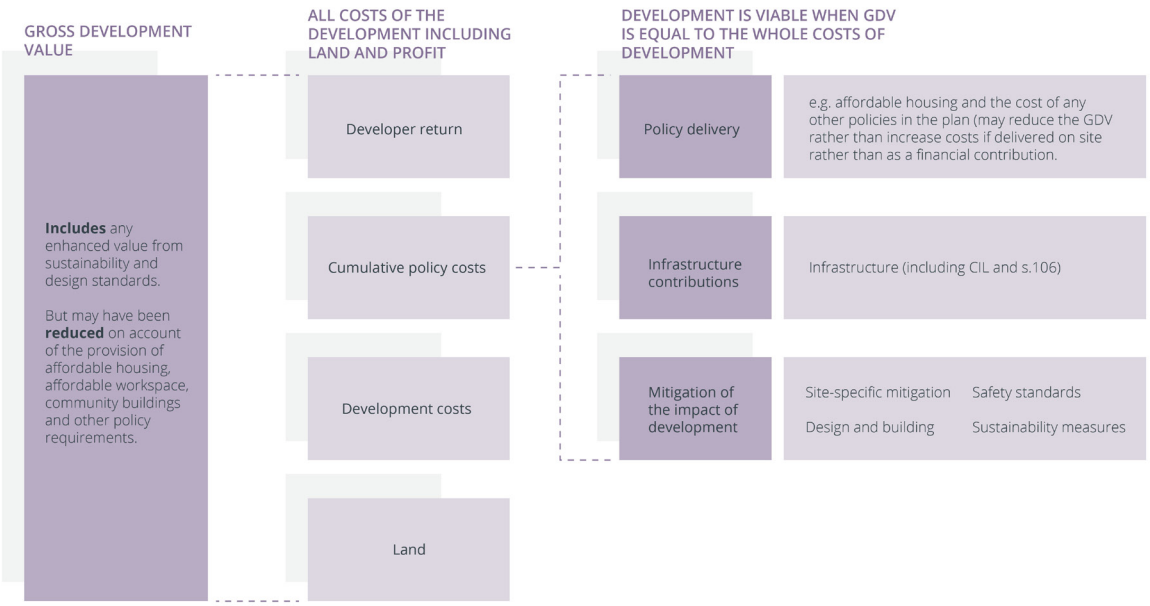

Figure 1: The residual valuation framework

2.4.3 It is important to note that many policy requirements enhance the value of the development as well as increasing costs (for example design and infrastructure), while some others do not increase the costs of the development (for example the provision of affordable housing) but may reduce the overall value of the development.

2.4.4 An FVA should determine whether developments are capable of providing levels of developer contributions that comply with policy in both emerging and up-to-date plans. More specifically, an FVA estimates whether planned developments with policy-compliant levels of developer contributions are able to provide:

- a minimum reasonable return to the landowner (defined as the EUV plus a premium), and
- a suitable return to the developer (defined in PPG paragraph 018).

2.4.5 If the FVA shows that the landowner and developer returns are not enough to satisfy these benchmarks, the development typology is unviable at the level of developer contributions being tested at the plan-making stage. Similarly, a development site may subsequently become unviable at the level of developer contributions set out in the plan at the decision-taking stage. The PPG only envisages this occurring in certain circumstances

set out in PPG paragraph 018, for example if an unallocated site comes forward of a wholly different type from that used in the plan-making FVA. If the FVA illustrates that the typology or scheme is not viable, the plan-maker/decision-taker will need to consider whether to adjust the developer contributions in the plan or the specific decision, taking into account the deliverability of the overall plan or having regard to all the particular circumstances in the individual case. Amendments to the scheme (such as increasing density, altering the mix of uses or reducing design standards) where practical and feasible may improve viability.

2.4.6 A proper understanding of financial viability is essential in ensuring that:

- land is realistically priced and released for development by landowners to achieve plan delivery
- all reasonable costs of construction related to the development have been accounted for
- developers are able to obtain appropriate market risk-adjusted returns for delivering developments
- assumptions about the amount of development that can be viably delivered over the course of the plan period are robust, and
- CIL charging schedules are set at an appropriate level.

2.4.7 The CIL section of the PPG explains that when deciding levy rates, an LPA must strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments (paragraph 010). The CIL is part of the cumulative policy costs of development set out in Figure 1, and all such costs should be considered in the FVA.

2.4.8 The PPG envisages a policy and practice environment in which all stakeholders engage in an iterative process regarding the development of plans and policies to determine the amount of developer contributions. An FVA carried out by a suitably qualified practitioner (called the assessor in this document) should inform this process and provide evidence that all stakeholders can comment on as part of the plan-making process. Ultimately, an examination inspector judges the soundness of the local plan and thus the adequacy of FVAs in a plan-making context.

2.5 Transparency

2.5.1 FVAs (or the reports that contain them) should include an executive summary containing key/headline data. PPG paragraph 021 advises that, as a bare minimum, the executive summary should contain 'gross development value, benchmark land value including landowner premium, costs, as set out in this document [the PPG] where applicable, and return to developer'.

2.5.2 All FVAs should be prepared on the basis that they will be made publicly available in full, to ensure that FVAs follow the principles set out in paragraph 010 of the PPG. Case law since the introduction of the 2018 NPPF and PPG confirms that FVAs, where they are justified, should reflect the approach set out in the PPG. Secondly, standardised inputs should be

used. Thirdly, the inputs and findings should be set out in a way that aids clear interpretation and interrogation by decision-makers. Finally, as the PPG makes clear, FVAs need not contain commercially sensitive data but, even if some elements are commercially sensitive, they can be aggregated in a published FVA in order to avoid disclosure of this sensitive material. FVAs have a direct bearing on the provision of community infrastructure and services, and are of great interest to the public, so are expected to be placed in the public domain.

3 FVAs for plan making and decision taking

3.1 Scope

3.1.1 The revised NPPF and PPG place emphasis on undertaking FVAs at the plan-making rather than the decision-taking stage of the planning process.

3.1.2 This chapter covers the process of viability assessment at both the area-wide plan-making and site-specific decision-taking stages of the planning process:

- Sections 3.2 to 3.8 provide detailed guidance on FVAs at the plan-making stage.
- Sections 3.9 to 3.11 deal with site-specific assessments.
- Section 3.12 deals with viability reviews in planning agreements.

3.2 FVAs for plan making: background

3.2.1 Spatial development strategies, local plans and other development plan documents, including area action plans that relate to a specific local area, are brought forward by both strategic and local planning policy-making authorities. These include councils (counties, cities, boroughs and districts), National Park Authorities and metropolitan mayors. For the purposes of this guidance, such documents will be referred to as plans and the policy-making authorities as local planning authorities (LPAs). These plans set out a spatial strategy for the proper planning of sustainable development, including the identification of broad areas of land for change and/or the allocation of land for housing and commercial development within an LPA's area. The NPPF requires LPAs to have a five-year housing land supply and a developable supply throughout the plan period.

3.2.2 Once adopted, a plan forms part of the statutory development plan for an area. Under the statutory framework for planning, the development plan forms the primary basis of decision taking by the LPA.

3.2.3 At the plan-making stage, FVAs support the development of policies, including those for development contributions. They are usually carried out as part of the evidence base for an emerging plan. They test the financial viability and deliverability of the plan as a whole and of individual strategic sites.

3.2.4 A Strategic Housing Land Availability Assessment (SHLAA) is a tool that informs an LPA's choice of sites at the plan-making stage. The PPG requires this supply to be tested to ensure that sites are viable and can come forward within a defined time period. Thereafter, the NPPF requires LPAs to update their five-year housing land supply annually.

3.2.5 Neighbourhood plans may also allocate land for housing in accordance with strategic policies set out in a local plan. These may require FVAs, but they would be expected to draw from FVAs in up-to-date local plans created by parish/town councils or neighbourhood forums. They contain more detailed priorities for development, such as the provision of low-cost housing or the preservation of green space, and can promote more development than is set out in the local plan. However, they cannot conflict with the strategic policies in the local plan prepared by the LPA, or be used to prevent development that is included in the local plan.

3.2.6 Following the introduction of the CIL, an LPA may put forward a draft CIL charging schedule that will require an FVA before adoption. Where there is a requirement for a draft charging schedule to be tested alongside other policy requirements, generally only one FVA will be required. The advantage of a single FVA is that it may enable the CIL and infrastructure delivery to be assessed alongside other policy requirements, such as affordable housing. Where an FVA is carried out separately to area-based plans, it should be based on the same approach and data as set out in this professional standard. Where a CIL charging schedule is already in place, these charges should be included in the FVA as development costs. Where plan-making and CIL FVAs are undertaken separately, they need to take existing CIL charging schedules and plan policies into account.

3.3 FVAs for plan making: role of the assessor

3.3.1 We recommend that the appointment of an FVA assessor should be undertaken at the start of the plan-making process. For plan-making FVAs, assessors should note the mandatory requirements set out in section 2.5 of the current edition of RICS' Financial viability in planning: conduct and reporting.

3.3.2 The assessor should propose an appropriate testing approach in line with national and other relevant guidance, and respond to the brief provided by the LPA. The approach should be set out in an initial scoping document for approval by the LPA. Other guidance or advice notes for LPAs on drafting invitations to tender for FVAs should also be considered.

3.3.3 RICS recommends the assessor refines the original brief with the LPA to ensure that it meets the requirements of the NPPF and PPG, and provides additional support where the LPA does not have specialist viability knowledge or experience.

3.3.4 RICS recommends that the assessor should work with planning officers to review evidence, gather information and agree the FVA approach and assumptions, including specific/strategic sites and typologies for testing.

3.3.5 Scoping the FVA is an important stage and should set out:

- the purpose of the FVA: testing an area-wide plan and/or the CIL
- any key assumptions and information to be used, including draft policy requirements (or policy options)

- the method: the approach to site selection and typologies, taking into account the projected housing supply over the plan period
- any modelling assumptions: baseline and policy tests
- the approach to sensitivity testing (including modelling growth if appropriate) and
- a process to refine policies during the testing period.

3.3.6 Development typologies should be representative of the development that is planned and reflect the characteristics of groups of sites identified in the proposed land supply. These typologies will be a combination of site typologies (e.g. greenfield or brownfield) and scheme typologies (e.g. houses or flats for sale or build to rent, other specialist housing, and commercial or mixed-use schemes).

3.3.7 The assessor will also need to consider the approach to consultation in respect of the FVA unless this is already prescribed by the LPA.

3.3.8 The LPA will rely on the FVA assessor to identify and quantify key elements in the development that will generate value and enable delivery of planning policies as part of this process. These are likely to include changes to land use, increasing density and delivery of infrastructure requirements.

3.3.9 The assessor should then collate evidence, conduct the FVA and prepare a draft report on the overall viability of the emerging plan. Evidence may take the form of local information provided by the LPA and other stakeholders, market evidence, emerging plan policy options and site-specific assessments. The evidence will ultimately be consulted upon and tested as part of the local plan examination process by an independent inspector.

3.3.10 Figure 2 illustrates the process and Appendix A provides a task checklist for the production of an area-wide FVA.

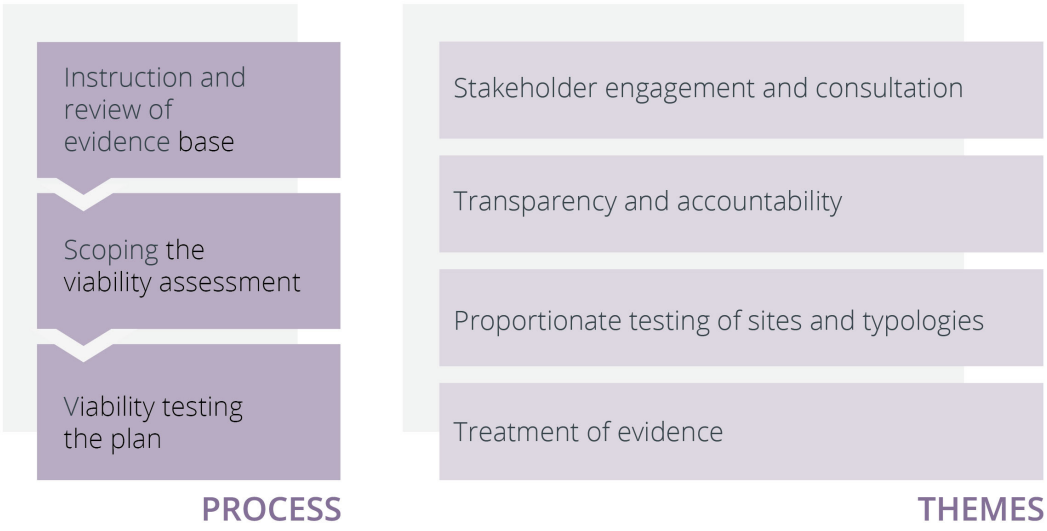

Figure 2: Plan-making viability process and themes

3.4 FVAs for plan making: consultation and stakeholder engagement

3.4.1 Stakeholder engagement and consultation are key components of transparency and accountability, and help LPAs reach sound judgments on the deliverability and policy compliance of proposed allocations. They provide an opportunity for stakeholders to offer evidence and to gain consensus through the iterative process envisaged by the PPG. The NPPF and PPG expect the transfer of information regarding strategic and key development sites between parties engaged in planning policy development. It is expected that landowners and developers will share information with the LPA to inform the process of identifying suitable land to allocate for development.

Consultation

3.4.2 The assessor should support the LPA in appropriately documenting the consultation and engagement process, to provide an audit trail of the approach and process for examination. Both stakeholder engagement and consultation should be proportionate to the task.

3.4.3 The assessor should understand the policy context in their approach to stakeholder engagement. The policy objectives need to be stated and explained, and should consider the importance of addressing need as well as delivery.

3.4.4 Assessors should discuss with planning officers, agree the approach to engagement/consultation and document this where appropriate. It is the responsibility of the LPA to ensure appropriate engagement/consultation occurs, but it may also be appropriate for assessors to take the lead on technical aspects. Assessors can lead the consultation at the request of the LPA, provided the LPA sets the scope of the consultation.

3.4.5 In these circumstances, the assessor should state the purpose and focus of the consultation in the scoping document, and set the objectives for consultation. The assessor should also reference the LPA's commitments in their Statement of Community Involvement (SCI). The assessor should take account of relevant provisions of *The Town and Country Planning (Local Planning) (England) Regulations* 2012, insofar as they relate to consultation and the submission of representations (Regulations 18–22).

3.4.6 Evidence from recent relevant consultation exercises can be reviewed as part of the evidence base for determining the objectives, but not duplicated unless appropriate.

Stakeholder engagement

3.4.7 An important part of the engagement/consultation process is the identification of key stakeholders. The assessor could prepare a stakeholder map and, working with the LPA, should take reasonable steps to ensure that groups and individuals who may be stakeholders, or have an interest in the outcome of the FVA, are included.

3.4.8 The assessor, in discussion with the LPA, should also consider how to consult with individual stakeholders and determine what information is provided and required as part of this process.

3.4.9 The assessor should map the key points at which stakeholder engagement/ consultation should take place. Figure 3 sets out an illustrative diagram of the consultation process. This starts at the Regulation 18 stage (as set out in *The Town and Country Planning (Local Planning) (England) Regulations* 2012) and continues through to the Regulation 19 stage, as explained further in Appendix A.

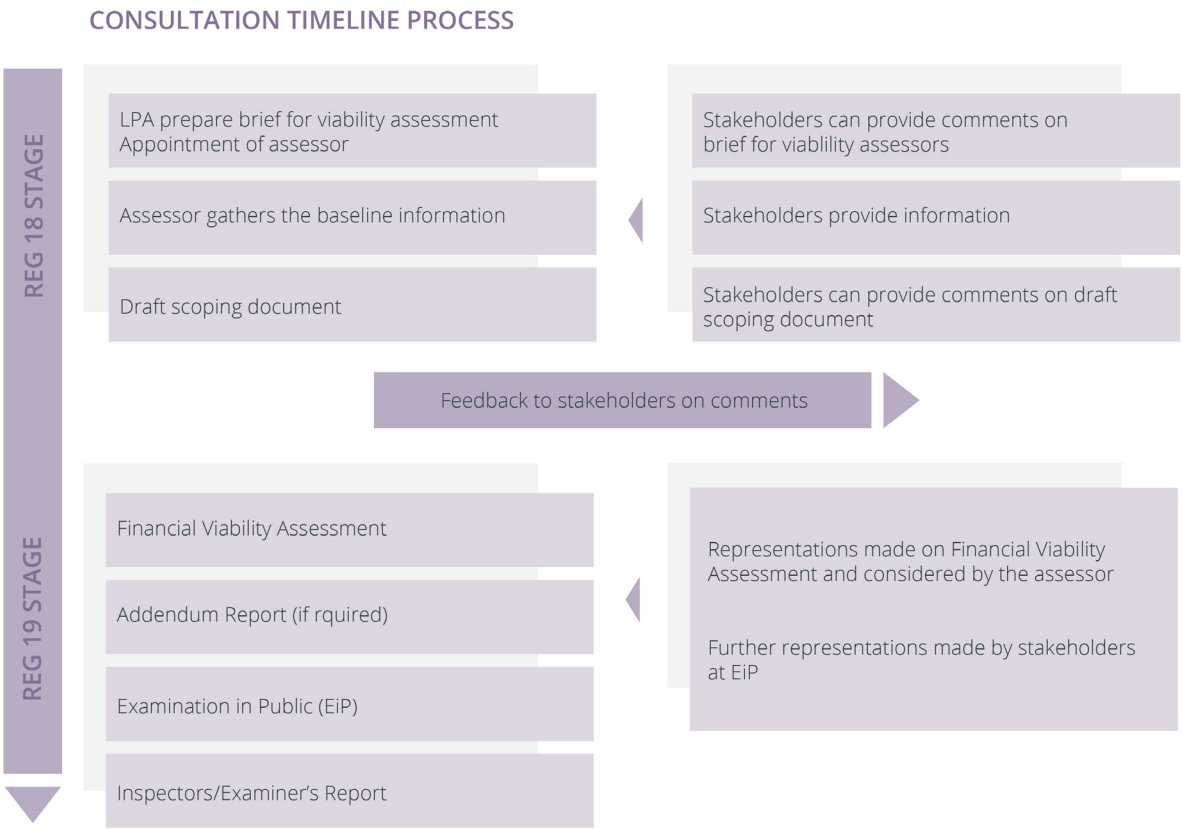

Figure 3: The consultation process

3.4.10 The assessor should support the LPA in planning the format of the engagement and consultation. Different approaches may be appropriate at different stages of the programme, both informal and formal. Informal consultation may be the most appropriate at the evidence gathering and scoping stages.

3.4.11 The FVA should be published alongside the draft plan. As part of the formal consultation process, stakeholders will be able review the methodology, inputs and results, and provide comments. This can be an important part of the iterative process.

3.4.12 Assessors should update the FVA if the consultees provide new information that causes the assessor, using their professional judgement, to adjust their assumptions, inputs and outputs. Any reassessment should be based on an open and transparent process with

the LPA and other engaged stakeholders providing further evidence in a timely way and being kept fully briefed on the revised outputs.

3.4.13 Assessors should make stakeholders aware that their role is to provide technical advice to officers in the LPA, and ultimately their local council and/or the Planning Inspectorate/Secretary of State, who will then be the decision-makers in respect of setting policy requirements.

3.5 FVAs for plan making: testing of sites and typologies

3.5.1 At the plan-making stage, FVAs involve testing representative development typologies and may well involve testing actual key strategic sites. This ensures proper consideration of the financial impact of policy requirements on different locations, types of site (such as greenfield or brownfield), types of development and specific (usually only key strategic) sites.

3.5.2 Development typologies are a combination of sites and schemes. They may include:

- representative development typologies and mixes of use, covering a range of sites and schemes likely to come forward over the life of the plan and
- actual (usually strategic) development sites, identified because of their scale and/or by the fact that the plan relies on delivery of development on these sites to meet policy objectives.

3.5.3 Assessments of these development typologies should provide a profile of viability across a range of sites and schemes.

3.5.4 Development typologies should respond to the emerging plan policies and be representative of the expected development, with particular regard to the five-year housing land supply and the forms of development the plan relies on.

3.5.5 The assessor should consider both the range of sites and the schemes likely to come forward during the plan period when designing development typologies. They should include sites identified in planning policy for development, with particular regard to sites with specific viability characteristics or infrastructure requirements, and any strategic sites on which the delivery of the plan depends. Assessors will need to be alive to the statutory obligation to consider the need to review plans five years after adoption.

3.5.6 Hypothetical site typologies should have characteristics that are shared with a number of typical sites within the plan area. The assessor should establish whether site typologies can be grouped based on similar development characteristics, existing use and values, and whether sample sites or completely hypothetical sites need to be tested to establish a range of values across different sites in the area.

3.5.7 Any strategic sites assessed should reflect the proposed land uses in the plan, as well as the likely density, height and massing. It may be appropriate (depending on how far the plan-making task has developed) to test variations, such as alternative land use mixes.

3.5.8 Having established site typologies, the range of scheme typologies appropriate for those sites should be considered. Some schemes may not be achievable in certain locations as they may be unviable regardless of the policies applied, e.g. office development in secondary locations. Consideration of these options may however inform the strategic approach in the plan, rather than the nature and level of policy requirements, and their relevance to the delivery of the plan.

3.5.9 The assessor should agree the development typologies with the LPA, ensuring they:

- include a range of sites and build typologies that reflect the range of sites likely to come forward for development during the plan period
- include an appropriate mix of specific local sites identified in the land supply and hypothetical sites
- link development to transport and other infrastructure requirements and
- test a range of cost and value assumptions based on appropriate available evidence.

3.5.10 The assessor should bear in mind that testing all permutations for typologies may not be proportionate. More detailed guidance on the assessment of development typologies is given in Appendix A.

3.6 FVAs for plan making: testing a CIL

3.6.1 The CIL section of the PPG sets out requirements in respect of the testing of sites and typologies, and the latest guidance should be considered in detail by the assessor when scoping the proposed FVA. Much of the CIL section of the PPG mirrors the viability section, but the following elements of the CIL section are particularly relevant for FVAs:

- Where the CIL is tested alongside a draft plan, this should be used as the basis for testing (CIL PPG paragraph 012).
- It is important for the assessor to consider the guidance on setting differential rates across an area, either within geographical zones or by type or scale of development (CIL PPG paragraph 022).
- Levy rates can be set to reflect differences in land value uplift created by development across an area. For example, viability may show that rates can be set at a higher level in existing low-value areas where high-value uses will be created (CIL PPG paragraph 025).
- Although testing for the CIL is a broad test of viability across an area, a sample range of sites should also be assessed in line with the CIL section of the PPG (CIL PPG paragraph 020).
- The approach to testing and setting rates for strategic sites should be considered (CIL PPG paragraph 026).

3.6.2 The assessor should ensure that strategic sites and sample sites, or development typologies identified, should be considered alongside those used to test the plan and aligned where appropriate.

3.6.3 More detailed information in respect of FVAs for the purposes of setting the CIL is included in Appendix A.

3.7 FVAs for plan making: reporting

3.7.1 Assessors should refer to the current edition of RICS' Financial viability in planning: conduct and reporting for mandatory reporting requirements.

3.7.2 The assessor should ensure that the evidence base, the approach and rationale behind the viability testing, and the findings are presented clearly and in a way that will also support the decision-taking stage of the planning process.

3.7.3 The report should include the examination of all relevant policies, both national and local; feature a market assessment; set out the assessment methodology; and report the results, including the sensitivity analysis and the conclusions.

3.7.4 The assessor should consider whether to structure the report by site or typology (with the approach, assumptions and outcomes for that site all together), or whether it is more logical to set out the approach to all the testing, followed by the assumptions and then the findings at the end.

3.7.5 The approach to testing sites or typologies should be explained, with a summary of the cost and value assumptions, and viability findings, included in the main body of the report.

3.7.6 It should be straightforward to find the assumptions used in testing development typologies so that, when detailed applications come forward, they can be easily compared.

3.7.7 Sensitivity analysis will be particularly important, and the basis of this testing should be clearly set out (see section 4.3 for further details).

3.7.8 Reporting should be relevant and proportionate to the emerging plan policies. The level of testing and the number of tests reported should be proportionate to the level of complexity in the plan and the locality. For example, after reviewing the results, it may be appropriate to report a small number of tests of the overall level of affordable housing, but more tests with different tenure mixes, as this has a significant impact on viability. Reporting on the testing of different cost and value assumptions is mandatory.

3.7.9 The reporting of BLVs will be an important part of the report. A range of methods and outcomes will be generated from the approach to testing viability set out in Chapter 5 of this professional standard, based on the PPG.

3.7.10 FVA findings can be reported in a variety of ways to meet the LPA's requirements.

3.7.11 The FVA should demonstrate whether emerging plan policy requirements would make the plan undeliverable. This would enable the decision-maker to choose between different policy requirements if necessary to ensure the overall deliverability of the plan, bearing in mind the land market adjustment process with respect to changing policies. The report should indicate the level at which policies would be viable.

3.7.12 A statement of the limitations of the FVA should be appended to the report.

3.7.13 Area-wide FVAs may report that certain development typologies are unlikely to come forward in some areas regardless of the policies that are applied. This does not provide an indication of the relevant policies that should be applied, but should be helpful in informing the strategic approach adopted in the plan.

3.7.14 The impact on viability of a CIL, whether proposed or existing, should be considered alongside the policy requirements of the plan. Charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area (CIL PPG paragraph 010). This should be clearly set out either in the FVA or a separate LPA document.

3.8 FVAs for decision taking: background

3.8.1 PPG paragraph 007 states the expectation that, where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable and no FVA will be required.

3.8.2 The PPG states that it is up to the applicant to justify an FVA at the decision-taking stage of the planning process, so that justification should be regarded as the first stage of the process.

3.8.3 Where up-to-date plans are in place, a decision-taking FVA can still be allowed but only in certain circumstances. The applicant must demonstrate whether particular circumstances justify the need for an FVA. Such circumstances could include, for example, where development is proposed on unallocated sites of a wholly different type to those used in the FVA that informed the plan, where further information on infrastructure or site costs is required, where particular types of development are proposed that may significantly vary from standard models of development for sale, or where a recession or similar significant economic changes have occurred. It is expected that site owners and land promoters would have engaged with the process at the plan-making stage, so the onus is on the applicant to demonstrate why a decision-taking FVA is needed (PPG paragraph 007).

3.8.4 When considering whether a proposed scheme is a significantly different development type, the assessor should reference the typologies used in the original plan-making FVA and assess whether they are representative of the development proposed. The typologies may reflect only some of the characteristics of the subject site and scheme, but still provide adequate justification that a decision-taking FVA is not required.

3.8.5 The PPG identifies a recession or similar significant economic change as possible justification for a decision-taking FVA. For a change in economic circumstances to be taken into account, it needs to be a recession or similar significant change to the values and costs of development – well beyond more normal cyclical movements and outside any sensitivity testing parameters, which are already allowed for in the developer's return. For this reason, assessors at the plan-making stage need to provide sensitivity testing to inform viability over

the life of the plan. This can be referred to at the application stage to form a judgement on whether there has been significant divergence from the plan-making viability assumptions.

3.8.6 Changes in on- and off-site costs could also be related to:

- detailed site investigations and surveys after plan making
- assumptions made in the plan-making FVA on the cost of the infrastructure required to deliver the scheme
- costs associated with planning contributions but not identified at the plan-making stage, such as those relating to s.106, CIL and Strategic Infrastructure Tariff, and
- directly-related sunk (historic) costs not accounted for in the development and site typologies tested.

3.8.7 Sunk costs relate to costs incurred in relation to the site that have brought it to its present state in anticipation of development. This expenditure would normally be expected to enhance the development site value and so should be reflected in the BLV via the premium.

3.8.8 A scheme-specific FVA may be required as part of a review mechanism included in the original planning permission derived from a policy requirement. A review mechanism can take a variety of forms, a number of which are outlined in section 3.11.

3.9 FVAs for decision taking: date of assessment

3.9.1 The date upon which the LPA or the Secretary of State resolves to grant or refuse a planning application is the date upon which all relevant information is considered.

3.9.2 In practical terms, reports and supporting documentation are prepared well in advance of this date. It follows that the assessment date should be carefully considered and agreed with the LPA. If the FVA is provided before the application, then the date of the assessment will clearly be prior to the submission of an application.

3.9.3 If the FVA is submitted with a planning application, the date of the application (not the date of registration) may be the appropriate assessment date. It is important to note that the decision of the LPA regarding a planning application needs to be based on material considerations at the date of determination, so the findings of an FVA undertaken at the date of application will still be relevant at the date of decision but an LPA may request further information. The FVA assessment date can be used by local planning authorities to anchor any subsequent s.106 indexation clause.

3.9.4 FVAs may need to be updated for market movements during the planning process prior to a determination or appeal. This may also be necessary during the plan-making process.

3.9.5 Paragraph 009 of the PPG requires plans to set out the circumstances in which review mechanisms may be appropriate, and to provide a clear process and terms of engagement regarding how and when viability will be reviewed over the lifetime of the development.

Where a review takes place, the date of valuation needs to be clearly set out in the s.106 agreement.

3.10 FVAs for decision taking: reporting

3.10.1 A decision-taking FVA tests whether the residual land value of a development, assuming policy-compliant developer contributions, is sufficient to allow the reasonable landowner a minimum return. It can also test whether the residual profit is sufficient to allow the developer a reasonable return, based on an agreed and fixed BLV.

3.10.2 The assessor should consider whether their advice represents the most effective and efficient way to deliver the optimum development proportionate to the scheme being tested. This is sometimes referred to as 'value engineering'. The assessor will need to give the LPA and their advisors confidence that the FVA reflects the way the development would be carried out. If this is not the case, it should be stated and explained.

3.10.3 The main differences in FVAs for decision taking, compared to for plan making, are that:

- the level of planning requirements has been determined in the plan
- the site will be identified
- the scheme will be specified in more detail
- any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and any costs incurred in readying the site for development, and
- the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

3.11 Viability reviews in planning agreements (s.106 obligations)

3.11.1 Paragraph 009 of the PPG sets out the circumstances where viability review mechanisms might be appropriate, and the process for implementing them.

3.11.2 Policy requirements may be reduced or relaxed to provide flexibility in the early stages of a phased development, where this is clearly demonstrated in a decision-taking FVA and agreed by the LPA as being the maximum reasonable level of contributions at that point in time. In those circumstances, there should be clear agreement as to how policy compliance can be achieved over time in later phases of the development.

3.11.3 Viability reviews assess the level of surplus that can be used to deliver a higher level of affordable housing or meet other policy requirements that were not provided at the planning application stage.

3.11.4 Reviews are generally based on either:

- a review of key viability inputs, for example changes in gross development value or build costs, or
- a full review of all viability inputs.

3.11.5 The PPG requires a clear process and terms of engagement for any review mechanism. If a review clause is included in the s.106 agreement, an assessor should consider advising on when the review will need to be triggered, and the circumstances and timing of that trigger may need to be specified.

3.11.6 The review clause may need appropriate dispute resolution clauses. This could include reference to RICS or the Law Society to appoint an arbitrator or independent expert for valuation or legal disputes, respectively.

3.11.7 The viability review mechanism may be set out in the s.106 agreement, and the assessor should provide advice to ensure this will be effective in delivering a greater level of policy compliance over time. This may include, for example, specifying any formulaic approach and/or the basis of any modelling and the approach to inputs. Supplementary planning documents may provide guidance supplementing planning policies in the local plan, and provide assistance and consistency in the use of such mechanisms.

3.11.8 The advantage of a formulaic approach is that the review will be more straightforward and involve only limited updating of information. It is usually based on a formula, with the LPA taking a proportion of surplus over and above the original estimates agreed by decision-takers at the application stage.

3.11.9 If a full review is undertaken, fixing certain inputs and incorporating these into the s.106 agreement may streamline the FVA process at review.

3.11.10 Reviews could be based on the most robust data available; this will generally be evidenced build costs and the sale price or rental value of completed units.

3.11.11 The applicant could be required to provide detailed evidence of actual income and expenditure to support the review.

3.11.12 For reviews that take place towards the end of the development programme, the review provisions could set out how any surplus revenue can be split between the developer and LPA once the threshold level of viability has been reached, to ensure that a developer remains incentivised to maximise the value from a scheme.

3.11.13 Once the surplus has been determined, the assessor may be required to provide advice on the additional amount of affordable housing that the surplus would enable to be delivered on site, or the equivalent level of financial contribution, so that these can be compared. An obligation can specify how any surplus should be utilised.

3.11.14 When a surplus has been determined as a result of a late-stage review, it may be unlikely that the additional contributions will be in the form of additional affordable housing, and are more likely to be in the form of a financial contribution.

3.11.15 If a scheme comes forward with a higher level of policy compliance than that agreed to be viable by the LPA, it may be appropriate for an earlier viability deficit to be taken into account as part of the review, provided that this has been robustly assessed and is realistic.

3.11.16 Reviews should be capped at a policy-compliant level of contributions. For example, if the policy requirement was for 50% affordable housing and the application scheme provided 35% affordable housing, the maximum additional contribution would be capped at the cost of delivering a further 15% affordable housing. This can be calculated at the time of the review, based on costs and values at that time.

4 FVA methods and inputs

4.1 FVA methods

4.1.1 The method used should be proportionate to the complexity of the typology or site. It should also be proportionate to the quality of the evidence underpinning the inputs. Approaches should be representative of appraisal methods used by participants in development property markets set within the viability assessment framework of the PPG, which is the authoritative requirement. Sections 6.2, 6.3 and Appendix B of the current edition of RICS' Valuation of development property set out detailed information on best practice when applying both basic residual and cash flow residual methods of valuation, and pay particular attention to the different input interpretations required to apply either method.

4.1.2 Where a cash flow model is used, it is particularly important to refer to guidance on inputs included in the PPG and in the current edition of RICS' Valuation of development property, Appendix B, regarding the treatment of finance and other inputs. The model should reflect the cash flows generated by the development over time and apply a risk-adjusted target rate of return (the internal rate of return or IRR), which can be compared with the developer return metric of return on GDV set out in PPG paragraph 018.

4.1.3 It is important to note that the IRR of a project needs to be reconciled with the return on GDV profit metric identified in paragraph 018 of the PPG. They are different measures, which should not be expected to be at the same level for any given site or typology. IRRs are time-dependent, whereas basic return on value or cost measures are not and may require adjustment. Therefore, in addition to the mandatory reporting requirements set out in the current edition of RICS' Financial viability in planning: conduct and reporting, assessors could report the return on cost and the IRR of every financial appraisal undertaken in an FVA, in addition to the primary metric of return on value set out in PPG paragraph 018. This would accord with good valuation practice set out in the current edition of RICS' Valuation of development property, while not overriding or compromising the authoritative requirements of PPG paragraph 018. Where only a basic residual valuation is undertaken, proprietary software can generate an IRR and the reporting of all of these measures will increase the transparency and veracity of the results.

4.1.4 The PPG is silent over the use of current or projected levels of values and costs. The only exception relates to the assessment of the EUV, where PPG paragraph 014 states 'Existing use value should be informed by market evidence of current uses, costs and values'.

4.1.5 While the prospect of future value and cost change may be reflected in current market pricing, there is always some uncertainty and therefore market prices cannot be analysed or interpreted in a static environment. Simply using current costs and values, and ignoring changes over the life of a development, can distort the analysis in all but the

simplest of cases. For example, where residual development values are positive, equal growth in both values and costs will always increase current residual land values, and the use of current values and costs in FVAs in a rising market has been shown in peer-reviewed academic research (e.g. *Town Planning Review*, (2019), 90, (4), 407–428) to have been instrumental in reducing the level of developer contributions over time.

4.1.6 It is recommended that, where assessors consider that the impacts of value and cost change are a significant factor in the market, these changes are identified and taken into account in the FVA, and sensitivity testing of these projections is undertaken in accordance with the current edition of RICS' Valuation of development property. Any assumptions made concerning projections of costs and values in FVAs must be stated, and the evidence used to underpin projections explained.

4.1.7 The use of current or projected values has implications for the discount rate or return measure. Using current levels of costs and values, where the expectation is that both costs and values are expected to grow over the development period, produces under-valuation of the cash flows unless compensating adjustments are used on the rate of return. Where values and costs are expected to fall, it produces over-valuation. Where current costs are used, real interest rates should be applied to what is in effect real cash flows when projections are not used. In normal economic conditions, real returns are lower than nominal returns, and the use of current costs should be accompanied by the use of lower returns and vice versa.

4.1.8 Overall, an FVA is based on a large number of inputs and assumptions. There are a number of checks and balances set out in the PPG and this professional standard, but no assessment model can take into account all the factors that impact on the delivery of planning policy. The assessor in the first instance, and then the decision-maker, should stand back from any modelling results and assure themselves that they pass a sense check. The current edition of RICS' Financial viability in planning: conduct and reporting describes this process:

> 'Following a detailed component review of the inputs into an FVA and running the appraisal, to stand back is to consider the output(s) objectively, and with the benefit of experience, given the complexity of the proposed scheme. This may often be assisted by reviewing the sensitivity analysis.'

Section 2.3 of the current edition of RICS' Valuation of development property, in particular paragraphs 2.3.2 to 2.3.6, gives additional advice on weighting evidence and sense-checking the results. It should be recognised that such an exercise in this context is being conducted for planning purposes.

4.2 Standardised inputs and evidence

4.2.1 Under the general heading of 'Standardised inputs to viability assessment', the PPG provides guidance on each of the main inputs into an FVA, and also discusses the different approaches that can be taken concerning the input data in either plan making or decision

taking. The PPG also gives guidance on the hierarchy of evidence and the different sources in property and construction markets (for example direct market evidence versus indices or market intelligence).

4.2.2 Additional guidance on the individual inputs is provided in RICS standards and information, particularly in the current edition of RICS' Valuation of development property, but also relating to market evidence, environmental issues and the valuation of individual property types.

4.2.3 PPG paragraph 010 states:

> 'Any viability assessment should be supported by appropriate available evidence informed by engagement with developers, landowners, and infrastructure and affordable housing providers'.

4.2.4 Using standardised inputs in the PPG means using appropriate inputs to underpin FVAs, and that the normal hierarchy of evidence quality for those inputs can apply (for example, RICS guidance on comparable market data sets out primary, secondary and tertiary data sources).

4.2.5 Assessors will be aware of the limitations of both the sources and quality of property market data and should set out these limitations clearly in the FVA report.

4.2.6 The normal approach to the valuation of development property is to assume the optimal use of the asset, and if individual owners, developers and asset managers want to proceed with a significantly less-than-optimum investment or development, that should not affect price in a competitive environment. But in the case of an FVA, a less-optimal development should not be used to reduce developer contributions. In FVAs undertaken at the decision-taking stage, it is normal to start by reference to the FVA undertaken at the plan-making stage, which, other than for key strategic sites, will have been most likely undertaken on a typology basis. Even in an application-specific FVA where the actual scheme is assessed, assessors need to be aware of schemes that are not optimal and make any necessary adjustments.

4.2.7 Market information concerning costs, values and optimal assumptions can be used. This means that standardised inputs are market, not individual developer, orientated. The types of evidence could include, but are not restricted to, the following:

- market evidence of rents and yields/sales values, in the context of an understanding of demand and supply relationships across all land uses sourced from public and (where made available) private sources
- where appropriate, other market evidence informing the dynamics of values and costs within development markets and existing uses
- relevant planning, property and economic studies carried out by the LPA and other bodies
- evidence from local developers/promoters, landowners and other stakeholders

- other relevant viability studies for similar area-wide plans or for similar sites
- assessments undertaken by the LPA of viability information submitted in relation to development proposals, at the application stage and as part of s.106 review clauses, and
- land transaction evidence adjusted for policy compliance and for any abnormal costs.

4.2.8 PPG paragraph 004 outlines the use of evidence of costs and values in the plan-making process. It states that 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'. Paragraph 004 then states that 'Average costs and values can then be used to make assumptions about how the viability of each type of site would be affected by all relevant policies'. Since value is often highly location-dependent, assessors should identify the high- and low-value locations within a plan area. Area-wide assessments should test typologies in different value bands to reflect value variations within an LPA area based on the available evidence. Failure to do this could have a serious impact on the delivery of government policy to decrease the dependence on viability appraisals at the decision-taking stage of the planning process. Individual typologies may include a range of individual characteristics and sub-locations, and paragraph 011 allows for averages to be deployed across each typology. There is a balance to be struck between the number of typologies identified, the range of characteristics within each typology and the accuracy of the FVA for individual sites within each typology.

Gross development value evidence

4.2.9 The approach to the assessment of gross development value (GDV) is set out in PPG paragraph 011. The GDV input is the only major input where the PPG differentiates standardised inputs between plan making and decision taking.

4.2.10 Paragraph 011 states:

> 'For broad area-wide or site typology assessment at the plan making stage, average figures can be used, with adjustment to take into account land use, form, scale, location, rents and yields, disregarding outliers in the data.'

This would accord with the normal valuation practice (disregarding outliers within any evidence base and establishing the most likely level of any input). Average figures of GDVs can be used across an individual typology but assessors should be aware of the limitations of this approach set out above where there is a wide range of characteristics represented within an individual typology.

4.2.11 At the site-specific level, market evidence from the actual site or from comparable developments can be used.

4.2.12 Commercial values should be assessed based on the likely built form and fit-out of space, and should be reflected in appropriate construction costs. The data collected should include as much as appropriate of the following list:

- any existing income that will continue to be received over the development period

- yields for the commercial (where relevant) elements of the scheme, and supporting evidence
- details of likely incentives, rent-free periods and voids
- anticipated letting rates (per quarter) and
- deductions from the commercial GDV to reach the net development value (NDV): Stamp Duty Land Tax (SDLT), agent and legal fees, and VAT.

Direct development cost evidence

4.2.13 Paragraph 012 of the PPG states that 'Assessment of costs should be based on evidence which is reflective of local market conditions'. Additionally, it states that build costs should 'be based on appropriate data, for example that of the Building Cost Information Service' (BCIS).

4.2.14 Wherever possible, cost estimates should be based on market evidence from similar developments. BCIS and other indices are 'appropriate' but are not always reflective of local market conditions. The basis for the construction of any cost indices or other data used should be explored and reported, and limitations noted.

4.2.15 The evidence collected to support assumptions on costs could include, but is not restricted to, the following:

- expected build cost (a full quantity surveyor's cost report showing how costs have been estimated should be made available for site-specific information; plan making may have to rely on BCIS or other online information)
- demolition and site preparation costs
- any planning costs after the granting of permission
- any anticipated abnormal costs
- details of expected finance rates and fees
- professional fees, including architect, planning consultant, quantity surveyor, structural engineer, mechanical/electrical engineer and project manager
- letting agent fee/letting legal fee and
- environmental standards (e.g. BREEAM or specific policy costs such as urban greening).

4.2.16 When assessing hypothetical typologies during plan making, average costs across the typology can be assumed for build costs (PPG paragraph 004), as well as for items such as demolition and abnormal site costs.

4.2.17 Development costs and values should be assessed based on the likely built form and specification of space. For example, building height should be taken into account where evidence shows that values change with height. Consideration should also be given to the additional costs of fitting out where higher values are tested.

4.2.18 Existing studies of the area that reflect the current built form, and any historical issues with contamination or increased flood risk, should be referenced. BCIS can be used if appropriate, but supporting evidence of costs and duration in the local market should be used where available.

4.2.19 Infrastructure costs associated with a specific site should be considered, e.g. highway improvement, district heating, etc. For both typologies and specific sites, the impact of infrastructure provision and any potential abnormal costs, including those associated with brownfield sites, should be considered.

4.2.20 Survey, design and cost analysis work may be required in order to obtain a greater degree of certainty in allocating site development plans and setting strategic policies. This should be considered and discussed with the LPA, and potentially with landowners as site promotors may need to provide some of this information.

4.2.21 Where a CIL charging schedule is in place, the relevant rates can be applied to the development typology, with appropriate adjustments for any reductions for existing buildings and relief allowable under the CIL regulations.

4.2.22 All evidence and outcomes of costs and values used should be tested with stakeholders as set out in section 3.4. The consultation should include the approach in the FVA to anticipated changes to costs and values during the plan period, including projections and mandatory sensitivity testing.

4.2.23 PPG paragraph 012 also states:

> 'Explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for a contingency element relative to project risk and developers return'.

Existing use value evidence

4.2.24 Paragraphs 014 and 015 of the PPG both identify the evidence base for EUV.

4.2.25 The EUV in the PPG does not conflict with normal valuation practice, and existing valuation guidance can be utilised in this valuation. For example, the current edition of RICS' Comparable evidence in real estate valuation, with guidance on the hierarchy of evidence, should be followed in assessing the EUV. Further information is included in Appendix B.

Evidence of premiums

4.2.26 The evidence base for the premium above EUV is set out in paragraph 016. This is the main area in which the PPG overrides the general hierarchy above, placing land transactions below that of other evidence specified in PPG paragraph 016. The approach to setting the premium is discussed in Chapter 5.

Return to the developer

4.2.27 In paragraph 018, under the heading of 'Standardised inputs to viability assessment', the PPG provides some guidance on how a return to developers is defined for the purposes of the FVA. The paragraph's focus is on a suitable return for plan making, rather than individual returns for scheme-specific decision taking. It identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making, but is silent on a decision-taking developer return. However, PPG paragraph 008 states that where a site-specific FVA accompanies a specific planning application, it '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'. This implies, in addition to other inputs, a similar test regarding developer's profit to that used at the plan-making stage.

4.2.28 The PPG acknowledges other alternative outcomes according to the type, scale and risk profile of planned development.

4.2.29 Practitioners should therefore be familiar with the current edition of RICS' Valuation of development property when establishing the return to the developer in FVAs for both plan-making and decision-taking FVAs.

4.2.30 The timescale of the development is crucial to the formulation of development return. The FVA should be based on evidence of the anticipated length of the pre-build and construction period, the length of the marketing period and any phasing, and the assessor should report all assumptions made.

4.2.31 The situation where inputs or outcomes are known at the time of the FVA, or subject to little expected variation from the most likely estimate used in the FVA (for example, the forward sale of the affordable housing component), is more likely with decision-taking FVAs. In these cases, where development risks are reduced significantly, lower rates of return can be used. Equally, where a site has particular characteristics that introduce additional uncertainty to the development cash flow, this should be reflected in a higher rate of return/ development profit. Using the full range of development return metrics when undertaking FVAs is an integral part of determining an appropriate developer return based on the return on GDV identified in PPG paragraph 018.

Benchmark land value

4.2.32 The benchmark land value (BLV) is addressed in paragraphs 013 to 016 of the PPG, as well as section 5.1 of this professional standard. These paragraphs apply equally to plan making and decision taking, with one exception. There is a specific reference to decision-taking FVAs in paragraph 014, where it states that the cost implications of all relevant policy requirements, including developer contributions and, where relevant, any CIL, should be taken into account.

4.2.33 Under no circumstances will the price paid for the specific site be a relevant justification for failing to comply with relevant policies in the plan. LPAs can request data

on the price paid for land (or the price expected to be paid through an option or promotion agreement) if they feel it is appropriate.

4.2.34 The primary approach to determine the BLV is EUV plus a premium. Where appropriate, the BLV can be informed by the AUV. Guidance on the assessment of the EUV, AUV and BLV is the subject of Chapter 5 and Appendices B to D.

4.3 Sensitivity testing

4.3.1 It is mandatory in the current edition of RICS' Financial viability in planning: conduct and reporting that FVAs include sensitivity analysis to examine the effect of changes in key inputs. Where projection models are used, this is particularly important given the reliance on forecasting costs and values.

4.3.2 There are a number of techniques for testing the sensitivity of assessments to changes in inputs, ranging from simple scenarios to simulation modelling.

4.3.3 Sensitivity testing should be proportionate to the site or typology under review, and the reporting of sensitivity should reflect the needs of the various stakeholders in the process, not all of whom will be familiar with the implications of valuation variation. It is important that the assessor sets out and explains the sensitivity testing undertaken when reporting the findings.

4.3.4 Variations in key inputs can be modelled in sensitivity analysis and the results used to judge the appropriate level of development profit/return, either as a blended rate or as differential rates on different parts of the development.

4.4 Abnormal costs and enabling infrastructure

4.4.1 Abnormal costs are associated with abnormal site conditions such as contamination, flood risk, listed buildings, etc.

4.4.2 Enabling infrastructure is that necessary to bring the site or sites forward for development, such as new or improved highways/junctions, schools, medical facilities, etc.

4.4.3 In plan making, site typologies should take account of possible abnormal costs, perhaps testing a range of cost scenarios. The assessor can make generic assumptions about abnormal costs relating to, for example, contamination. In plan making, enabling infrastructure may impact on the cost of the development of more than one site.

4.4.4 In decision taking, the abnormal costs and any enabling infrastructure should be estimated in the FVA.

4.4.5 Abnormal costs should not include those design elements (such as more elaborate facades or landscaping) that a developer chooses to provide without due regard to the increase in value and the optimum development.

4.4.6 The EUV is not normally affected by any abnormal costs or enabling infrastructure included as part of bringing the development forward. The only costs that impact the EUV are those that would stop the existing use if not remedied. For example, clean-up costs for contamination, works to address changing health and safety legislation, or changing energy efficiency requirements may render an existing use obsolete. The cost of rectification should be deducted from the EUV based on the assumption of the use continuing in the future.

4.4.7 Abnormal costs related to the development and enabling infrastructure normally impact on the development land value and not the EUV. Each case needs to be treated on its merits, but if the development site value is reduced and the EUV is unaffected, the premium is reduced. Any land transaction evidence also needs to consider the correct adjustments for abnormal costs and enabling infrastructure.

4.4.8 Anticipated rather than actual abnormal costs also reduce the land value and therefore the premium, rather than impacting on the developer's return or planning contributions. The risks that anticipated costs are higher or lower than anticipated, and that unanticipated costs will occur, are part of the risk premium within the profit margin required by developers. It is only where the premium above EUV falls below the minimum level needed for a reasonable landowner to bring forward the site for development that reducing emerging or actual policy requirements, taking into account the deliverability of the plan and all relevant circumstances, should be considered. The process for making this judgement is set out in Chapter 5.

4.4.9 Where a residual valuation is being used to identify the residual planning obligations, the BLV used in that calculation must allow for the reduction in land value of a site that has abnormal costs.

4.4.10 If abnormal costs are not taken into account at the plan-making stage, they may need to be taken into account in any decision-taking FVA, if applicable. Where contamination remediation works are taken into account, the availability of land remediation relief may reduce the net cost of remediation and should be explored; however, this information may be difficult to identify.

5 FVAs and benchmark land value

5.1 The PPG policy framework for assessing the BLV

5.1.1 The PPG specifies the framework for the valuation task. It sets out policy parameters that will themselves influence the market(s) within which development land is traded. It specifies an overall framework for FVAs and includes specific guidance on how to assess the BLV. It sets out detailed assumptions, including standardised inputs and policy adjustments.

5.1.2 The BLV will usually be based upon the EUV plus a premium (EUV+) but may sometimes be based on the AUV excluding a premium where appropriate.

5.1.3 The BLV should not be expected to equate to the market value. As set out in Chapter 2, the PPG states that they could differ on account of both the assumptions made and the methods employed. The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers' contributions can be assessed. It should be set at a level that provides the minimum return at which a reasonable landowner would be willing to sell.

5.1.4 Two important differences between market value and BLV are the methods and the resulting evidence base. The market value is normally calculated using the methods proposed in the current edition of RICS' Valuation of development property, which states that the two normal approaches are the residual approach and the direct comparison approach. The PPG states that the BLV is primarily based on the EUV plus a premium. The evidence base for the market value is grounded in comparative values and costs of the developed property in a residual valuation, and in direct analysis of land transactions in the market comparison approach. The PPG reduces the status of comparable land transactions to that of a cross-check of the BLV. Land values determined by a policy-compliant residual approach or by policy-compliant direct comparison can be used to cross-check the BLV, but the primary approach is the EUV plus a premium.

5.1.5 The BLV is a benchmark value against which the developer contributions can be assessed. Once those contributions have been set, land markets should take the level of policy requirements into account, just as all markets should take all relevant factors that affect value into account. PPG paragraph 013 states that 'Landowners and site purchasers should consider policy requirements when agreeing land transactions'.

5.1.6 This means that the actual price paid for a site cannot be used to reduce developer contributions.

5.2 BLV valuation framework

5.2.1 This chapter gives guidance to assessors and decision-makers on the assessment of the valuation components underpinning the assessment of the BLV. These are the EUV, AUV and the premium above the EUV. The EUV and AUV follow standard valuation practice; however, the premium does not and requires detailed discussion as to how it might be identified in FVAs.

5.2.2 The primary approach is EUV+ (or AUV where appropriate). The other two approaches are cross-checks only to check the robustness of the results of the primary approach:

- The first cross-check is a policy-compliant residual land value, found by applying the residual valuation approach set out in the current edition of RICS' Valuation of development property.
- The market comparison approach can be used to provide a further cross-check. Where the evidence allows, land transactions adjusted for policy compliance can be used. Outliers should be disregarded as specified in PPG paragraph 011. The normal valuation approach to the analysis of transactions is set out in the current edition of RICS' Comparable evidence in real estate valuation.

5.2.3 Both cross-checks must assume policy compliance.

5.2.4 The plan-maker/decision-taker will establish a reasonable premium for the landowner and determine the BLV informed by the professional judgement of the assessor, based on these three approaches.

5.2.5 The assessment of the BLV requires the assessment of five components. They should be calculated and reported to the plan-maker/decision-maker **separately** to counter circularity arguments that BLVs from one method of valuation have been used as an input into another method, in order to reduce developer contributions.

5.2.6 The components that need assessing are:

- EUV
- premium
- AUV, where appropriate
- policy-compliant site value assessed by the residual method and
- policy-compliant site value assessed by the comparative method.

5.3 EUV plus premium

5.3.1 The EUV is the first component for the calculation of the BLV. The EUV is defined in PPG paragraph 015 as the value of land in its existing use. The assessment of the EUV is not straightforward, and detailed guidance on the determination of the EUV is included in Appendix B.

5.3.2 The landowner's premium is the second component of the BLV. The premium should provide a reasonable incentive for a landowner to bring forward land for development, while allowing a sufficient contribution to fully comply with policy requirements. It is the minimum return that would persuade a reasonable landowner to release the land for development, rather than exercise the option to wait or any other options available to the landowner.

5.3.3 There is no standard amount for the premium and the setting of realistic policy requirements that satisfy the reasonable incentive test behind the setting of the premium is a very difficult judgement. Advice on how that judgement can be exercised is included in section 5.7.

5.3.4 The PPG identifies the evidence base for the premium, which can include BLVs from other FVAs. The assessor should consider whether higher weight should be given to FVAs on sites or typologies that delivered policy levels of planning requirements and reflect differences in the micro-location, timing of the assessments, quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. There is no restriction on the use of FVAs from outside the immediate locality or LPA area. Appendix D sets out technical issues appertaining to the adjustment of evidence from other FVAs.

5.3.5 It is important not to penalise landowners or developers who have undertaken preliminary work towards delivering development, or to reward them for letting a site's existing use run down.

5.3.6 Appendix B addresses the approach to run-down sites and identifies a lower EUV where the site requires additional work to realise the EUV.

5.3.7 The treatment of costs expended in preparing sites for development is not addressed in the PPG. However, an adjustment to the premium may be appropriate as these costs may not affect the EUV but could affect the value of the development site. For a plan-making FVA, the EUV and the premium is likely to be the same for the same development typology, but it would be expected that a site that required higher costs to enable development would achieve a lower residual value. This should be taken account of in different site typologies at the plan-making stage.

5.3.8 The evidence of the residual valuations may lead to lower land values for sites where less work supporting development has taken place and higher land values for more developed sites. This assumes the increased costs to enable development are included in the costs of the development appraisal. The difference in BLVs is based on differences in the values of sites rather than the actual sunk costs. As EUVs may not be affected by the level of sunk costs, it is the premium that must be adjusted for these differences.

5.4 AUV

5.4.1 Paragraph 017 of the PPG states that the AUV 'of the land may be informative in establishing benchmark land value'. The AUV refers to the value of land for uses other than

its existing use. The technical issues behind the determination of the AUV for both plan making and decision taking are set out in Appendix C.

5.4.2 The plan can set out the circumstances in which the AUV can be used. For example, this might include evidence that the alternative use would fully comply with up-to-date plan policies if the alternative use could be implemented on the site in question, and there is a market demand for that use. There is also a requirement to explain why the alternative use has not been pursued or, in the case of an extant permission, implemented.

5.4.3 Permitted development and a use within the same use class are only the existing use when no alterations are necessary to implement the use. Where refurbishment or redevelopment are necessary, it will fall under the AUV provisions of the PPG (paragraph 017).

5.4.4 The AUV will have to be supported by evidence of the costs and values of the alternative use. The decision-taker will have to decide on the likelihood of that alternative use being implemented if permission for the actual development is not given. This assessment should be set within the context of the other options available to the landowner.

5.4.5 Where the BLV is based on the AUV, no premium should be added.

5.5 Residual valuations

5.5.1 Assessors should undertake a residual valuation as a cross-check to the BLV, as PPG paragraph 014 requires the BLV including any premium to be tested against plan policies.

5.5.2 At the plan-making stage, residual valuations can be used to test different levels of policy requirements on residual land values for various development typologies.

5.5.3 Assessing viability at the plan-making stage is an iterative process and therefore a full range of policy requirements can be tested in order to reach a judgement concerning the balance between contributions and delivery. The different levels of policy requirements could be based on a number of possible policy solutions, ranging from infrastructure and housing need to existing policy requirements. Paragraph 001 of the revised PPG states that 'The policy requirements should be informed by evidence of infrastructure and affordable housing need'. Planning requirements based on need should be the first iteration tested in a residual land valuation.

5.5.4 There will be a set of emerging plan policy requirements and the residual valuation needs to be tested, assuming planning requirements within these emerging plan policies. These emerging requirements could be compared with:

- policy requirements set out in other FVAs or comparable local plans, and
- existing policies under the old plan.

5.5.5 The resulting land values from the various iterations can be cross-checked against the EUV and the evidence of premiums from other FVAs or plans.

5.5.6 For a scheme-specific FVA, the policy-compliant planning requirements should be included in the valuation. For example, if the plan has a policy of 40% affordable housing, this is the percentage of affordable housing that should be included in the residual valuation. The effect of any changes to the valuation inputs should be reflected in both development costs and values, as appropriate.

5.5.7 Where the current plan has not set precise planning requirements, emerging plan policy requirements should be given appropriate weight.

5.6 Market comparison

5.6.1 Market evidence of land transactions can be used to cross-check the BLV assessment. Land transactions must be adjusted to be compliant with policy requirements in an up-to-date plan or emerging policy requirements at the plan-making stage. There should be no presupposition that a policy obligation will be waived or reduced by the LPA.

5.6.2 The best-quality land transaction evidence is for straightforward sites where the assumptions behind the transaction can be verified as being in line with planning policy. In cases where valuers are aware of the expectations underpinning transactions, and these expectations do not comply with emerging or actual planning requirements, land transaction prices must be adjusted to reflect compliance. Appendix D provides guidance on these adjustments. The difficulties in assessing policy compliance in transaction evidence may weaken the evidence base, and transactions where the assumptions made are not clearly articulated should not be used.

5.7 How to determine the BLV for planning purposes

5.7.1 PPG paragraph 013 states:

> 'In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process'.

The actual process is not prescribed, but there is a clear instruction on the weight to be placed on the different assessment methods and the evidence on which each is based.

5.7.2 **Step one** is to undertake a valuation to determine EUV (see Appendix B).

5.7.3 **Step two** is the assessment, where appropriate, of the AUV (see Appendix C).

5.7.4 **Step three** is to assess a premium above EUV based on the evidence set out in PPG paragraph 016, which is 'the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments' comparisons with existing premiums above EUV'. The EUV plus the premium equates to BLV (see Appendix D).

5.7.5 **Step four** is to determine the residual value of the site or typology, assuming actual or emerging policy requirements, and this assessment of land value can be cross checked against the EUV+.

5.7.6 **Step five** is to cross-check the EUV+ approach to the determination of the BLV of the site by reference to land transaction evidence. PPG paragraph 016 states that 'Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners'.

5.7.7 The PPG is unambiguous that EUV+ is the primary approach. The other two valuations must be used to cross-check the resulting BLV and not be the primary determinant of BLV. Chapter 4 gives guidance on sense-checking the FVA, including the assessment of the BLV. In assessing the weight to be put on the cross-check evidence, a major consideration is the evidence base of each method. Evidence of premiums can be difficult to source and subject to very significant variations in locality, typology, site characteristics, etc. Land transaction evidence may be easier to source but may also suffer from the individuality of location, typology and site characteristics, and adjustments for not-up-to-date actual or emerging policy compliance could be virtually impossible if there is a lack of detail concerning the transaction. Residual valuations have valuation variation issues and modelling issues that have been well documented over the past few years, leading to a number of variations in application. Sensitivity modelling is therefore mandatory in order for the assessor to consider the evidence and outcomes.

5.7.8 Where adjusted land prices are different from the BLV, this could be indicative that assumptions, including planning assumptions but also assumptions regarding inputs into the various methods adopted, are not being applied consistently across market valuations and FVAs (PPG paragraph 014). These possibilities must be tested within the residual valuation framework, for example by assessing the level of the major inputs. Sensitivity testing is mandatory in the current edition of RICS' Financial viability in planning: conduct and reporting.

5.7.9 There will be cases where the assessment is that the typology or site cannot deliver the PPG-defined returns to landowner and developer and emerging or actual policy requirements. In these cases, there are a number of planning policy responses such as removing a typology or site from the plan. One option is that developer contributions can be reduced by the plan-maker/decision-taker to allow that minimum landowner return to be reached to maintain delivery, taking into account all relevant circumstances. There is no guidance in the PPG (and therefore in this) as to what that minimum return is, nor should there be. It is a feature of real estate markets that each typology and site is unique. The balance between premium and contributions is also unique and fixed amounts would be inappropriate. The PPG and this provide a framework for the judgement, and the actual assessment of both BLV and contributions should be based on the hierarchy of evidence within that regulatory and advisory framework.

5.8 Reporting requirements

5.8.1 The determination of the BLV is an assessment of land value for planning purposes in accordance with the NPPF and PPG, and it is important that the methods and assumptions adopted are stated in the report.

5.8.2 The specific reporting requirements are set out in the Financial viability in planning: conduct and reporting. The report must include:

- EUV
- premium
- total BLV
- AUV (where it exists) and
- market evidence and all supporting considerations, including evidence of BLVs from other FVAs, assumptions and justifications.

5.8.3 In addition, the current edition of RICS' Financial viability in planning: conduct and reporting requires reporting a sensitivity analysis of the results and an accompanying explanation and interpretation of viability calculations, having regard to risks and suitable returns. This is necessary as valuation variation in development is a well-understood phenomenon caused by the individuality of development sites and the residual nature of development land value.

5.8.4 FVA assessors should advise on the amount of BLV that would incentivise reasonable landowners to bring the land forward for development. However, it is for the plan-maker to assess the BLV and resulting policy requirements in the plan from the advice and evidence provided by the assessor, and for the decision-taker to assess the BLV and contributions from individual schemes.

Appendix A: Plan-making viability assessments: further guidance

A.1 Appointment of the assessor

A.1.1 The assessor should note the **mandatory requirements** in section 2.5 of the current edition of RICS' Financial viability in planning: conduct and reporting concerning conflicts of interest, suitable qualifications, written instructions, objectivity and transparency.

A.1.2 RICS recommends that the appointment should be at the start of the plan-making process and the terms of the appointment must be agreed in writing, in line with these requirements.

A.1.3 Before appointment, the assessor should:

- refine and agree a revised brief, including the scope of the FVA, in writing with the LPA and
- agree a timescale for the FVA task with the LPA, including adequate time for the consultation, reflection and plan amendment period, as well as representing the LPA on viability matters at the examination in public.

A.1.4 The terms of engagement should clearly set out the scope of the FVA task and should include:

- purpose of the FVA: testing area-wide plan and/or CIL
- timescales
- scope of stakeholder engagement
- key assumptions and information to be used, including draft policy requirements (or policy options as appropriate)
- methodology: logical approach to site selection and typologies, taking into account the projected housing supply over the plan period
- modelling assumptions: baseline and policy tests (for example, this may include testing different quanta of affordable housing alongside a 5% increase or decrease in sales values)
- approach to projections, and scenario and sensitivity testing, and
- establishing a process to refine policies during the testing period.

Role of the assessor and the LPA

A.1.5 The assessor provides evidence and interpretation of data; the decision is with the LPA and the assessor should make sure stakeholders are aware of both roles in the process.

A.2 Stakeholder engagement and consultation

Legal framework

A.2.1 This is set out in *The Town and Country Planning (Local Planning) (England) Regulations* 2012:

- Regulation 18 relates to the preparation of the plan, and requires that various bodies and stakeholders are notified that the planning authority is preparing that plan. It invites them to comment on what the plan ought to contain and the supporting evidence base.
- Regulation 19 is the second stage of the consultation process when forming a local plan. LPAs must make available each of the proposed submission documents that they intend to submit to the Planning Inspectorate for examination, to enable representations to come forward that can be considered at examination.

Setting the objectives for stakeholder engagement and consultation

A.2.2 The assessor should agree the focus and objectives of stakeholder engagement and consultation as part of the scoping process with the LPA. This should be clearly documented. The consultation should be effective and proportionate to ensure that the best possible information is obtained.

A.2.3 Objectives for consultation may include the following:

- Gather additional information to support the FVA: this will include site- or area-specific information that might impact on development costs (e.g. rural areas with generally sloping topography, or urban areas with majority brownfield sites).
- Research the land market in terms of EUVs and BLVs (EUV plus premium).
- Find out about landowners' and promoters' intentions in respect of potential strategic or key development sites within the plan area.
- Obtain feedback on the evidence base, including cost and value assumptions, the overall methodology and approach, and the findings of the draft FVA.

Stakeholder mapping

A.2.4 The assessor should identify stakeholders and agree this with planning officers. The assessor should consider the consultees identified under the provisions of Regulation 18 of *The Town and Country Planning (Local Planning) (England) Regulations* 2012 and identify any additional stakeholders relevant to the FVA.

A.2.5 Possible stakeholders could include landowners, developers, utilities, other statutory undertakings, businesses, community groups, housing associations, heritage associations,

etc. In many cases, an LPA agent/developer panel or SHLAA panel will be in place who can contribute to the consultation.

Type of consultation

A.2.6 The assessor should agree the appropriate mode of consultation with the LPA for the particular stage in the process or the type of information required. This can include both formal and informal consultation. Assessors may need to be aware of the Statements of Community Involvement, which explain how LPAs will engage with communities in the preliminary stages of plan making.

A.2.7 The formal consultation should include inviting comments on the FVA published as part of the evidence base for the local plan, with the formal process for making representations and with the LPA providing responses under Regulations 18 and 19 of *The Town and Country Planning (Local Planning) (England) Regulations* 2012.

A.2.8 An informal consultation could include landowner and developer meetings for the strategic/key sites, stakeholder events, workshops and questionnaires. Informal consultation may be the most appropriate at the evidence-gathering and scoping stages.

Information sources and exchange

A.2.9 The iterative process set out in the PPG envisages a significant transfer of information between stakeholders regarding strategic and key development sites, which will include value and cost evidence.

A.2.10 Consultation should provide an opportunity for stakeholders to contribute alternative evidence for consideration, but this should be robust with clearly stated sources (for example tender returns for site remediation on similar sites).

A.2.11 The assessor may not be able to have direct contact with some stakeholders, and information will need to be obtained through planning officers to avoid duplication of work.

A.2.12 Where an LPA has an up-to-date infrastructure development plan, the information around infrastructure requirements will already have been collated, and this information should be utilised.

Response to consultation and application of evidence provided

A.2.13 When analysing responses, an assessor should consider advising on a number of issues regarding the analysis of responses.

A.2.14 A consistent approach to dealing with comments from stakeholders should be taken, such as grouping responses into categories, e.g. sales values, build costs, etc. It may then be possible to draft responses that deal with comments from a number of stakeholders on the same topic.

A.2.15 If clear themes arise from comments from a range of stakeholders, the assessor will need to provide advice on the presentation of consultation feedback, and actions arising at an open meeting should also be considered.

A.2.16 The assessor should advise on the evaluation of the information submitted alongside other appropriate available evidence. It is important to set out how responses have been considered and incorporated into the testing.

A.2.17 The assessor should consider how they will weigh responses according to the level of supporting evidence provided.

A.2.18 Any reassessment should be based on an open and transparent process, with the LPA and other stakeholders playing a full role and being kept fully briefed on the revised outputs.

Consultation on introduction of or amendments to the CIL

A.2.19 As with the scope of consultation with the FVA for plans, the assessor should agree the scope of the CIL consultation, taking into account the following requirements:

- Alongside the draft charging schedule, the charging authority must also publish appropriate available evidence on infrastructure costs, other funding sources and viability.
- It is up to charging authorities to decide the length of the consultation, but the CIL section of the PPG suggests a minimum of 4 weeks.
- Any person who makes representations in relation to a draft charging schedule can request to be notified when the draft has been submitted for examination, at publication of the examiner's recommendations and following approval of the charging schedule by the charging authority.

A.3 Identifying and testing typologies and strategic sites

A.3.1 At the plan-making stage, FVAs involve testing representative development typologies and testing actual strategic sites. This ensures proper consideration of the financial impact of policy requirements on different locations, types of site (such as greenfield or brownfield), types of development and specific (usually strategic) sites.

Strategic sites

A.3.2 In conjunction with the LPA, the assessor needs to identify those strategic sites on which the plan relies to meet policy objectives. This may include large sites, sites that provide a significant proportion of planned supply, sites that enable or unlock other development sites, or sites within priority regeneration areas.

A.3.3 The assessment of strategic sites should reflect the land uses proposed for that site in the plan, as well as the likely height and massing. It may be that it is appropriate to test a number of different options or variations to test alternative land use mixes. These will need

to be tested in relation to market demand and the identified housing needs assessment, to establish an appropriate balance of mixes and/or density.

A.3.4 It will be important to consider phasing and dependency on infrastructure, as well as any abnormal development costs for that site.

Sample sites

A.3.5 It may also be appropriate to test samples of sites in particular areas or key types of sites on which the delivery of the plan relies.

A.3.6 The characteristics used to group these sites should reflect the nature of the sites and type of development proposed for allocation in the plan. Examples might include greenfield sites or sites within an existing industrial area proposed for residential or mixed-use development.

Hypothetical development typologies

A.3.7 Development typologies should be representative of the development that is planned and reflect the characteristics of groups of sites identified within the proposed land supply.

Identification

A.3.8 These typologies will be a combination of site typologies (e.g. greenfield or brownfield) and scheme typologies (e.g. houses or flats for sale or build-to-rent, other specialist housing, and commercial or mixed-use schemes), and scale (e.g. less than 50, 50–100, 250–500, over 500). They need to be able to provide a profile of viability across a geographical range and/or range of different types of site.

A.3.9 Individual sites deemed representative of a typology should have as many points of similarity as possible, but should not be considered together where a factor such as a high EUV makes a site untypical of the typology. For example, where there is a high variation in industrial values across the plan area due to density or quality of space, it may be appropriate to test these sites separately.

A.3.10 Schemes should reflect current market demand, and also reflect land use limitations and development parameters indicated by the LPA.

A.3.11 It is important to assess the amount of development that each scheme typology will deliver, compared with the overall amount of development in the plan, to ensure testing is proportionate.

A.3.12 Once the site and scheme typologies have been agreed, it may be useful to set out in a grid how site and scheme typologies can be combined to arrive at development typologies. These need to cover the majority of development typologies in terms of inputs to assessments.

A.3.13 Account should be taken of recent local development patterns and other comparable areas, and the density requirements in the plan. Where a new form of development is being

proposed, the assessor should ensure their assumptions are based on relevant studies – an example of this may be where the LPA would like to see development coming forward that includes both residential and commercial uses.

A.3.14 When considering the number of hypothetical development typologies to test, the assessor should remember that there is no requirement for the individual testing of every site, or the need to provide assurance that individual sites are viable.

Testing

A.3.15 Development typologies need to include a range of residential typologies in terms of density, but also in built form and tenure. However, densities and built form may be combined to reduce the number of typologies and include only a sample of those likely to come forward.

A.3.16 In determining the range of non-residential typologies, it is important that the number of typologies is broadly proportionally representative of the type of commercial development likely to come forward. It will not be possible to test every type of commercial development likely to come forward (e.g. gyms, cinemas, nightclubs, etc.) in the hypothetical typologies, and this should be acknowledged. These are likely to form a relatively small component of mixed-used developments, and so are not likely to be of significant scale to warrant separate testing in most cases. In viability testing for the CIL, the limited amount of development will limit the potential for the CIL in any event.

A.3.17 However, some central urban sites may require the testing of a broader range of commercial development typologies.

A.3.18 As well as land use and physical characteristics, the assessment of development typologies should include a range of rental or capital value bands where these vary across the area (PPG paragraph 004). Assumptions will also need to be made in respect of appropriate development costs and these need to be clearly articulated, evidenced and reported.

Additional requirements for testing the CIL

A.3.19 When carrying out an FVA for the purposes of testing the CIL, assessors should consider the following:

- It is an area-based approach, involving a broad test of viability.
- An appropriate range of types of sites across the plan area should be sampled for testing.
- Differential rates may be appropriate in relation to the following:
  - Geographical zones within the charging authority's boundary. This should be granular enough to reflect significant differences in costs and values but not overly complex.
  - Types of development, e.g. residential, office, hotels, etc. This should be based on development likely to come forward within the area.

  - Scale of development, where this is under or over a specific threshold agreed with the LPA.
  - Uplift in land value where, for example, the site typologies are greenfield or brownfield.
- Differential rates can be set for strategic sites, where a more detailed assessment will be required. Rates can be higher or lower, reflecting the viability of that site and taking into account the requirement for the landowner to deliver specific elements of infrastructure.
- The assessor should also take into account the following (PPG paragraph 025):
  - The uplift in land value that development creates is affected by the existing use of land and its proposed use. For example, viability may be different if high-value uses are created on land in an existing low-value area, compared to the creation of lower-value uses or development on land already in a higher-value area. Charging authorities can take these factors into account in the evidence used to set differential levy rates, in order to optimise the funding received through the levy.
  - Charging authorities should set levy rates in a way that takes account of the infrastructure needs of the area and the additional value generated through planning permissions, in a way that does not undermine deliverability of the plan.
- If the CIL is to be tested as part of the emerging area-based plan, the impact of the CIL should be considered alongside the impact of other policy requirements. Charging schedules are not formally part of the relevant plan, but charging schedules and relevant plans should inform, and be generally consistent with, each other. If a CIL charging schedule is already in place, this should be included as a fixed development cost. Exemptions and reliefs may apply.
- Where a charging schedule is not in place and a CIL is to be tested alongside the policy requirements of the plan, assessors should refer to the CIL guidance when scoping the FVA in order to advise on the level of CIL to test on strategic sites, sample sites and hypothetical development typologies.

A.4 The plan-making viability process: evidence

Principles

A.4.1 Any FVA should be supported by appropriate available evidence and informed by engagement with developers, landowners, and infrastructure and affordable housing providers (PPG paragraph 010).

A.4.2 The appropriate evidence is set out in PPG paragraphs 010 to 019 under the generic heading of 'Standardised inputs to viability assessment'.

A.4.3 The evidence base relates to GDVs (paragraph 011), development costs (paragraph 012), BLVs based on EUV plus a premium or AUV (paragraphs 013 to 017) and a return to the developer (paragraph 018).

A.4.4 PPG paragraph 019 deals with how viability assessment applies to the build-to-rent sector.

A.4.5 There are a significant number of detailed requirements for the provision and use of evidence in the PPG. Assessors, information providers and decision-makers need to be fully aware of the provisions in the PPG as to what is, and what is not, appropriate evidence for the FVA.

A.5 Reporting

Structure of the report

A.5.1 All reports need to adhere to the mandatory requirements set out in the current edition of RICS' Financial viability in planning: conduct and reporting and paragraph 020 of the PPG.

A.5.2 A sample report may contain the following:

- executive summary
- introduction and background
- description of area (with map)
- planning policy context
- strategic sites and typologies
- market information summary
- build cost and programme
- methodology and approach
- outputs and results
- sensitivity analysis
- concluding statement and
- presentation of results.

Presentation of results

A.5.3 There are potentially a very large number of results that could be reported, and the assessor should ensure that unnecessary tests are not carried out or reported; for example, if a development typology is viable at 35% affordable housing, it will also be viable at 20% affordable housing.

Appendix B: Existing use value (EUV)

B.1.1 This appendix provides guidance in arriving at an EUV in accordance with paragraph 015 of the PPG.

B.1.2 The EUV for the purposes of FVAs is the value in the existing use, ignoring any prospect of future change to that use. This may however include permitted development or change of use within the same planning use class, but only where this does not necessitate any refurbishment or redevelopment works to the existing buildings or site works. The provisions relating to refurbishment and redevelopment will apply (see paragraph 2.1.7).

B.1.3 The PPG paragraph 015 identifies the type of evidence base that can be used to support the determination of the EUV and the sources of that evidence. At the plan-making stage, this should be accomplished with collaboration between the plan-makers, developers and landowners, and can use published sources of information on rental and capital values of land and property, such as:

- land registry records of transactions
- real estate licensed software packages
- real estate market reports
- real estate research
- estate agent websites
- property auction results
- Valuation Office Agency data and
- public sector estate/property teams' locally held evidence.

B.1.4 PPG paragraph 015 does not limit the data sources, so there is an expectation that normal valuation methods will be employed, with the appropriate method being applied to the appropriate property type. Where possible and appropriate, the market comparison approach will be used; the analysis of transactions is a major part of that approach.

B.1.5 Normal methods of transaction analysis will apply. In the case of FVAs, the evidence must be adjusted to disregard any hope value for development that requires planning permission, which may be present in the transaction price. Changes of use that do not require permission will be assumed to be already reflected in that price.

B.1.6 Assessors should make the plan-maker/decision-maker aware of any limitations of data sources, especially where full knowledge surrounding the terms of the transactions is not available and assumptions have been made. These assumptions need to be reported.

B.1.7 PPG paragraph 017 states that 'where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV'. Where any assumption regarding the use of the property involves any alterations, including refurbishment or redevelopment, BLV will be based on AUV with no premium.

B.1.8 What constitutes a repair versus an alteration will be determined by professional judgement as to whether the works bring the building up to standard within the existing use, or whether they go beyond that and fall into the category of refurbishment. In many circumstances, the expenditure in proportion to the building value may be a material consideration in informing this professional judgement. Each case needs to be considered on its merits but a building or site in need of substantial repair would be expected to have a lower EUV than a building or site in good repair, subject to any dilapidations claims. Furthermore, a landowner should not profit from their failure to maintain the building or site.

B.1.9 Works undertaken to comply with building regulations or statutory requirements, such as the *Disability Discrimination Act* 1995 or the need to provide Energy Performance Certificates (EPCs), would generally constitute repairs, as these are required for the continued use of the building. Such works could of course represent a significant cost. If the property cannot be legally used for its current use at the date of valuation, that should be reported, even if the EUV is based on the assumption that remedial works will be carried out.

B.1.10 All relevant repair and maintenance costs should be reflected in the valuation, and all assumptions made underpinning the assessment of the EUV should be reported.

B.1.11 Where buildings have been run down and possibly let on shorter-term leases, with no right to renew, in expectation of future development – or even demolished – the EUV will be depressed below that of similar buildings that have not been so affected. It can therefore be assumed that the buildings are still occupied on standard commercial terms where they meet statutory requirements and there is a demand for that use. The condition of the buildings should however be taken into account in assessing the EUV.

B.1.12 Where a landowner has not renewed leases, it would be inappropriate to determine a lower BLV and penalise the landowner for making the site ready for development. That would occur if a lower EUV is coupled with a premium evidenced from similar sites that had not been made ready for development in this way. A balance is required, reflecting the circumstances at the valuation date, but also the costs actually incurred in delivering the site and bringing it forward for development purposes. Such costs would generally sit in the scheme assessment, as necessary to incur in order to bring the scheme forward. They should not include payments to tenants and other parties who have an interest in the land based on hope value, but should reflect the current use value of these interests and the statutory costs of determining tenancies. Any double counting (value and cost) must be avoided in the EUV, premium and scheme assessment.

B.1.13 The EUV of a partially implemented development could be nil. The BLV may therefore be more appropriately assessed by reference to the AUV.

Appendix C: Alternative use value (AUV)

C.1.1 Plan-makers can set out the circumstances in which the AUV can be used. PPG paragraph 017 sets out indicative circumstances. Where the AUV is being used as the appropriate BLV approach, the applicant must demonstrate that there is demand for the alternative use and why the proposed scheme is being promoted over the AUV, if the AUV suggests greater viability and returns.

C.1.2 The AUV approach should be based on accurate floor plans and elevations for the alternative scheme. This is essential so that accurate gross to net assumptions can be made and for a detailed cost plan to be prepared.

C.1.3 Where it is assumed that an existing use will be refurbished or redeveloped, this will be considered as an AUV when establishing the BLV (PPG paragraph 017). Additional commentary is provided in B.1.7 to B.1.10.

C.1.4 The alternative use must be policy-compliant, and PPG paragraph 017 identifies this as:

> 'limited to those uses which would fully comply with up-to-date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan'.

C.1.5 Extant consents also need to meet the tests set out in C.1.1. above. But, as the extant consent is capable of being implemented, assessment of the residual value of the consent as permitted should be provided.

C.1.6 Assessment of viability for an alternative use, assuming the residual land value as a benchmark, can then be reported as part of scenario testing, to provide the decision-maker with comprehensive details of the alternative options open to the applicant. The weight to be given to an AUV is a matter for the decision-maker.

C.1.7 Where the AUV is used, it should be supported by evidence of the costs and values of the alternative use to justify the land value.

C.1.8 Valuation based on the AUV includes the premium to the landowner. If evidence of the AUV is being considered to inform the BLV, it includes the premium.

C.1.9 Where the BLV is informed by the AUV, it is mandatory to report the AUV.

Appendix D: Analysing market evidence to support the premium

D.1.1 This appendix considers the use and application of market evidence in order to inform the second component, or premium, in arriving at the BLV in accordance with paragraph 016 of the PPG. Paragraph 016 identifies different forms of adjusted market evidence to inform the premium. These include specific references to:

- BLVs from other FVAs, and
- land transactions, but only as a cross-check to the other evidence.

D.1.2 Chapter 5 identifies three methods of valuation to determine the BLV. These are the primary approach, which is the EUV plus a premium, with cross-checking valuations of the BLV using, where appropriate, a policy-compliant residual land value and comparable land transactions.

D.1.3 Paragraph 016 states:

> 'Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners'.

The data should ideally conform to more general principles regarding data quality set out in the current edition of RICS' Comparable evidence in real estate valuation.

D.2 Market evidence of premiums/BLVs in other FVAs

D.2.1 Paragraph 016 of the PPG envisages that plan-makers should establish a reasonable premium and states that doing so is an iterative process informed by professional judgement based on best available evidence. BLVs from other FVAs are relevant sources of information to assist in identifying the premium element in an EUV+ approach to the assessment of the BLV.

D.2.2 Using this approach requires identification of the differences between comparable sites and typologies and the subject site or typology, which are set out in PPG paragraph 016. These adjustments should be made in arriving at the BLV.

D.2.3 The assessor will need to have knowledge of the circumstances and factors that were considered in determining the EUV and premium uplift within each comparator. This also includes the policy considerations, particularly where comparables are from outside the

local plan area. The factors underpinning the assessment of EUVs and premiums in BLVs or other FVAs should be explained. If this information is available, conclusions can be reached as to whether or not these factors are similar to the site for which the BLV is required, and adjustments can be made. Where assumptions have been made concerning information about the comparables, these assumptions must be clearly stated. The more assumptions that have to be made, the less weight that can be put on the evidence.

D.2.4 The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors, third-party rights and covenants
- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.

D.2.5 Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

D.2.6 Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites.

D.2.7 In the case of greenfield, cleared brownfield or some *sui generis* (unique) sites outside of the normal planning use classes, where the EUV is a small proportion of the BLV, the premium is more likely to be stated as a multiplier or could be stated as an actual amount.

D.2.8 Where the BLV has been determined directly from evidence of BLVs in other FVAs, the EUV must also be calculated and reported, even if it is zero or trivial (see the mandatory reporting and process requirements in the current edition of RICS' Financial viability in planning: conduct and reporting), and the premium reported as the difference between the EUV and BLV in either percentage or absolute terms.

D.3 Market evidence of land transactions

Principles

D.3.1 PPG paragraph 016 states that evidence of land transactions can be used, but only as a cross-check to other evidence. The BLV comprises two components, the EUV and a premium; it is therefore important to state whether the comparable land transaction evidence is cross-checking the EUV component, the premium component or the BLV as a whole.

D.3.2 Many of the same adjustments necessary for all types of market evidence, including the circumstances and factors listed in this appendix, apply equally to land transaction analysis.

D.3.3 Land transactions should be adjusted to ensure that they are compliant with up-to-date planning policy, including affordable housing requirements, in order to circumnavigate the potential circularity issues identified in Chapter 5.

D.3.4 The weight given to land transaction evidence will be reduced where some circumstances and facts are not known. Information is required on as many of the relevant factors in land sales as reasonably obtainable, including the sale terms, planning status, date(s) of payment, third-party arrangements and any option agreements. Land transaction information is partly in the public domain (the Land Registry and other sources), but rarely is all relevant information available. The same standards of data quality apply to land transactions as to other market evidence. Where some elements are not known, assumptions can be made but this will have an impact on the quality of that evidence. Reference should be made to the current edition of RICS' Valuation of development property for further information on the relevant factors.

D.3.5 It should be clearly stated whether development land has been transacted with or without planning permission. Given the strategic nature of certain sites (amount, associated infrastructure and abnormal costs), sourcing directly comparable land transactions, particularly sites that have transacted without planning permission, is not straightforward.

D.3.6 Where transacted sites have planning permission, analysis of the land price will be undertaken assuming that permission. Where that permission is not compliant with up-to-date planning policy (or emerging planning policy), it will be necessary to adjust the price to that which would have been paid, assuming full policy compliance with the up-to-date policy.

D.3.7 The planning permission connected with the comparable transaction may not be optimal for the site. Where that is the case, the land price may reflect optimal rather than sub-optimal permissions. There is a danger here that land prices may be used to evidence a higher BLV within a residual calculation that assumes the sub-optimal permission, reducing developer contributions while protecting developer return. Where it is obvious that the actual scheme is significantly less valuable than the optimal scheme, analysis of transaction evidence should be undertaken by reference to the optimal scheme rather than a sub-optimal actual scheme.

D.3.8 In large-scale greenfield development, a scheme may be required to provide land to facilitate the delivery of public facilities such as schools, open spaces, etc. This may on occasion be provided by a public body/landowner at nil value and, where this happens, analysis must be undertaken to reflect the intrinsic/intangible value it provides, in order to make the development acceptable in planning terms.

Analysis of transactions

D.3.9 The analysis of land transactions is normally undertaken by reference to units of comparison. In the case of development land, these units of comparison can be based upon a number of outcomes, such as price per developable hectare/acre, price per habitable room, price per unit, price per bedroom or price per square metre, or related to the GDV of the actual, proposed or optimum scheme.

D.3.10 Units of comparison can be very misleading where the comparable transactions differ from each other to any great extent by location, property type or tenure. Where the comparable site includes commercial space, consideration should be given to how this element is accounted for in the analysis. Another important component of the analysis is plan policy compliance.

D.3.11 In the case of the valuation of developments, it is rarely appropriate to undertake a valuation by one method alone, according to the current edition of RICS' Valuation of development property, RICS . The same is true for land transaction analysis. It is essential in undertaking unit of comparison-based analysis of land transactions that, in addition to the adjustments noted above, a detailed examination of the transaction is also undertaken in the context of the planned development and its relationship to plan policy.

D.3.12 Undertaking this analysis requires a residual value of the planned development, taking into account GDV, costs of development, contributions and profitability, in order to reconcile the land transaction price and the planned development. This will give clarity to the basic units of comparison generated by the transaction, and provide a context to the adjustments to be made to the comparable land transaction prices to make them policy compliant.

D.3.13 The analysis of transactions should clearly demonstrate how any adjustment for abnormal site costs was undertaken, and how any additional and unusual costs were treated. This includes contamination remediation works and any related land remediation relief available in the market to prospective purchasers, where this can be recognised and quantified.

D.3.14 An analysis of market transactions should enable a plan policy-compliant market 'norm' to be established and identify those transactions that are significantly above and below that market norm. A subset of transactions from a dataset, excluding outliers, may be more relevant to the subject site for cross-checking with the BLV identified by the primary approach of EUV plus a premium.

Appendix E: Supplementary glossary

This supplementary glossary also uses definitions from the glossaries of the National Planning Policy Framework and RICS valuation standards and information current at the date of publication. All these documents may be updated from time to time and the definitions changed.

Term	Definition
Assumption	A valuation assumption is a supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, do not need to be verified by the valuer as part of the valuation process. Typically, an assumption is made where specific investigation by the valuer is not required in order to prove that something is true (current edition of RICS Valuation – Global Standards).
Brownfield land	'Land that is or was occupied by a permanent structure, including the curtilage of the developed land (although it should not be assumed that the whole of the curtilage should be developed) and any associated fixed surface infrastructure' (NPPF under *Previously Developed Land*).
Build-to-rent	'Purpose-built housing that is typically 100% rented out. It can form part of a wider multi-tenure development comprising either flats or houses, but should be on the same site and/or contiguous with the main development. Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control' (NPPF).
Cash flow	The movement of money by way of income, capital receipts, expenditure and payments throughout the development and sales period.
Community Infrastructure Levy (CIL)	A charge that can be levied by local authorities on new development in their area. It is a tool for local authorities to use to help them deliver the infrastructure needed to support development in their area.
Conservation (of heritage assets)	'The process of maintaining and managing change to a heritage asset in a way that sustains and, where appropriate, enhances its significance' (NPPF).
Design code	A set of illustrated design requirements that provide specific, detailed parameters for the physical development of a site or area (NPPF).

Term	Definition
Designated heritage asset	A World Heritage Site, Scheduled Monument, Listed Building, Protected Wreck Site, Registered Park and Garden, Registered Battlefield or Conservation Area designated under the relevant legislation (NPPF).
Developable	'To be considered developable, sites should be in a suitable location for housing development with a reasonable prospect that they will be available and could be viably developed at the point envisaged' (NPPF).
Discounted cash flow/cash flow	A method of valuation explicitly setting out the inflows and outflows of an investment/development (current edition of RICS' Valuation of development property). See also *Internal rate of return (IRR)* and *Net present value (NPV)*.
Discount rate	The periodic rate (per quarter, per annum), or rates, of interest selected when calculating the present value of some future cost or benefit (based on the current edition of RICS' Valuation of development property).
Enabling development	Development that would not be in compliance with local and/or national planning policies, and not normally be given planning permission, except for the fact that it would secure the future conservation of a heritage asset ('Enabling Development and Heritage Assets' in Historic England, *Historic Environment Good Practice Advice in Planning* series: Note 4, 30 June 2020).
Environmental impact assessment	'A procedure to be followed for certain types of project to ensure that decisions are made in full knowledge of any likely significant effects on the environment' (NPPF).
Heritage asset	'A building, monument, site, place, area or landscape identified as having a degree of significance meriting consideration in planning decisions, because of its heritage interest. It includes designated heritage assets and assets identified by the local planning authority, including local listing' (NPPF).
Interest rate/ finance rate	The rate of finance applied in a development appraisal (current edition of RICS' Valuation of development property). This will represent the cost of borrowing.

Term	Definition
Internal rate of return (IRR)	The rate of interest (expressed as a percentage) at which all future project cash flows (positive and negative) will be discounted in order that the net present value (NPV) of those cash flows, including the initial investment/land value, be equal to zero. IRR can be assessed both gross and net of finance (current edition of RICS' Valuation of development property). A gross of finance IRR would be a project return; a net of finance IRR would be a return on equity.
Local housing need/housing need	'The number of homes identified as being needed through the application of the standard method set out in national planning guidance or, in the context of preparing strategic policies only, this may be calculated using a justified alternative approach as provided for in paragraph 60 of the NPPF' (NPPF).
Local plan	'A plan for the future development of a local area, drawn up by the local planning authority in consultation with the community. In law, this is described as the development plan document adopted under the *Planning and Compulsory Purchase Act* 2004. A local plan can consist of either strategic or non-strategic policies, or a combination of the two' (NPPF).
Local planning authority (LPA)	'The public authority whose duty it is to carry out specific planning functions for a particular area. References to local planning authority include district council, London borough council, county council, Broads Authority, National Park Authority, the Mayor of London and a development corporation, to the extent appropriate to their responsibilities' (NPPF; see also *Decision-taker*).
Major development	'For housing, development where 10 or more homes will be provided, or the site has an area of 0.5 hectares or more. For non-residential development it means additional floorspace of 1,000m^2 or more, or a site of 1 hectare or more, or as otherwise provided in *The Town and Country Planning (Development Management Procedure) (England) Order 2015*' (NPPF).
Market comparison approach	A method of valuation that assesses value by comparing the circumstances of the subject land or property with that existing in respect of transactions of other similar assets. The PPG states that comparable land transaction evidence must be compliant with or adjusted for actual or emerging plan policies.

Term	Definition
Market risk	The uncertainty resulting from unknown future changes in the economy and financial and property markets, irrespective of the property being developed (see also *Development risk* and *Property- or project-specific risk*; current edition of RICS' Valuation of development property).
Market value	Defined in *International Valuation Standards* (IVS) 104 as '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' (current edition of RICS Valuation – Global Standards).
Neighbourhood development order	An order made by a local planning authority (under the *Town and Country Planning Act* 1990) through which parish councils and neighbourhood forums can grant planning permission for a specific development proposal or classes of development (NPPF).
Neighbourhood plan	'A plan prepared by a parish council or neighbourhood forum for a designated neighbourhood area. In law, this is described as a neighbourhood plan in the *Planning and Compulsory Purchase Act* 2004' (NPPF).
Net development value (NDV)	The gross development value (GDV) minus assumed seller's costs (current edition of RICS' Valuation of development property). See *Gross development value (GDV)* for explanation.
Net present value (NPV)	The sum of the discounted values of a net cash flow, including all inflows and outflows, where each receipt/payment is discounted to its present value at a specified discount rate. Where the NPV is zero, the discount rate is also the internal rate of return (IRR; current edition of RICS' Valuation of development property).
Optionality	Often referred to as a real option, it is the right, but not the obligation, to pursue a particular course of action, e.g. sell, hold/retain or develop a property (current edition of RICS' Valuation of development property).
Previously developed land	See *Brownfield land*.
Property- or project-specific risk	The uncertainty attached to the intrinsic development of a site or property (current edition of RICS' Valuation of development property). See also *Market risk* and *Development risk*.

Term	Definition
Projections of values and costs	Projecting from a base rent, sales value or cost to reflect estimated out-turn levels in an appraisal (current edition of RICS' Valuation of development property).
Residual method of valuation	A valuation/appraisal of a development based on a deduction of the costs of development and either profit or land cost from the anticipated proceeds (current edition of RICS' Valuation of development property). Depending upon whether the residual amount is the land value or profit, the other element must be deducted in addition to the costs of development to determine the residual amount.
Residual site value/residual land value	The amount remaining once the costs of development of a project are deducted from its net development value (NDV) and an appropriate profit has been deducted (based on the current edition of RICS' Valuation of development property).
Risk-adjusted return	The discount rate as varied to reflect the perceived risk of the development (current edition of RICS' Valuation of development property).
Sensitivity analysis	A series of calculations resulting from the residual appraisal involving one or more variables – rent, sales values, build costs, etc. – that are varied to show the differing results (current edition of RICS' Valuation of development property). See also *Simulation*.
Simulation	A simulation considers the probability of outcomes given certain ranges applied to key inputs in the financial viability assessment. It can quantify the level of variation in the valuation of the development based on variation of inputs. It is a method of undertaking sensitivity analysis (current edition of RICS' Valuation of development property).
Site promoters	These include all landowners, developers, infrastructure and affordable housing providers, and any other stakeholders with interests in securing development across the LPA area or on specific sites.
Special assumption	A valuation special assumption is made by the valuer where an assumption either assumes facts that differ from those existing at the valuation date, or would not be made by a typical market participant in a transaction on that valuation date (current edition of RICS Valuation – Global Standards).
Statement of Community Involvement (SCI)	A document that sets out how an LPA will engage with the community in the delivery of its planning functions.

Term	Definition
Strategic Environmental Assessment	'A procedure (set out in *The Environmental Assessment of Plans and Programmes Regulations* 2004) that requires the formal environmental assessment of certain plans and programmes which are likely to have significant effects on the environment' (NPPF).
Sunk costs	Costs, already spent, that facilitate the delivery of the development, and normally reduce the remaining costs of development and increase the value of the site.
Target return	The required rate of return/profit from the project considering its risk, expressed as either a periodic (normally per annum) rate of return or a simple ratio of value or cost.
Valuation variation	A range of possible valuation outcomes based on different estimates of inputs and/or different methodologies applied.
Value engineering	Eliminating unnecessary cost from the project or asset, or from systems, components or processes associated with it, to improve the ratio between benefits and costs (Value management and value engineering, RICS guidance note).
Yield	Yield can be applied to different commercial elements of a project, for example office, retail, leisure, etc. but also to let housing where appropriate. It is usually calculated as a year's rental income as a percentage of the value of the property. Depending on jurisdiction, variations include capitalisation or cap-rate, all-risks yield, equivalent yield, income yield and initial yield (current edition of RICS' Valuation of development property).

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