Lenham Neighbourhood Plan – Financial Viability Statement

Prepared on behalf of Lenham Parish Council et al
2nd August 2019
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1. Executive Summary

1.1 I have been instructed by Lenham Parish Council ('LPC') to carry out an independent Financial Viability Statement ('FVS') to support the Lenham Neighbourhood Plan ('LNP') and to assess the viability of strategic sites in Lenham as part of the plan-making process in accordance with the National Planning Policy Framework ('NPPF') and the Ministry of Housing, Communities & Local Government Guidance on Viability published on 6th March 2014 and last updated on 9th May 2019 ('PPG on Viability'). This FVS has been undertaken in the context of the LNP Regulation 14 Consultation Draft September 2018.

1.2 This FVS sits alongside the LNP which covers the Parish of Lenham and sets out the local community's aspirations for the village over the period to 2031, principally establishing policies in relation to land use and development that will influence future planning applications and decisions around Lenham.

1.3 Under policies SP8(6) and H2(3) of the Maidstone Borough Local Plan 2017 ('MBLP 2017'), Lenham should be a broad location for housing growth for the delivery of approximately 1000 dwellings up to 2031. The Strategic Environmental Assessment ('SEA') sets out the areas considered for growth by LPC. From the SEA arose the Strategic Housing Delivery Sites ('SHDS') allocated in the LNP as follows:

Site	Location	Address	Area (ha)	Units
Site 1	North East	Land South of Old Ashford Road	2.83	85
Site 2	South West	Land West of Headcorn Road & North of Leadingcross Green	3.67	110
Site 3	South West	Land East of Old Ham Lane & South of the Railway	7.67	230
Site 4	South West	Land West of Headcorn Road & South of the Old Goods Yard	3.67	110
Site 5	North West	Land West of Old Ham Lane & North of the Railway	12.00	360
Site 6	North West	William Pitt Field	1.67	50
Site 7	North West	Land West of Loder Close	1.83	55

1.4 In accordance with paragraph 34 of the NPPF a typology approach to viability is endorsed by the PPG on Viability. This is a process plan-makers can follow to ensure that they are creating realistic, deliverable policies based on the type of sites that are likely to come forward for development over the plan period. In following this process, plan-makers can first group sites by shared characteristics such as location, whether brownfield or greenfield, size of site and current and proposed use or type of development. The characteristics used to group sites should reflect the nature of typical sites that may be developed within the plan area and the type of development proposed for allocation in the plan. This FVS focuses on seven typologies relating to the SHDS outlined above and concludes that all can be brought forward with a policy compliant provision of affordable housing, Section 106 and Community Infrastructure Levy ('CIL') payments whilst maintaining an appropriate landowner premium and a developer's return, summarised as follows:

Site	GDV	All Costs	EUV	Landowner Premium	Return to Developer	Surplus or Deficit?
Site 1	£23,917,539	£16,676,470	£70,750	£3,113,000	£3,891,384	£165,935
Site 2	£31,066,521	£21,582,672	£91,750	£4,037,000	£5,057,629	£297,470
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Site 7	£15,367,224	£10,744,194	£45,750	£2,013,000	£2,506,394	£57,886

2. Background

2.1 Policies SP8(6) and H2(3) of the MBLP 2017 identify Lenham as a broad location for housing growth and the delivery of approximately 1000 dwellings up to 2031. This FVS has been commissioned to assess the deliverability of these dwellings across the seven sites identified in the SEA report and SHDS within the Parish of Lenham. The FVS is informed by consultation with LPC, the landowners and their professional consultants over a number of meetings between January 2019 and August 2019. This FVS has been undertaken within the parameters of the NPPF and PPG on Viability, both updated in February 2019. Paragraph 34 of the NPPF states that planning should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan. The PPG on Viability goes on to say that plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required and should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of CIL and Section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types or location of site or types of development.

2.2 The role for viability assessment is primarily at the plan-making stage. Viability assessments should not compromise sustainable development but should be used to ensure that policies are realistic, and that the total cumulative costs of all relevant policies will not undermine deliverability of the plan. It is the responsibility of plan-makers in collaboration with the local community, developers and other stakeholders, to create realistic, deliverable policies. Drafting a plan policy iterative and informed by engagement with developers, landowners, and infrastructure and affordable housing providers. Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for the planned types of site and development to be delivered, without the need for further viability assessment at the decision making stage. It is the responsibility of site promotors to engage in plan-making, take into account any costs including their own profit expectations and risks and ensure the proposals for development are policy compliant. Policy compliant means development which fully complies with up-to-date planned policies. A decision maker can give appropriate weight to emerging policies. The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan. Landowners and site purchasers should consider this when agreeing land transactions.

2.3 Regardless of the assessment of viability at plan-making stage, it is accepted that some sites will not be viable or may not be able to tolerate the full provision of Section 106, CIL or affordable housing requirements due, principally, to abnormal site assembly costs. In these cases, developers have scope to make specific submissions at the planning application stage in light of this FVS should site specific costs be significantly greater than the assumptions made within this typology approach at the plan-making stage.

2.4 A typology approach is a process plan-makers can follow to ensure that they are creating realistic, deliverable policies based on a type of sites that are likely to come forward for development over the planned period. In following this process, plan-makers can first group sites by shared characteristics such as location, whether brownfield or greenfield, size of site and current and proposed use or type of development. The characteristics used to group sites should reflect the nature of typical sites that may be developed within the plan area and the type of development proposed for allocation in the plan. 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. Plan-makers may wish to consider different potential policy requirements and assess the viability impact of these. Plan-makers can then come to view on what might be an appropriate Benchmark Land Value (‘BLV’) and policy requirement for each typology.

2.5 Plan-makers will then engage with the landowners, site promotors and developers and compare data from existing case study sites to help ensure assumptions of costs and values are realistic and broadly accurate. Market evidence can be used as a cross-check but it is important to disregard outliers. Information from other evidence in forming the plan, such as Strategic Housing Land Availability Assessments (‘SHLAA’) can also help to inform viability assessments. Plan-makers may then revise their proposed policy requirements to ensure they are creating realistic, deliverable policies.

2.6 Paragraph 57 of the NPPF goes on to state where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the Applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up-to-date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs and should be made publicly available.

3. Methodology and Basis of Appraisals

3.1 There is no statutory technical guidance on how to go about viability testing. This FVS falls outside the scope of the Royal Institution Chartered Surveyors Global Valuations Standards 2017 and is not a formal valuation in that context. However, this FVS follows the *Viability Testing in Local Plans – Advice for Planning Practitioners* ('Harman Guidance') undertaken in June 2012. The Harman Guidance states that an individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the landowner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.

3.2 Various planning Appeal Decisions along with the *Good Practice Guide* issued by the Homes and Communities Agency in July 2009 suggest that the most appropriate test for viability for planning policy purposes is to consider the Residual Land Value ('RLV') of schemes compared with the Existing Use Value ('EUV') plus a premium ('EUV+'). The premium over and above the EUV being set at a level to provide the landowner with a competitive return and the inducement to sell. This methodology is illustrated as follows:

3.3 A summary of the residual process is:

Built Value of proposed private residential and other uses

+

Built Value of affordable housing

-

Build Costs, finance costs, other section 106 costs, sales fees, developers' profit etc

=

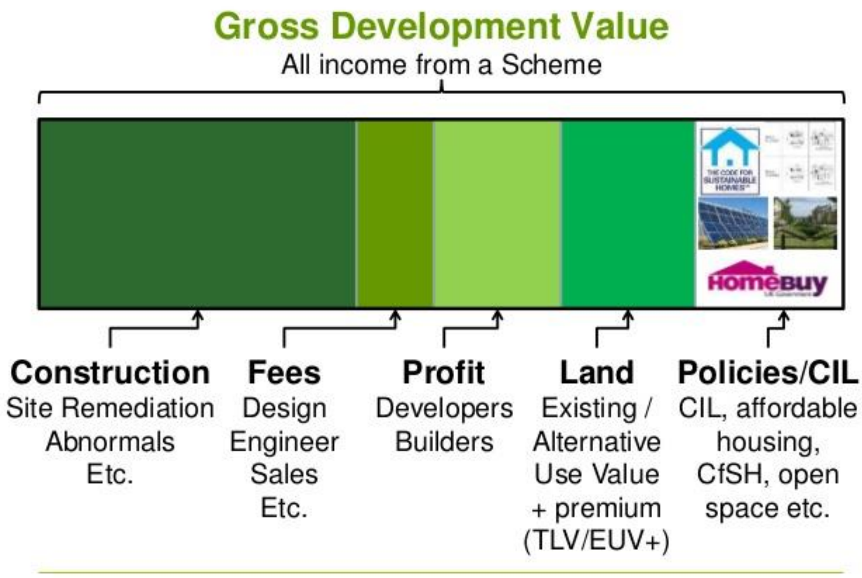
Residual Land Value ("RLV")

RLV is then compared to a **Benchmark Land Value ('BLV')**. If RLV is lower and/or not sufficiently higher than the BLV – project is not technically viable.

3.4 If the RLV driven by a proposed scheme is reduced to significantly below an appropriate BLV, it follows that it is commercially unviable to pursue such a scheme, and the scheme is unlikely to proceed.

3.5 The RLV approach (as summarised above) can be inverted so that it becomes a 'residual profit appraisal' based upon the insertion of a specific land cost/value (equivalent to the BLV) at the top. By doing this, the focus is moved onto the level of profit driven by a scheme. This is a purely presentational alternative.

3.6 In the following graphic, the bar illustrates all the income from the scheme. This is set by the market, rather than by the developer or Local Authority, and is largely, therefore, fixed. The developer has relatively little control over the cost of development and whilst there is scope to build to different standards and with different levels of efficiency the costs are largely out of the developer's direct control, they are what they are depending on the development.



3.7 It is well recognised in viability testing that the developer should be rewarded for taking the risks of development. The NPPF terms this the 'competitive return'. The NPPF states that viability should consider competitive returns to a willing landowner and willing developer to enable the development to be deliverable. This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible. A competitive return for the landowner is the price at which a reasonable landowner will be willing to sell their land for the development. The price will need to provide an incentive for the landowner to sell in comparison with the other options available. These options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.

3.8 Likewise, a development scheme will only be brought forward if there is an appropriate profit margin for a developer. The PPG on Viability goes on to say that 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. The cost of fully complying with policy requirements should be accounted for in the BLV. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. For the purpose of plan-making an assumption of 15% to 20% of Gross Development Value ('GDV') may be considered as a suitable return to developers in order to establish the viability of plan policies. Plan-makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned developments. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale of the known value and reduces risk. Alternative figures may also be appropriate for different development types.

3.9 This FVS is prepared purely to assist LPC in the formation of the LNP and in accordance with the NPPF it may be placed in the public domain although we do not offer Maidstone Borough Council, their advisers and/or any third parties a professional duty of care.

3.10 In undertaking the FVS we have taken note of and utilised guidance on both Government and Local Policy as follows:

a) Maidstone Borough Local Plan 2017;

b) Maidstone Borough Council Revised Plan and CIL Viability Study 2015;

c) Maidstone Borough Council Local Plan and Viability Testing April 2013;

d) The Localism Act 2011;

e) National Planning Policy Framework 2019;

f) Planning Practice Guidance on Viability 2019;

g) Land Value Estimates and Policy Appraisal issued by HCLG 2018;

h) Viability and Planning System: The Relationship between Economic Viability Testing, Land Values and Affordable Housing in London dated January 2017.

i) Tonbridge and Malling Borough Council Local Plan Viability Study including Community Infrastructure Levy 2018;

3.11 Whilst it may seem odd to have a document referenced from Tonbridge and Malling Borough Council, this Local Plan and Viability Study undertaken by HDH Planning and Development Ltd in July 2018 is the most up-to-date guidance on viability in Kent and has been adopted by an adjoining Local Authority to Maidstone.

4. Lenham Strategic Housing Delivery Sites ('SHDS')

4.1 A total of seven sites have been identified within Lenham for the delivery of 1000 dwellings as shown on the LNP Proposed Housing Sites in **Appendix A**. Each of these can be summarised as follows:

Site 1

Land South of Old Ashford Road extends to 2.83 ha and is controlled by Dean Lewis Estates Ltd. Site 1 is allocated for development of approximately 85 dwellings with access to be provided via a new junction with Old Ashford Road along with the provision of a new road providing access to an area of strategic open space to the south. The land is currently in agricultural production.

Site 2

Land West of Headcorn Road and North of Leadingcross Green extends to 3.67 ha and is controlled by Tower Land. Site 2 is allocated for approximately 110 dwellings with access taken off a new junction with Headcorn Road. Access arrangements will include the provision of a new Southern Link Road within the site incorporating an appropriate footpath and cycleway line to the boundary with the adjoining allocated development sites to the north and west (Site 3 and Site 4). The new junction with Headcorn Road will provide for priority to be given to the new Southern Link Road running into the development area. The land is currently in agricultural production.

Site 3

Land East of Old Ham Lane and South of the Railway extends to 7.67 ha and is allocated for approximately 230 dwellings. Site 3 is controlled by Knight Land and access will be taken from a new junction with Old Ham Lane. The access arrangements will include provision for the Southern Link Road incorporating appropriate highway, footpath and cycleway links to the boundary of those allocated sites which lie to the east, namely Site 2 and Site 4. Access arrangements will include developer contributions towards a scheme of shuttle working on the Old Ham Lane Rail Bridge (also known as Smokey Bridge) and no dwellings shall be occupied until that scheme is operational and open to traffic. The land is currently in agricultural production.

Site 4

Land West of Headcorn Road and South of the Old Goods Yard extends to 3.67 ha and is allocated for approximately 110 dwellings. Site 4 is controlled by Russell Land with access taken through the Old Goods Yard site or from the new Southern Link Road being provided in conjunction with the development sites to the south and west, namely Site 2 and Site 3. Due regard has been given to developer contributions towards a scheme of shuttle working on Smokey Bridge and the land is currently in agricultural production.

Site 5

Land West of Old Ham Lane and North of the Railway extends to 12.00 ha and is allocated for approximately 360 dwellings. Site 5 is controlled by Countryside Properties Plc and access will be via a new junction with Old Ham Lane and will include a new Western Link Road running from the A20 to the north of Old Ham Lane to the south close to its crossing over the railway at Smokey Bridge. The land is currently in agricultural production.

Site 6

Land at William Pitt Field extends to 1.67 ha and is allocated for approximately 50 dwellings. Site 6 is controlled by LPC and access will be taken from Old Ham Lane. The land is currently in agricultural production.

Site 7

Land West of Loder Close extends to1.83 ha and is allocated for approximately 55 dwellings. Site 7 is controlled by Wealden Homes and has recently been granted planning permission under application reference 18/506657 for 53 dwellings.

5. Benchmark Land Value (BLV)

5.1 To define land value for any viability assessment, a BLV should be established on the basis of the EUV of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered 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 policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is referred to as EUV+.

5.2 In order to establish the BLV all stakeholders, including plan-makers, landowners, developers, infrastructure and affordable housing providers should engage with and provide robust and open evidence to inform this process.

5.3 In all cases, BLV should:

- Fully reflect the total cost of all relevant policy requirements including planning obligations and, where applicable, any CIL charged;
- Fully reflect the total cost of abnormal costs;
- Allow for Site-Specific Infrastructure costs;
- Allow for Professional Site fees;
- Allow for a premium to land owners (including equity resulting from those building their own homes); and
- Be informed by comparable market evidence of current uses, costs and values wherever possible. Where recent market transactions are used to inform assessment of BLV this should be evidenced that these transactions were based on policy compliant development. This is so the previous price is based on non-policy compliant developments and not used to inflate values over time.

5.4 This last bullet point is addressed further by the research document *Viability and the Planning System: The Relationship between Economic Viability Testing, Land Values and Affordable Housing in London* produced collaboratively by Kingston University, Ramidus, Royal Agricultural University Cirencester and University of Reading in January 2017. This research paper sought expert opinion from key players in the viability sector in order to demystify some of the complexities of BLV, also referred to as 'threshold land value'. The research paper stated that BLV is normally assessed by an EUV+ approach or via an assessment of Market Value based on the RICS Global Valuation Standards, which in turn is based on either analysis of comparable land transactions or a residual valuation. Overall, the EUV+ approach was favoured by the majority of respondents, despite the recognition that the premium element can be difficult to assess in some circumstances. The interviews gave strong support to a view that the use of comparable evidence to establish a threshold land value was not valid where such transactions had been predicated on the hope, assumption or prediction that either the plan determined contribution could be reduced to a negotiation or on appeal or that the eventual sales figures will be higher than those built into the financial viability assessment. It was therefore considered fundamental that the argument that the appraisal should be undertaken "*making sure that it is truly policy compliant*". If it is not, a transaction at a higher price simply leads to a reduction in affordable housing and a loss to the community. This argument was discussed at length in the protracted Parkhurst Road Appeal which further endorsed EUV+ over purchase price.

5.5 The typologies adopted for this FVS are modelled in such a way that the output is the RLV with a fixed level of profit which reflects the risk and reward for a developer. The RLV is then cross-referenced against the EUV and a landowner premium which is the EUV+. Due regard has been given to the Maidstone Borough Council Revised Plan and CIL Viability Study undertaken by Peter Brett Associates LLP in July 2015 which is the most up-to-date viability study for Maidstone Borough. The conclusions of this report were that land values for large greenfield sites were £1,125,000/ha on a net developable basis. This includes both EUV and development value and is broken down in the typologies so that the EUV £25,000/ha based upon agricultural values in Maidstone. It is worth noting that agricultural values identified in the Tonbridge & Malling Local Plan Viability Study are assessed at £23,500/ha and a significantly higher EUV for those parcels of agricultural land on the edge of villages of £50,000/ha which would certainly apply in Lenham. It is also worth noting that the development land value of £1,125,000/ha identified in the Maidstone Borough Council Revised Plan and CIL Viability Study is similar to the figure of £990,000/ha identified as the minimum land value for option agreements in terms of land price identified in the Tonbridge & Malling Local Plan Viability Study.

5.6 Therefore, for the purposes of assessing the viability of the sites in Lenham a landowner premium is set at £1,125,000/ha less the EUV of £25,000/ha.

6. Residual Land Value (RLV)

6.1 In order to establish the RLV it is necessary to undertake an appraisal of each site using Argus Circle Developer ('Argus'), a widely used tool which seeks to establish a residual value for a development scheme taking into account all of the costs of development including Section 106 costs, CIL and an appropriate return for a developer in the form of a minimum level of profit. All of the appraisals are identical save for the quantum of housing and the inputs have been sourced from empirical market evidence and established market practice. These are summarised as follows:

i. <u>Gross Development Value ('GDV')</u> – The GDV is the value of the completed residential units based upon analysis of comparable evidence in Lenham, a summary of which is provided in **Appendix B**. A flat rate of £3765 per sq.m (£350 per sq.ft) has been adopted. Similarly, each typology allows for 40% affordable housing under Policy DM13 of the MBLP 2017. A blended rate has been adopted of 60% of the private GDV which reflects a mix of affordable tenures including social rent, affordable rent and intermediate housing. This is a similar approach to that adopted by Tonbridge & Malling Borough Council and is aligned with affordable housing values in this part of Kent.

ii. <u>Primary Build Costs</u> ('PBC') – PBC for the build has been derived from the Building Cost Information Service ('BCIS') rebased for Maidstone as at August 2019, a copy of which is provided in **Appendix C**. The BCIS approach is one endorsed by most Local Authorities, including Tonbridge and Malling Borough Council. Furthermore, a 5% contingency is applied to the PBC as well as the externals and abnormal costs. All costs are inclusive of main contractors' preliminaries, overheads and profit, but exclusive of VAT.

iii. <u>Externals</u> – The External costs cover all external works including highways and road infrastructure within each development parcel, utilities and service infrastructure, landscaping, open space and parking. Many of these items will depend on individual site circumstances and can only properly be estimated following a detailed assessment of each site. External costs typically range from 10% to 20% of PBC and given the way that these land parcels are predominantly stitched together in an edge of village location a rate of 10% has been adopted for the FVS. It should be noted that the external works allowance in the Maidstone Borough Council Revised Plan CIL Viability Study is also 10%.

iv. Abnormals and Enabling Works – A rate of £5,000/unit has been allowed for enabling works to open up the sites for the delivery of housing although no site specific abnormal costs have been allowed for at this juncture. Given the fact that the sites are in agricultural use with no demolition works or historic land uses which are likely to result in land remediation it is considered appropriate to leave any abnormal costs to be dealt with at planning application stage. Sufficient allowances have been made for within the FVS for known delivery costs including contingency sums although any significant abnormal costs may have a bearing on individual sites following more intrusive investigations.

v. Fees – In line with the Maidstone Borough Council Revised Plan and CIL Viability Study and the most recent Local Plan Viability Study for Tonbridge and Malling Borough Council a rate of 10% has been adopted for all professional fees applied to the PBC, externals and abnormal costs. Likewise, sales and marketing costs of 3% have been adopted across the board.

vi. Delivery and Finance – The FVS adopts a debit rate of 6% and a credit rate of 1% on 100% of cost over a cash activity period and includes preconstruction, construction and sales at an absorption rate of 3 open market units per month with the affordable housing sold on a 'Golden Brick' basis.

vii. Section 106 and CIL – For the purposes of this FVS a CIL rate of £99 per sq.m has been adopted on the market housing along with an additional allowance of £10,000 for both the market and affordable housing which is considered more than sufficient for the purposes of the viability typologies.

viii. Profit – The PPG on Viability refers to a range of 15% to 20% of GDV as a suitable return to developers in order to establish the viability of plan policies. It is worth noting that the Local Plan Viability Study for Tonbridge & Malling Borough Council adopts 20% of the GDV of the market housing and 6% of the value of the affordable housing. Other Local Authorities adopt blended rates of between 15% and 17.5%. This FVS adopts 20% of the market GDV and 6% of the affordable GDV with a blended rate of around 16.3%.

7. Conclusions

7.1 This FVS focuses on the seven typologies relating to the SHDS allocated in the LNP and concludes that all can be brought forward with a policy compliant provision of affordable housing, Section 106 and Community Infrastructure Levy ('CIL') payments whilst maintaining an appropriate landowner premium and a developer's return, summarised as follows:

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