

## **Development Viability – Guidance Note for Developers**

**January 2016**

This guidance note has been written in relation to provision of affordable housing but a similar approach will be taken in relation to viability regarding other planning obligations.

### **1. Application of Wigan’s Affordable Housing Planning Policy**

The Wigan Local Plan Core Strategy, adopted in September 2013, and the Affordable Housing Supplementary Planning Document, adopted in October 2013, sets out the planning policy requirements in terms of the provision of affordable housing through planning obligations. Developers are advised to read our relevant planning policies;

Local Plan Core Strategy

<http://www.wigan.gov.uk/Council/Strategies-Plans-and-Policies/Planning/Local-plan/CoreStrategy.aspx>

Affordable Housing Supplementary Planning Document

<http://www.wigan.gov.uk/Docs/PDF/Resident/Planning-and-Building-Control/Planning-guidance/Affordable-Housing-SPD.pdf>

The policy will be applied in accordance with current Planning Practice Guidance on planning obligations.

All outline and full planning applications requiring affordable housing contributions will require a Section 106 Agreement or Unilateral Undertaking to be completed prior to the granting of planning permission setting out how the obligations will be secured. We can provide model agreements setting out standard clauses for the delivery of affordable homes by the methods outlined in the Affordable Housing SPD; it is preferable for developers to use these standard clauses.

We encourage developers to begin negotiations on affordable housing provision at an early stage in order to fully explore the range of options available and to agree the most appropriate provision for the particular development.

We recognise that the ability to provide the required 25% of affordable housing provision may be restricted in some cases due to the decreased viability of housing developments. However, we want to enable housing development to come forward in the immediate term and will apply a flexible approach to securing affordable housing

contributions where the reduced financial viability of a scheme can be clearly demonstrated. This will be time limited and linked to future reviews of the viability of the proposed scheme. In all such cases our aim is to secure a requirement for affordable housing provision and we will not waive the requirement on the grounds of current financial viability as a matter of course.

## **2. Demonstrating Reduced Viability**

Where a developer indicates that they are unable to satisfy the full affordable housing requirement on the grounds of viability, they will be required to substantiate this by submitting a detailed financial appraisal of the development. Any financial information submitted to the council will be treated as commercially sensitive and will not be disclosed to a third party without consent.

The purpose of the appraisal is to establish if the development proposal is viable. That is, that the current cost of building out the entire development would enable the developer to sell all the market units on the site, in the current market, at the rate of build out indicated by the developer and make a competitive return to the developer and a willing land owner.

The methodology used will adopt current costs and values in relation to the proposed scheme and assume that affordable housing and other planning requirements, including Community Infrastructure Levy are met in full within the overall development costs. Historic land values will not be considered in establishing viability.

The viability appraisal should be undertaken on a residual land value basis, using a recognised methodology that accords with RICS and HCA guidance on assessing the viability of developments. Where we are not able to agree or substantiate information supplied, we will refer the appraisal to the District Valuer, in order to seek a view on the current viability of the scheme. The cost of the District Valuer's report will be at the applicants' expense and a quote will be obtained for the approval of the applicant before proceeding.

An outline of the minimum information required is included in Section 3 below.

Based on the appraisal and/or findings of the District Valuer's report, we will then seek a solution that reflects the current ability to provide a level of affordable housing, along with other planning requirements, and also reflects the likely build out prospects of the scheme. We will consider;

- Whether the level of contributions required are the reason why the scheme is unviable or whether wider factors in the market make the scheme unviable even without contributions.
- Whether waiving, reducing or deferment of the contributions can make the development viable and thus facilitate early delivery – or will there be little difference in the immediate term.
- Whether it is likely that the market will change over the development period. This will depend on the scale of the development and the timescales for delivery. This will depend on whether the scheme is to be delivered in phases over a number of years or will be completed in a relatively short period.
- Whether the delivery of other policy objectives and regeneration benefits of the proposals in the immediate term outweigh securing affordable housing

contributions. The relative benefits and contributions, including other planning contributions, made by each development will be considered and appropriate decisions made on a case by case basis.

Where an outline application has been submitted there may be insufficient information available on the proposed mix and value of the residential units to enable a view to be taken on the viability of the scheme, in such cases we will seek to establish the principle of affordable housing provision at the time of the outline planning permission, but with the details of the amount and type of affordable housing provision to be agreed at submission of a Reserved Matters application, when full details of the scheme are available to better determine viability.

### **3. Viability Appraisal Requirements**

To be undertaken on a residual land value basis, the minimum information required is set out below.

All values should demonstrate they are based on professional opinion/ market comparables.

#### **Scheme details**

Size of site

Current use of site

Current value of site

Schedule of residential accommodation by size, type, including car parking and garages

Number of market and affordable homes proposed – this should be on the basis of the full policy requirement and include the tenure mix

Schedule of any other type of accommodation

#### **Sales Income/ Revenue**

Sales values for all market homes

Values of affordable homes – depends on tenure mix.

Ground rent income

Service/ management charges income

Other rental income/ uses eg commercial space

#### **Costs**

Build costs

Site infrastructure and highways

Remediation

Landscaping

Abnormals (with evidence)

Contingency

Development fees

Finance costs

CIL

Other S106 contributions

Profit

## **4. Re-appraisal options**

In all cases

- We will include provisions to re-assess viability where it seems reasonable to conclude that viability will improve over the life of a scheme and there are likely to be future opportunities to secure affordable housing.
- The provision to re-appraise viability will be secured by means of a planning obligation.
- This will be established at outline, rather than reserved matters.

This may be through;

- Agreeing a reduced contribution figure across the whole development – this is favoured on smaller developments, and may be reviewed if the development is not completed within an agreed timescale.
- Agreeing an initial contribution, that may be zero, but reviewing viability and agreeing future levels of contribution on a phased basis as the scheme is built out. This is favoured on large developments that may be built out in a number of phases over many years.
- No initial affordable housing provision in the first phases, but reviewed at commencement of the second and subsequent phases. This could be used where other housing offers eg Help to Buy or other low cost home ownership option is included as an alternative in first phase or where there are other policy requirements that outweigh affordable housing eg, economic development focus in the first phase.
- Review based on a pre agreed phasing plan
- Review on pre agreed timescales following grant of permission eg. After 18 months.
- Review based on pre agreed market index trigger– eg. house price/ tender price index change of 10%.

In all cases we will seek a solution that will assist the developer to bring the site forward but gives the Council the ability to secure appropriate affordable housing contributions in future should the market improve and schemes become viable.

We will require all developers to enter into a S106 Agreement or Unilateral Undertaking setting out the agreed approach to securing affordable housing on each particular site. We have model clauses for Agreements dealing with viability issues that will be available on request.

## **5. Renegotiation and review of existing affordable housing obligations**

Where there is an existing planning permission with affordable housing obligations that have been agreed in different economic conditions, the developer may seek a review of the affordable housing requirements on the basis of viability in accordance with the new provisions set out in the Growth and Infrastructure Act. This does not replace the ability to re-negotiate affordable housing contributions on a voluntary basis, where a case can be demonstrated by the developer.

**For further information or to discuss your proposals, please contact**

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