

Appendix A - Viability Assessment Review Findings

1. Background:

1.1. At the meeting of Policy and Resources Committee on the 30th September 2021, the following Member's item raised by Councillor Rawlings was discussed:

"Following an independent report into the published viability assessment for the development at 84 West Heath Road, the Council have increased the affordable housing commuted sum payable to £6m. The Council had previously accepted the developer's proposal that only £900k was due.

I request that the Committee agrees to ask Audit Committee to retrospectively investigate how much money in affordable housing commuted payments may have been lost to the Council from all planning applications where commuted sums were payable.

I also request that this investigation reviews other developments where the proportion of affordable housing has been reduced because of developer's viability assessments to see whether the assessments were fair/correct".

1.2. The instruction from Committee was that:

"Officers have been made aware of this issued and a study is being undertake and the findings of the study would be reported back to this Committee".

1.3. This paper reviews current practice in relation to the review of viability assessments relating to the ability of residential planning applications of 10 or more units to support affordable housing and meet affordable housing development plan policy.

2. Policy background:

2.1. Paragraph 73 of the National Planning Policy Framework (NPPF) states that the "provision of affordable housing should not be sought for residential developments that are not major developments". A major development is defined in the NPPF as "development where 10 or more homes will be provided, or the site has an area of 0.5 hectares or more".

2.2. National policy requires the Council to set affordable housing targets that are realistic and particular regard has to be made to development viability. Government does not expect that each major housing application should routinely be subject to viability assessment.

2.3. At regional level, the London Plan 2021 sets a strategic target of 50% for affordable housing, however, the London Plan now introduces a Fast Track threshold approach allowing for a minimum threshold level of 35% (with the

exception of public sector land and industrial land). Schemes that follow the Fast Track 35% route are not be required to provide a viability assessment at application stage, so long as they meet certain criteria.

- 2.4. With the adoption of the new London Plan in 2021 and the recently submitted Barnet Local Plan which is now is consistent with the Mayoral policies, schemes that do not provide the threshold level of affordable housing or meet other relevant policy criteria, or that provide off-site or cash in lieu contributions, must follow the Viability Tested Route and are subject to viability scrutiny and late, as well as early, review mechanisms.
- 2.5. For schemes of 10 or more units, affordable housing provision is normally required on-site. In exceptional circumstances off-site provision may be acceptable where it can be robustly demonstrated that affordable housing cannot be delivered on-site or where an off-site contribution would better deliver mixed and inclusive communities than an on-site contribution. Cash in lieu contributions should only be used where there is detailed evidence to demonstrate that on-site affordable housing is not practical, off-site options have been considered and that such a contribution will not be detrimental to the delivery of mixed and inclusive communities
- 2.6. Viability assessments submitted by applicants are independently reviewed by external specialist consultants. The role of the independent assessor is to verify the assumptions and results of the applicant's viability study, on behalf of the Local Planning Authority. Planning officers are not specialised in development economics and therefore there is a requirement to seek independent expert advice from qualified consultants that are specialised in development finance, construction costs and market land values. A planning case officer is not qualified to query the outcome of the commissioned advice and it is usually reported as given.

3. Analysis of recent planning permissions

- 3.1. An extract of all major planning applications approved in the past three years was taken. Strategic applications referable to the Mayor were excluded. This is because as explained above larger development (usually 150+ units) that provide 35% affordable housing (50% on public land) can follow the Mayor's Fast Track Route which enables developments to progress without the need to submit detailed viability information (and without late viability review mechanisms which re-assess viability at an advanced stage of the development process).
- 3.2. Applications submitted on public land by Barnet Homes (222 affordable units over the period) were also excluded from the review.
- 3.3. A total of 46 applications submitted by private developers remained ranging from 10 to 145 proposed residential units where it was accepted that the viability of the specific proposals should be considered as part of the application via Viability Tested Route (i.e. they did not follow the Fast Track route)

3.4. The review confirmed that all viability reports in the application sample were independently assessed by suitably qualified external consultants.

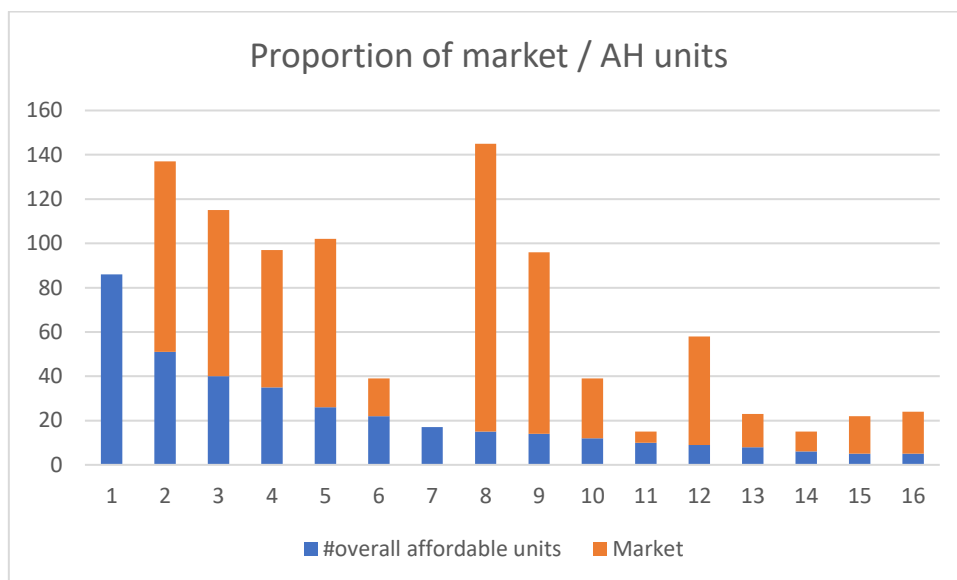
3.5. The 46 applications can be broken up as follows:

- 23 applications (50%) for 10-15 units
- 12 applications (26%) for 26-50 units
- 11 applications (24%) for 51-150 units

3.6. Applications where affordable housing was secured on site:

3.6.1. Of the 46 applications analysed just over a third of sites (16 applications) delivered affordable housing on site. Those 16 applications represented a total of 1030 residential units in total of which 361 affordable units (or 35% overall).

3.6.2. The proportion of affordable units per application is shown below:



3.6.3. The proportion of affordable housing secured per site varied widely between applications. There was no direct correlation between the size of the development or its location within the Borough which is likely to reflect site specific viability challenges and exiting use values.

3.7. Applications where affordable housing was not secured on site:

3.7.1. The viability assessments relating to the 30 remaining applications concluded that proposals could not support affordable housing on site.

3.7.2. 865 units were approved across those 30 sites and £8,223,772 was secured in financial contributions, the highest being £1,125,000 for a 30 units scheme and the lowest £30,000 for an 11-units scheme. 4 of the 30 applications did not secure any financial contribution at application stage (those 4 schemes were for 10 units, 13 units, 41 units and 43 units).

3.7.3. BNP Paribas reviewed 14 of these applications for the Council securing an average of £11,262 per unit proposed. Colliers International reviewed 6 with an average £10,760 contribution per unit proposed. Gerald Eve reviewed 2 with an average of £28,274 secured per unit proposed.

4. Benchmarking:

- 4.1. A sample of 26 applications of a similar scale and recently processed by neighbouring Boroughs was reviewed. These included applications in the London Boroughs of Hillingdon, Enfield, Brent, Haringey, Islington and Camden. 9 of these 26 applications (ranging from 14 to 48 units) provided no affordable housing on site (2 in Hillingdon, 4 in Enfield, 1 in Haringey and 2 in Camden). Other than Brent, no Council secured affordable housing on all applications in the sample. Despite being close geographically, each of these Boroughs operate under different local priorities. There are significant differences in land values that will impact on the viability of schemes.
- 4.2. The proportion of affordable housing secured per site did not directly relate to the scale of the application and the range of affordable housing secured (between 10% and 80%) was as wide a range as the sample of applications in Barnet.
- 4.3. The affordable housing delivery statistics published by the GLA for 2020/21 (https://www.london.gov.uk/sites/default/files/ah_starts_and_completions_-_end_of_june_2021.pdf) showed that Barnet delivered 283 affordable units (compared to 124 in Camden, 273 in Enfield and 128 in Haringey)
- 4.4. The review highlighted that different Boroughs use a different range of external consultants to review viability reports.

5. Conclusions on the analysis of permissions and benchmarking:

- 5.1. The ability of the reviewed schemes to support affordable housing varies widely between sites. There is no single variable to explain these variations (e.g. provision of basement car parking, location in the Borough, existing use values, etc...) and it suggests that multiple site specific variables are the main factors determining development viability. There was no direct correlation between the company employed by the Council to independently review the viability assessments submitted by developers and the level of provision of affordable housing on site or amount of financial contribution secured in the absence of on-site provision. Based on the benchmarking exercise, the breakdown of provision is not dissimilar to neighbouring Boroughs.

6. Current practice to review schemes' viability:

- 6.1. The assessment of viability requires suitable expertise and necessitates the appointment of external consultants. Although the appointment is made by the Council (after ensuring that there are no conflicts of interest), the costs of this process is met by the applicant. It is standard practice in the sector.

- 6.2. All viability reports submitted to the Council are independently assessed.
- 6.3. Upon receipt of a viability assessment accompanying a planning application, the case officer seeks independent viability quotes from well-established viability consultants. There is currently no central list of companies, and each officer independently arranges quotes. This part of the process could be improved with a central database and better guidance in relation to the number of quotes required and a list of criteria to select the company. The analysis of the 46 cases shows reliance on some companies more than others. An opportunity to improve the process would be to extend the range of companies invited to quote and keep a central record of their performance to be reviewed annually based on the number of affordable units secured per site on average.
- 6.4. Once quotes are received they are discussed with the applicant (who bear the cost for the independent review). Once a preferred proposal is chosen, the case officer instructs the chosen company to interrogate the applicant's report (including costings) and advise whether the proposed offer is the maximum provision that can be secured. In their final report back to the case officer, the external consultant will advise whether the proposed provision is the maximum level or whether the independent report disagrees with the submitted findings and advises that further provision can be secured and absorbed within the scheme.
- 6.5. Case officers take the outcome of the independent reviews at face value as they are not specialised in development economics. In their recommendation, the case officer will decide how much weight should be given to affordable housing policy to help decide if the proposed development is the right scheme for the site and is acceptable when considered against all development plan policies and planning considerations

7. Publication of viability assessments:

- 7.1. The Council recognises the importance of public participation and the availability of viability information in the planning process. Information submitted in viability assessment should be treated transparently and made available for inspection. The Council has published its policy on its website and applicants submit planning applications in the knowledge that viability assessments will be made publicly available alongside other application documents.
- 7.2. It is currently the responsibility of individual planning officers to ensure that all assessments are redacted and published online.