

Matter 8: Viability

1 Question - Have the policy requirements in the DMP, including the requirements for First Homes, a 20% net gain in biodiversity and electric vehicle charging infrastructure, been adequately assessed in relation to viability to ensure that they do not undermine the deliverability of housing development in the area? If not, how can the matter be addressed and what would the implications be for the policies in the DMP?

- 1.1 The Council considers that its viability evidence, including the LPDMP Viability Assessment, December 2021¹ (LPDMP VA) is robust. It has adequately assessed policy requirements in the LPDMP (in combination with existing policy and infrastructure costs), including the requirements for First Homes, a 20% net gain in biodiversity and electric vehicle charging infrastructure, and it has concluded that the deliverability of housing development in the area will not be undermined.
- 1.2 The viability assessment has been produced in the context of and with regard to the NPPF, PPG (including crucially on 'Viability') and other guidance and best practice applicable to studies of this nature. A typology approach has been taken, as well as testing of specific strategic sites. The testing included an assumption of 25% of affordable housing being First Homes, as well as policies relating to sustainable and low impact development, climate change mitigation, open space, biodiversity net gain and parking standards (electric vehicle charging). Using principles and a proportionate approach consistent with wider experience, the viability assessment is considered appropriate and robust.
- 1.3 The assessment has been undertaken with reference to NPPF paragraph 34 which states: 'Plans 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 methodology and assumptions are set out in the Stage 1 report and appendices.
- 1.4 The study includes a suitable allowance for developer profit and tests the viability of development across a range of sensitivity tests including on value levels, as well as considering a range of land values.
- 1.5 Acknowledging that viability is a dynamic matter and needs to be based on available information at the time of review, and in order to assess the implications of issues concerning viability raised at the Regulation 19 consultation, further sensitivity work has now been conducted (see – Viability Addendum Note October 2022 DSP ref. 22794 and its appendices², produced as an addendum to this matter statement).

¹ See [GBC-LPDMP-SD-092](#)

² See GBC-LPDMP-008b

First homes

- 1.6 Policy H8 has been subject to viability assessment reflecting the profit margin considered suitable for various types of affordable housing bearing in mind that this does not carry the same development risk as outright market sale housing; applying principles well established in practice. This includes an assumption for profit on First Homes of 12%³ of GDV which is twice the profit level used for the rented and shared ownership affordable housing and represents an intermediate profit level considered appropriate. However, as yet there is no local completed delivery experience of the recent national First Homes policy, and the Council acknowledges that this will take time to settle down. As far as the Council and its consultants are aware the profit assumption on First Homes has not been tested at Examination to date. However, 12% is considered a reasonable estimate by the Council's viability consultants based on a range of profit levels seen submitted at a site-specific level to date.
- 1.7 First Homes are expected to contribute 25% of the amount of affordable housing on a site, and therefore a small proportion of the overall housing on a site (i.e. 10% overall), made up of smaller, lower value units, therefore the overall impact on viability of applying an alternative profit assumption on these dwellings is relatively small. To put this in context, the difference made by an increase from a 12% to a 14% profit assumption on the First Homes element is equivalent to adding approximately £4.00/m² (equivalent to only around 0.3% of base build costs or around 0.15% of total development costs). Such differences are well within normal tolerances for viability assumptions and outcomes generally, and particularly so at this level of assessment. It can be expected that scheme specification, market conditions and other matters could have a more significant influence within all the variables involved.
- 1.8 Further, the First Homes policy is being introduced by the Council at its least impacting level on viability i.e. the minimum 30% discount level from market value.
- 1.9 It follows that homes offered at well below market values are likely to represent a positive part of the overall sale housing offer and accordingly are unlikely to reflect very high-risk levels. First Homes have been introduced by the Government due to the demand for discounted housing from First Time Buyers. This pent-up demand remains, and is particularly strong in areas such as Guildford where access to the housing market is especially difficult due to the relationship between earnings and house prices. With this context in mind, whilst the Council could take a more stringent view and apply a higher discount level for the First Homes, it is taking a pragmatic approach respecting as far as possible the balance with viability.
- 1.10 Nevertheless, further sensitivity testing has been carried out using a 14% profit assumption (alongside other sensitivity testing). The results are included in Dixon Searle Partnership's (DSP) above noted October 2022 addendum and are summarised below – in para 1.34 onwards. The

³ See Appendix I: Local Plan & CIL Viability Assessment - Residential Assumptions - Table 1b: Development / Policy Costs in [GBC-LPDMP-SD-092](#)

results indicate that the effect of a higher profit assumption on First Homes does not affect the overall viability outcomes and deliverability of the plan.

20% net gain in biodiversity

- 1.11 The Council makes two key points in support of its case that the 20% net gain in biodiversity has been adequately assessed in relation to viability.
- 1.12 First that the LPDMP VA proportion of net gain that has been assumed to be achievable on-site (75%, implicit to Scenario B below) is appropriate and, second, that the (scenario related) allowance made as a percentage uplift on build costs for green field and brownfield sites (previously developed land – PDL) is robust.
- 1.13 Regarding the first point, the LPDMP VA has used the Government’s own Impact Assessment⁴ to inform the choice of scenario to be tested. The Government set out three scenarios in its assessment:
 - Scenario A: The developer is able to avoid significant loss of distinctive habitats, so mitigates and enhances on site
 - Scenario B: The developer is unable to avoid, mitigate and compensate all impacts on site but is able to secure local compensatory habitat creation. This is usually identified by the developer, their consultants, a broker or an LPA. This scenario sits between Scenario A and C
 - Scenario C: The developer is unable to avoid, mitigate and compensate on site and unable to find local compensatory habitat to invest in. The government will provide a supply of statutory biodiversity credits into the compensation market to fund cost-effective habitat creation projects according to local and national conservation and natural capital priorities
- 1.14 It is worth noting that each scenario in turn represents an increased cost assumption. The Government’s impact assessment considered scenario B as the appropriate basis, and it is considered that there is no reason for Guildford to adopt any alternative scenario as a basis for its testing.
- 1.15 The choice of scenario B is supported by local evidence for Guildford which indicates that gains have been achieved on sites in the borough in the past (before any formal BNG requirement) via existing policies/site design – see the Council’s response to Matter 3, including Table 1 which reflects emerging and permitted schemes proposing a BNG greater than 20% wholly through on-site measures. The Council acknowledges that accommodating all BNG on-site will not be possible all of the time and in some cases, there is likely to be a (limited) need for some off-site credits to be purchased (see Matter 3, including Table 2). A diversity of outcomes (in terms of the degree to which BNG can be accommodated on-site) is also the case for three sites (one

⁴ See Defra (2019) [Biodiversity net gain and local nature recovery strategies: impact assessment](https://www.gov.uk/government/consultations/biodiversity-net-gain-updating-planning-requirements), available at: <https://www.gov.uk/government/consultations/biodiversity-net-gain-updating-planning-requirements>

brownfield site, one large greenfield site and one smaller greenfield site) that the Council considered to see whether any, and how many, offsite credits would have been needed to meet a 20% BNG requirement. (see the Council’s response to Matter 3 for detail, including the Stantec ‘BNG Sites Study’).

1.16 Regarding the second point, the Council considers that it remains appropriate to use the Defra (2019) BNG % uplift to build costs as a robust basis for its viability assessment. This is firstly due to the fact that the uplift to build costs that Defra propose as below, and that the Council adopts (for its increased 20% BNG requirement), is based on Scenario B (the percentage of on-site to off-site BNG being 75% on-site / 25% off-site), which both Government and the Council agree (see above) is the appropriate (central) Scenario of the three costed in Defra’s 2019 Impact Assessment (IA).

1.17 The Defra 2019 figures based on a 10% BNG for Scenario B (their central estimate for residential development) are as follows.

Biodiversity Net Gain (% of build cost)	0.1% (PDL) 0.7% (Greenfield)
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1.18 In adopting scenario B, the Council set out its assumptions regarding the uplift on green field and brownfield sites (for residential development) for a 20% BNG in the LPDMP VA as follows.

Biodiversity Net Gain (% of build cost) ⁵	0.119% (PDL) 0.833% (Greenfield)
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1.19 Secondly, the Council considers that the indicative cost of £11,000 per biodiversity unit for typical off-site habitat creation (i.e. the basis for the cost of the off-site 25% BNG component as per scenario B) assumed in the Defra 2019 IA (and that feeds into their % of Build Cost uplifts) remains appropriate. The Defra 2019 IA indicates that ‘this value is within bounds of the ‘tariff’ value proposed at consultation (between £9,000 and £15,000), as well as evidence of existing compensation schemes (usually charge between £6,000 and £25,000 per unit) plus a small uplift for administration.’

1.20 The Council is aware that further costing assumptions have been published including an estimate of a price per unit of between £20,000 and £25,000, however the Council remains of the view that it is robust to retain the original Defra (2019) figures as the basis for costing of BNG in Guildford borough. The reasons for this are set out in the Council’s response to the Inspector’s Matter 3 and include that Defra’s 2021 market analysis study is focused on the cost needed to entice farmers to replace farmland with BNG, but Guildford borough has large areas of land within a

⁵ See paragraph 6.11.2 in Defra (2019) [Biodiversity net gain and local nature recovery strategies: impact assessment](https://www.gov.uk/government/consultations/biodiversity-net-gain-updating-planning-requirements-which-indicates-that-a-20-net-gain-percentage-increases-costs-to-developers-by-19), available at: <https://www.gov.uk/government/consultations/biodiversity-net-gain-updating-planning-requirements-which-indicates-that-a-20-net-gain-percentage-increases-costs-to-developers-by-19>.

BNG compatible use such as SANG where providing BNG will not require sacrificing existing economic activity.

- 1.21 Furthermore, and as outlined in the Council's response to the Inspector's Matter 3, recent local evidence sources broadly support this cost assumption. The Council commissioned Stantec to consider the costs and feasibility of producing a habitat bank. In this regard, the Tyting BNG studies (submitted with the Matter 3 response) provide further evidence that the cost of BNG credits may be broadly around that assumed in the 2019 Defra Impact Assessment/viability study cost.
- 1.22 Nonetheless, acknowledging the representations received and the further information subsequently available, the Council commissioned further sensitivity testing of viability, assuming that all delivery of BNG is off-site as per Scenario C (see 1.13, above).
- 1.23 The Council has therefore asked DSP to provide some updated modelling to sensitivity test for claimed higher BNG costs and to test whether there would be a material impact on viability were these relevant in some circumstances.
- 1.24 DSP consider their original assumptions to be appropriate - particularly in the GBC context (where it would appear that at least some of the BNG will be met on site in many cases, and with there potentially being a reduced cost "SANG improvement" option). Nevertheless, as above the Scenario C position which subsequently has been sensitivity tested assumes over 4 times the cost allowance from Scenario B. Alongside this, the potential use of SANG improvements would also have the effect of reducing BNG credit costs further.
- 1.25 Details of the sensitivity testing are set out in the Viability Addendum Note October 2022 DSP ref. 22794⁶, and the results are summarised in 1.34 onwards, below.
- 1.26 In addition to the sensitivity testing undertaken, the Council's commissioning of Stantec 'BNG Sites Study' considers three sites as case studies to illustrate the potential practical outcomes of the 20% BNG requirement in these specific cases. None of the outcomes suggest that the viability assumptions either in terms of adopting 'scenario B' nor the viability cost assumptions are problematic. The work reflects the BNG Metric outcome for those sites (as per the submitted designs) and whether any, and how many, offsite credits would have been needed to meet a 20% BNG requirement specific case studies. Whilst only a limited, though diverse sample of sites (other sites might have different requirements) the Stantec work indicates that only a small number of habitat units are required to be off-set per site (up to 7.4 maximum in the case studies). Overall, DSP's allowance within the addendum (Scenario C based on the 2019 Impact Assessment as sensitivity tested) equates to approximately £3,000 per dwelling – significantly more than the amounts required according to the Stantec case study based reviews which equate to the following:

- 0 biodiversity units (Just Tyres)

⁶ See GBC-LPDMP-008b

- 3.49 biodiversity units (Keens Lane)– therefore even at the higher £20k per unit rate suggested by the recent eftec study = £69,800 total divided by 148 dwellings = £472 per dwelling (or £320 per dwelling if the 70 bed care home which is also proposed on the site is counted)
- 7.4 biodiversity units (Clockbarn) which would be £148,000 divided by 75 dwellings = £1,973 per dwelling.

1.27 As further, more general context in considering the case for going beyond the currently proposed 10% national minimum level, while for this purpose specific cost uplifts are applied, the Council considers it worth noting that in practice efficiencies will emerge. For instance, measures carried out on at least some sites will contribute to meeting various planning policy / environmental objectives so that especially over time there will be a multi-purpose to some of the features provided on sites. Development expertise and experience in these matters can be expected to improve. Furthermore the consideration of this in the context of viability in planning will help shape how sites will be delivered rather than the process acting as a constraint in itself.

Electric Vehicle Charging Infrastructure

- 1.28 The Council considers that its LPDMP VA reflects a suitable assessment, again based on available information at the time in relation to the assumptions made for Electric Vehicle Charging Infrastructure.
- 1.29 The VA includes a £500/dwelling (for all dwellings - regardless of type) assumption to account for the LPDMPs in relation to EV charging reflected in Policy ID11 to cover the potential additional cost of provision for electric vehicle charging. This assumption is one that has been used in a range of similar Local Plan and CIL viability assessments.
- 1.30 The Council is, however, aware of the Department for Transport's 2021 Impact Assessment on Residential charging infrastructure provision which supported the Government's consultation on Electric vehicle charge points in residential and non-residential buildings. This assessment reflects cost summaries of full charge point provision in line with their Option 3 at the time including estimated installation costs for new build of between £615 to £1,115 per EVCP for off-street parking and between £975 and £2,947 per charge point for multi-occupancy surface parking.
- 1.31 The above amounts do not however account for increasing market standardisation / economies of scale leading to a reduction in costs (bearing in mind that currently these are viewed as further extra-over costs) that are likely over the plan period.
- 1.32 Nevertheless, and although applied to all dwellings, it is acknowledged that in some cases the costs could amount to more than the explicit £500/dwelling allowance made as part of the overall development cost. Envisaging how schemes are delivered, however, were additional costs to be required as per the Department for Transport/ Office for Zero Emission Vehicle's estimates, this would not be a factor that amongst the many variables in overall viability would make a material difference to outcomes. These are again cost levels that represent a very small proportion of overall cost or value on a scheme.

- 1.33 Overall, again noting the representations received and reflecting a continued prudent approach, the Council has commissioned further sensitivity testing which takes into account the following increased base assumptions for electric vehicle charging provision (see Viability Addendum Note October 2022 DSP ref. 22794⁷). It is important to note that the additional sensitivity tests take account of the various cost uplifts tested cumulatively; i.e. accounted for together; in respect of this element now including:
- EVP extra-over costs (houses): £895
 - EVP extra-over costs (flats): £1,961

Results of further sensitivity testing

- 1.34 The results of the additional sensitivity testing are set out within the Viability Addendum Note October 2022 DSP ref. 22794⁸, which concludes as follows:
- 1.35 The results indicate a broadly neutral viability impact or slight improvement moving from the results of the previous 2021 study to updated 2022 results even considering very much a worst case scenario in terms of BNG cost allowances.
- 1.36 The impact of increasing the First Homes profit allowance is shown to be around 0.3% of base build costs or 0.15% of total development costs (additional profit of c£600,000 on a scheme of 1,700 dwellings and in that context for example with a base build cost of c.£202,000,000 or a total development cost before finance and profit of c£485,000,000). This is considered to have a minimal impact on overall viability and in absolute terms does not make an otherwise viable site, unviable.
- 1.37 It is clear that the impact of allowing for potential additional BNG and EVP costs over and above those set out in the original 2021 viability assessment is marginal. From this updated exercise this is broadly evident across the sample site typologies based on a consideration of increases in costs and values whereby at lower value levels a slight decrease in viability is observed and at higher value levels a slight improvement. The greater viability influence is seen through movements to both base construction costs and sales values in the intervening period with sales price growth broadly cancelling out both the increase in base costs and the additional allowances made for BNG and EVPs.

Conclusion

- 1.38 Despite the overall appropriate and proportionate assessment of viability of the plan, the Council acknowledges that it is inevitable that the viability of some schemes may be challenging. There is nothing unusual in this.
- 1.39 In conclusion, the Council are of the view that there is no need for adjustment in Policies in the LPDMP. The policies are viable as tested cumulatively and the deliverability of housing

⁷ See GBC-LPDMP-008b

⁸ *ibid*

development in the area will not be undermined by these policies in combination with other contributions sought.