

**Affordable Housing**

**Supplementary Planning Document**

**June 2026**



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## **List of Acronyms**

**AUV – Alternative Use Value**

**BLV – Benchmark Land Value**

**CIL – Community Infrastructure Levy**

**DM – Development Management**

**EUV – Existing Use Value**

**FVA – Financial Viability Assessment**

**GDV – Gross Development Value**

**HEDNA – Housing and Economic Development Needs Assessment**

**IRR – Internal Rate of Return**

**LHA – Local Housing Allowance**

**LPA – Local Planning Authority**

**LPIR – Local Plan Immediate Review**

**MHCLG – Ministry of Housing, Communities and Local Government**

**NDSS – Nationally Described Space Standards**

**NDV – Net Development Value**

**NPPF – National Planning Policy Framework**

**ONS – Office for National Statistics**

**RICS – Royal Institution of Chartered Surveyors**

**RLV – Residual Land Value**

**RP – Registered Provider**

**SAHP – Social and Affordable Homes Programme (2026–36)**

**SHMA – Strategic Housing Market Assessment**

**SPD – Supplementary Planning Document**

**S106 – Section 106**

**VBC – Vacant Building Credit**

## **Executive Summary**

1. This Supplementary Planning Document (“SPD”) provides additional guidance to support the implementation of Spelthorne Borough Council’s (“the Council”) Local Plan.
2. This SPD is a material consideration in the planning decision-making process. It provides guidance that the Council, as the Local Planning Authority (“LPA”), shall apply in evaluating planning applications that attract a policy requirement to provide affordable housing. Guidance is provided on the following matters:
  - When affordable housing is required to be provided and the different thresholds that apply.
  - What tenures, dwelling types, sizes, and standards are expected. In particular, the document expresses that Social Rent housing is a priority, and that, with respect to Intermediate affordable housing, Intermediate Rent housing is preferred.
  - How affordable housing should be designed and integrated into developments.
  - How applicants should work with Registered Providers of affordable housing and make use of grant funding.
  - Forming and considering viability assessments. It explains when a Financial Viability Assessment may be justified, what information and assumptions it must include, and how the Council will assess issues such as development value, costs, developer return and benchmark land value to determine the maximum viable affordable housing contribution.
  - When and how off-site provision or financial contributions may be accepted instead of on-site affordable housing provision. On-site provision is expected unless exceptional circumstances are evidenced.
  - How Viability Review Mechanisms will be used. In most cases, a formula-based approach to these is expected.
3. The purpose of this SPD is to provide greater clarity to applicants, developers and third parties, including members of the public, and should be read alongside the Local Plan and the Council’s other associated planning guidance.
4. This SPD contains a level of technical detail necessary to provide clear, robust guidance for applicants, developers, and decision-makers. Where specialist concepts or terminology are required, the Council has sought to explain these as clearly as possible and to structure the document in a way that is accessible to a wide audience. A list of acronyms used, as well as a glossary, is provided to assist the reader.

## **1. Introduction**

- 1.1 This Supplementary Planning Document (“SPD”) provides additional guidance to support the implementation of Spelthorne Borough Council’s (“the Council”) Local Plan 2024–2039/40.
- 1.2 This SPD is a material consideration in the planning decision-making process. It provides guidance to support the interpretation and application of existing Local Plan policies, particularly those relating to affordable housing, including:
- H1: Homes for All.
  - H2: Affordable Housing.
- 1.3 The SPD reviews the key aspects of national policy, guidance, and the Local Plan relating to the provision of affordable housing. It draws on up-to-date evidence of housing need in Spelthorne as set out in the emerging Housing and Economic Development Needs Assessment (“HEDNA”) 2026 and from the Council’s Housing Register. It also draws upon evidence prepared to support the newly adopted Local Plan, such as its Strategic Housing Market Assessment (“SHMA”).
- 1.4 This SPD provides guidance on affordable housing delivery on different site and development types, covering thresholds, tenure mix, and dwelling types, sizes, and standards. It also addresses affordable housing design and integration, engagement with Registered Providers (“RP”) and grant funding, and provides guidance on viability assessment, financial contributions in lieu of on-site affordable housing, and Viability Review Mechanisms.
- 1.5 The Council acknowledges the current viability and deliverability challenges affecting residential development, including ongoing difficulties - at the time of writing - in securing Registered Providers to purchase on-site affordable housing, as well as government measures to address this. The Council remains committed to considering development proposals, and applying this SPD, positively and pragmatically, and to working with applicants and developers to deliver sustainable development in Spelthorne.

### **How to use this SPD**

- 1.6 This SPD provides detailed guidance to support the implementation of Policies H1 and H2 of the Local Plan. Summary tables are included to aid interpretation; however, the detailed provisions of this SPD and the Local Plan policies take precedence. This document should be read alongside the Local Plan, relevant national policy, and other Council guidance and evidence.

## **2. Context: National and Local Policy**

- 2.1 This section sets out the relevant policy and guidance background to affordable housing provision in Spelthorne. It summarises aspects of national policy and the Spelthorne Local Plan 2024 – 2039/40, which have informed the SPD.

### **National Planning Policy Framework 2024**

- 2.2 The National Planning Policy Framework (“NPPF”) 2024 sets out national policy relating to affordable housing and developer contributions. It states that strategic policies should set out an overall strategy for the pattern, scale and design quality of places and make sufficient provision for homes, including affordable housing.
- 2.3 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 policies should not undermine the deliverability of the plan.
- 2.4 Paragraph 59 states that 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 practice guidance, including standardised inputs, and should be made publicly available.
- 2.5 Paragraph 63 states that the size, type and tenure of housing needed for different groups in the community should be assessed and reflected in planning policies. These groups should include (but are not limited to) those who require affordable housing (including Social Rent); families with children; looked after children; older people (including those who require retirement housing, housing with-care and care homes); students; people with disabilities; service families; travellers; people who rent their homes and people wishing to commission or build their own homes. The NPPF places particular emphasis on meeting the needs of households requiring Social Rent, and this SPD reflects that national direction.
- 2.6 Where a need for affordable housing is identified, planning policies should specify the type of affordable housing required (including the minimum proportion of Social Rent homes required), and expect it to be met on-site unless:
- a) Off-site provision or an appropriate financial contribution in lieu can be robustly justified; and
  - b) The agreed approach contributes to the objective of creating mixed and balanced communities.
- 2.7 Paragraph 66 states that where major development involving the provision of housing is proposed, planning policies and decisions should expect that the mix of affordable housing required meets identified local needs, across Social Rent, other affordable housing for rent and affordable home ownership tenures. The previous

requirement under national policy to deliver 25% of affordable housing as First Homes has been removed. Authorities may still support First Homes locally where evidence shows they meet identified needs, but they are no longer a national requirement.

- 2.8 Paragraph 67 states that as part of the 'Golden Rules' for Green Belt development set out in paragraphs 156-157 of the NPPF, a specific affordable housing requirement (or requirements) should be set for major development involving the provision of housing, either on land which is proposed to be released from the Green Belt or which may be permitted on land within the Green Belt. This requirement should:
- a) Be set at a higher level than that which would otherwise apply to land which is not within or proposed to be released from the Green Belt; and
  - b) Require at least 50% of the housing to be affordable, unless this would make the development of these sites unviable (when tested in accordance with national planning practice guidance on viability).
- 2.9 The affordable housing requirement for land within or released from the Green Belt may be set as a single rate or be set at differential rates, subject to the criteria above.
- 2.10 Paragraph 157 states that, until development plan policies for affordable housing are updated, the affordable housing contribution required to satisfy the Golden Rules is 15 percentage points above the highest existing affordable housing requirement that would otherwise apply to the development, subject to a maximum cap of 50%.<sup>1</sup> Where no existing affordable housing requirement is in place, a default contribution of 50% should apply.
- 2.11 The use of site-specific viability assessments for land within, or released from, the Green Belt must follow the approach set out in national planning practice guidance on viability. This guidance confirms that, where development is subject to the NPPF Golden Rules, site specific viability assessments should not be used to reduce developer contributions, including affordable housing.
- 2.12 Paragraph 71 states that mixed tenure sites can provide a range of benefits, including creating diverse communities and supporting timely build out rates, and local planning authorities should support their development through their policies and decisions (although this should not preclude schemes that are mainly, or entirely, for Social Rent or other affordable housing tenures from being supported). Mixed tenure sites can include a mixture of ownership and rental tenures, including Social Rent, other rented affordable housing and build to rent, as well as housing designed for specific groups such as older people's housing and student accommodation, and plots sold for custom or self-build.

### **Draft National Planning Policy Framework 2025**

- 2.13 In December 2025, the government published consultation stage revisions to the NPPF. These draft policies were subject to consultation at the time that this SPD was developed. The Draft NPPF sets out plan making and development

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<sup>1</sup> The 50% cap does not apply to rural exception sites or community-led development exception sites, or if the local planning authority has a relevant existing policy which would apply to the development which is above 50%.

management policies, as well as thematic policies, including those relating to sustainable development, delivering homes and supporting growth.

- 2.14 The consultation document accompanying this restates the government's manifesto commitment to strengthen the existing developer contributions system and to deliver the biggest boost to social and affordable housing in a generation.
- 2.15 The Draft NPPF carries forward a range of policy approaches relating to affordable housing and viability from the 2024 NPPF, which are not repeated here. Other significant policies are summarised below.
- 2.16 Draft NPPF policy PM12 states that policy requirements for affordable housing and developer contributions should be clear so that they can be accurately accounted for in the price paid for land.
- 2.17 Plans should also set out the circumstances in which review mechanisms will be used for development proposals where contributions are proposed to be reduced below the requirements set out in plan policies. Plans should clearly set out the processes and terms of engagement regarding how and when viability will be reassessed over the lifetime of the development to maximise policy compliance.
- 2.18 Draft NPPF policy DM5 states that there may be limited circumstances in which it would not be possible for development to proceed on a policy compliant basis, and a viability assessment to inform decision-making is justified to ensure that a proposed development makes the maximum possible contribution to affordable housing and other infrastructure. Such circumstances may include situations where:
- a) The development is significantly different from any typology assumed in the development plan viability assessment.
  - b) Site characteristics differ substantially from the assumptions used to assess viability when the relevant development plan policies were prepared.
  - c) The development is demonstrably burdened by costs which were unforeseeable when the development plan was prepared; and/or
  - d) Site or economic circumstances have changed significantly since the development plan was prepared.
- 2.19 Neither the price paid for land, nor the price intended to be paid through an option agreement, should be a justification for failing to accord with relevant policies in the plan.
- 2.20 Where a viability assessment is submitted with a development proposal, this should be based upon and refer back to the viability assessment(s) that informed the relevant development plan policies. It should fully evidence all inputs and assumptions used in the assessment, and explain any differences from those used for viability assessment that informed the relevant plan policies.
- 2.21 These considerations should inform the decision maker's assessment of the weight to be given to a submitted viability assessment. Where a viability assessment is submitted and contributions are reduced below the requirements set out in relevant development plan policies, decision makers should consider using review mechanisms to seek policy compliance over the lifetime of the project, in accordance with planning practice guidance.

- 2.22 Policy HO5 states that the development plan should set out policies to address the housing needs of different groups. As well as the type and mix of affordable housing, including the minimum proportion of Social Rent, this includes requirements for accessible housing, setting out the proportion of new housing that should be delivered to requirement M4(2) Accessible and adaptable dwellings and M4(3) Wheelchair user dwellings of the Building Regulations. M4(2) requirements should reflect local levels of need, and plans should ensure that at least 40% of new housing delivered over the course of the plan is delivered to M4(2) or M4(3) standards.<sup>2</sup>
- 2.23 The consultation document accompanying the Draft NPPF indicates that government is reviewing whether the planning system provides appropriate flexibility to support temporary accommodation affordable housing products, such as stepping stone housing, when considering matters such as space standards.
- 2.24 As part of the Draft NPPF, government is also consulting on further issues relating to viability assessment, including growth testing, developer return, Benchmark Land Values and cross-checking the outputs of viability assessments.
- 2.25 DM policy HO8 requires development proposals to meet or exceed plan requirements for the proportion and mix of affordable housing tenures relevant to the location, including the minimum proportion of Social Rent. DM policy HO10 states that development proposals for housing or traveller sites on land not already allocated for this purpose, and which are located outside settlements, should be supported where they are:
- a) A rural exception site that will provide affordable housing or affordable traveller sites to meet identified local needs – as evidenced through a local housing needs survey or secondary data which is no more than five years old; or
  - b) Sites which comprise community-led development which would not qualify as a rural exception site, but which include one or more types of affordable housing.
- 2.26 Unless otherwise specified in the development plan, exception sites brought forward in one of these two ways should:
- a) Adjoin or be physically well-related to settlements.
  - b) Be no larger than 1 hectare in size, or exceed 5% of the size of the existing settlement; and
  - c) Comprise a majority of affordable housing or affordable traveller pitches. A proportion of market tenure homes may be allowed on the site where essential to enable the delivery of affordable units without grant funding.
- 2.27 Policy GB8:3 states that there are only three circumstances in which a site-specific viability assessment may be justified to allow the contributions expected under the Green Belt golden rules to be adjusted, which are where a development proposal is:
- a) On previously developed land.
  - b) For a multi-phase strategic site; or

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<sup>2</sup> The Draft NPPF also refers to the provision of military affordable housing which can be provided alongside or instead of normal tenure requirements where provided on-site and there is a demonstrated unmet need.

- c) A development model which is of a wholly different type to that assumed in the viability assessment that informed the development plan.
- 2.28 Where the circumstances above apply, development should still make the maximum possible contribution to affordable housing and other infrastructure requirements.
- 2.29 The NPPF consultation document also states that, as a general rule, attempts to revisit fundamental issues of viability or planning obligations through Section 73 applications should be scrutinised carefully, and the applicant should provide a robust justification for any changes proposed for planning obligations associated with the original permission beyond those linked to the specific variation of condition being sought. Where developers submit a Section 73 application that seeks to reduce affordable housing provision based on a new viability assessment, the decision maker should have regard to the harm that such a reduction may cause and give this appropriate weight in the overall planning balance, alongside the wider merits of the scheme. The government has also written to the Planning Inspectorate, Councils and the development sector on this basis.

### **Spelthorne Local Plan 2024 - 2039/40**

- 2.30 The Spelthorne Local Plan was adopted in March 2026. This sets out policies relating to the provision of housing and affordable housing in Spelthorne.

#### **Policy H1: Homes for All**

- 2.31 Policy H1 states that the Council will make provision for at least an additional 618 homes per annum in Spelthorne over the plan period.
- 2.32 New residential development is required to deliver a wide choice of homes to meet a range of accommodation needs, providing a mix of housing tenures, types and sizes appropriate to the size, characteristics and location. Development proposals will be expected to contribute to meeting identified housing needs by having regard to the housing type and size mix as set out in the SHMA or any similar evidence for market and affordable units.
- 2.33 All new residential development across all tenures (under Use Class C3) will be expected to meet with the minimum space standards as set out by the Ministry of Housing, Communities and Local Government (“MHCLG”).
- 2.34 Further aspects of Local Plan policy relating to accessible and supported housing are considered in the Affordable Housing Delivery section of this SPD.

#### **Policy H2: Affordable Housing**

- 2.35 Policy H2 states that the Council will require at least 30% affordable housing units on all schemes of 10 units (net) or more. Greenfield sites will be expected to deliver at least 50% affordable housing. The minimum amount of affordable housing to be delivered should be calculated based on the net total amount of provided dwellings.
- 2.36 Planning permission will be granted provided that satisfactory arrangements have been made to secure affordable housing as determined by the principles set out below.

### Size, Type and Tenure

- 2.37 Part 2 (a) of the policy states that the sizes, types and tenure of homes provided will be determined on the basis of local needs as identified having regard to the SHMA or subsequent affordable housing needs evidence commissioned or produced by the Council. Where available, wider sources relating to affordable housing need may also be considered to understand needs more local to a development proposal.
- 2.38 Part 2 (d) of the policy also states that the tenure split should be informed by the most up-to-date Council evidence. The tenure and number of bedrooms of the affordable homes provided on each qualifying site must contribute towards meeting the mix of affordable housing needs identified in the Strategic Housing Market Assessment, or subsequent affordable housing needs evidence commissioned or produced by the Council. The supporting text at paragraph 6.30 also confirms that the Council will have due regard to the priority needs of the Borough, as set out in the Housing Register maintained by the Council.
- 2.39 The 2019 SHMA update identified a tenure split of 75% Social Rent / Affordable Rent, with 25% Intermediate home ownership. The Local Plan refers to the provision of intermediate homes as 25% First Homes as per national guidance, as well as the national policy requirement to provide a minimum of 10% affordable home ownership. However, these are no longer requirements in national policy and do not reflect the housing needs within the Borough. In addition, government has consulted on introducing a minimum requirement for the provision of Social Rent within the updated NPPF.
- 2.40 This SPD retains a 75% Social / Affordable Rent: 25% Intermediate tenure split. This reflects the substantial need for Social / Affordable Rent homes, as evidenced by the HEDNA and Housing Register, and aligns with the national policy emphasis on delivering Social Rent where possible. This also reflects the approach to intermediate housing in the NPPF which no longer prioritises First Homes or other intermediate ownership products.

### On-site / Off-site Provision and Viability

- 2.41 Developments will be expected to be policy compliant in providing affordable housing. It is for applicants to demonstrate whether particular circumstances justify the need for viability assessment at the application stage. Where applicants demonstrate that the full amount of affordable housing cannot be delivered, the Council will employ a sequential approach to provision:
- i. Where on-site provision is not viable, affordable housing will need to be provided off-site. This is expected to enable the same amount of additional affordable housing as would have been delivered on-site.
  - ii. Where viability evidence demonstrates that the full amount of affordable housing cannot be delivered, the Council will negotiate a level of on-site affordable housing that can be delivered taking into account the mix of unit size, type and tenure, in addition to a financial contribution. If this cannot be accommodated on-site then the Council will seek a suitable level of off-site provision in addition to a financial contribution.

- iii. The Council will only accept a financial contribution in lieu of affordable housing provision where it can be satisfactorily demonstrated that on-site or off-site provision is neither feasible nor viable.

#### Assessing the Site as a Whole

- 2.42 The Council will have regard to the whole development site in determining the appropriate level of affordable housing provision on-site. This includes where an applicant has sub-divided, fragmented or phased a site or it is not being developed to its full potential so as to fall under the affordable housing threshold. The affordable housing requirement will need to reflect that which would be provided if the whole site were to come forward as a single scheme.

#### Build to Rent

- 2.43 Where Build to Rent housing is proposed, the proportion of Affordable Housing provision should be as set out in the national policy (20%) until such a time that the Council sets its own benchmark level supported by any up-to-date evidence, plans or strategies.

#### Integration

- 2.44 Where provided within a market housing scheme, affordable housing will be well integrated with and appropriately designed to complement the market tenure housing. Equal access to facilities and amenities (such as open spaces and play facilities) will be required for all groups of the community living within the development.

#### Applications where Affordable Housing Requirements Apply

- 2.45 The requirement to provide affordable housing will apply to all residential development falling under Use Class C2, C3 and C4, or any subsequent amendments to the Use Classes Order, with the exception of Gypsy & Traveller Pitches or Travelling Showman Plots.

#### Viability Review Mechanisms

- 2.46 Viability Reviews should be applied to all viability tested applications at early and late stages in the development process (and mid-term reviews in the case of longer phased schemes) to ensure that affordable housing delivery is maximised as a result of any future improvement in viability.

### **3. Context: The Need for Affordable Housing in Spelthorne**

- 3.1 This section summarises the key indicators of need that underpin the Council's preferred approaches to affordable housing.
- 3.2 Local Plan Policy H2 requires that affordable housing provision, including the sizes, types and tenure of homes, is determined based on up-to-date evidence of need. This evidence includes the SHMA, the HEDNA and the Council's Housing Register.

#### **Strategic Housing Market Assessment**

- 3.3 A SHMA was undertaken in 2015 and an update to this was published in 2019. This identified a net annual requirement for 459 units over the period to 2035, taking into account re-let supply which would be expected to be delivered primarily as Social Rent / Affordable Rented housing for households on the Council's Housing Register.<sup>3</sup> This evidence supports the continued prioritisation of Social Rent and Affordable Rent delivery in Spelthorne.
- 3.4 While not a like for like comparison, Social Rent / Affordable Rent accounted for more than three quarters of overall housing need, and so the assessment recommended that the Council should continue to seek as much affordable housing as viably possible when setting affordable housing policies.
- 3.5 The assessment recognised that when considering tenure mix there are trade-offs between the affordability of accommodation and the number of homes that can viably be provided. To inform this it suggested that 30% of homes within a scheme are provided as Social Rent / Affordable Rent, and 10% as affordable home ownership. This aligns directly with the 75% Social Rent / Affordable Rent: 25% Intermediate tenure split embedded in Local Plan Policy H2.
- 3.6 The assessment also noted that the cost of affordable home ownership properties can sometimes exceed those of lower cost market tenure homes and thus cannot truly be considered as affordable. This highlights the need to ensure that home ownership products are only supported where they demonstrably meet local income levels and affordability thresholds.
- 3.7 The net need for affordable home ownership was estimated at 29 to 384 units per annum. The evidence suggested that there is no basis to increase the provision of affordable home ownership above the 10% minimum requirement set out in the NPPF at that time, and that the Council should be seeking to provide Social and Affordable Rent housing. The NPPF minimum 10% home ownership requirement has since been removed from the NPPF which now places much greater emphasis on the provision of Social Rent. Shared Ownership was identified as the most appropriate affordable home ownership product for any that is provided. The SHMA did not assess the need for Intermediate Rent housing, however, this is considered further below.
- 3.8 The following bedroom size mix for affordable housing was recommended:

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<sup>3</sup> The study uses the term affordable rented housing as an overarching term for Social / Affordable rented housing. Definitions for these tenures are set out in the glossary to this SPD.

<b>Table 1: SHMA Update Recommended Bedroom Size Mix</b>				
	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>
<b>Social Rent / Affordable Rent</b>	35-40%	25-30%	25-30%	5-10%
<b>Affordable Home Ownership</b>	15-25%	40-45%	25-35%	5-10%

- 3.9 The study recognised the role that delivery of larger family homes can play in releasing supply of small properties for other households, and that affordable home ownership should focus more on delivering smaller family homes for younger households, including a higher proportion of 2 bed properties. The study also referred to data from the Housing Learning and Information Network suggesting that just under 40% of older persons accommodation supply should be rented accommodation, including Social Rent.
- 3.10 The SHMA referred to Census data that identified that 11,242 households in Spelthorne contain someone with a long-term health problem or disability (28.5%). The SHMA also identified a projected growth in older people and a clear need to accommodate households that require adaptations to properties to meet their changing needs while others may require more specialist accommodation or support. This highlights the need for more accessible homes in Spelthorne in line with national and local plan policy.
- 3.11 Based on analysis of key worker incomes, the SHMA update found that single key workers are likely to require Social Rent housing or support from the Local Housing Allowance (“LHA”).

### **Housing and Economic Development Needs Assessment 2026**

- 3.12 The Council commissioned an update to its evidence on Housing and Economic Development Needs to inform the Local Plan Review which is set out in the HEDNA 2026. At the time of writing this SPD, the HEDNA was being developed. This section is able to reflect relevant finalised components available.

#### Demographics

- 3.13 As of mid-2024, the population of Spelthorne is estimated in the HEDNA to be 107,100. This represents an increase of around 8.1% since 2011, which is broadly similar to that seen across the South East and England and above that of Surrey.

#### Existing Housing Stock

- 3.14 Data from the HEDNA indicates that the proportion of Social Rent dwellings in Spelthorne at 13% is lower than the South East region (14%) and England (17%). Private rented stock is also lower at 18%, compared with 19% in the South East and 21% in England.

#### Household Composition and Formation

- 3.15 Couples with non-dependent children are also high in Spelthorne (7.5% of households) when compared to the South East (6.5%) and England (6.3%). This may indicate that a number of households in the area have adult children still living with their parents, suggesting affordability issues that may prevent them from moving out.

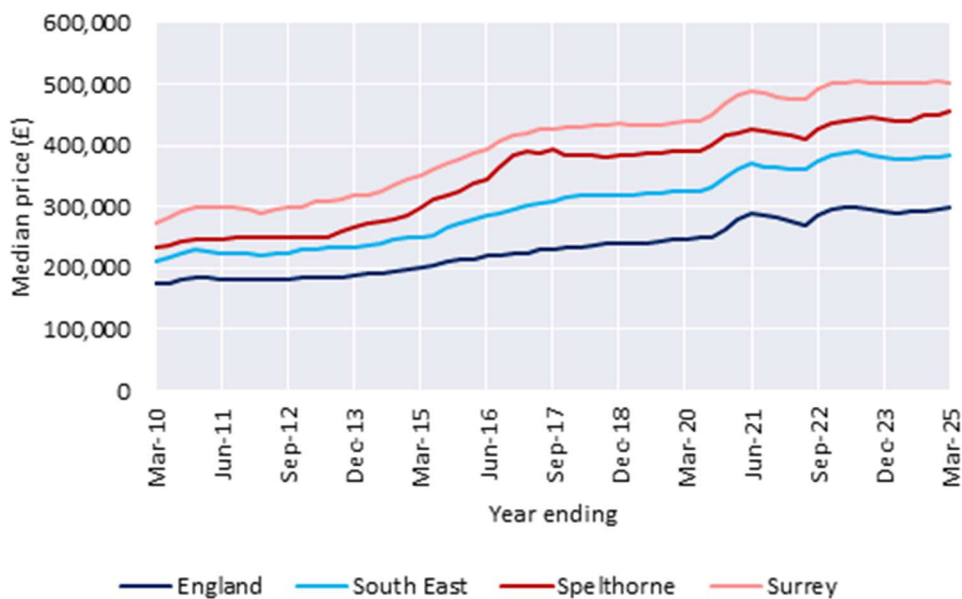
### Occupancy and Overcrowding

- 3.16 Spelthorne also has a higher level of overcrowding (5.1% of households) compared with the South East (3.4%) and England (4.4%) and also has a lower proportion of underoccupied dwellings. The assessment found that the high proportion of ‘right-sized’ and overcrowded properties suggests there is a potential issue with the cost and size of stock in the area, as households are unable to find dwellings that have the space that they need. Low levels of under-occupancy are also likely to reflect the relatively low proportion of homes with four or more bedrooms.
- 3.17 Furthermore, the occupancy rating differs significantly between tenures. Social Rent dwellings in all areas are more likely to be at capacity (63.3%) or overcrowded (11.6%) than other tenure types, followed by private renting (52.4%/ 10.9%), then ownership (18.1%/ 2.3%).

### House Prices

- 3.18 The median house price in Spelthorne in the year to March 2025 was £455,000, significantly above the regional (£384,000) as well as the England median (£300,000), but below the Surrey median (£500,000). The cost of homes in Spelthorne has been consistently higher than both the South East and National medians since 2010 and the gap is widening.

Figure 1: House Prices in Spelthorne (March 2010 to March 2025)



Source: Office of National Statistics (“ONS”), House Prices for Small Statistical Areas (as referred to in the HEDNA)

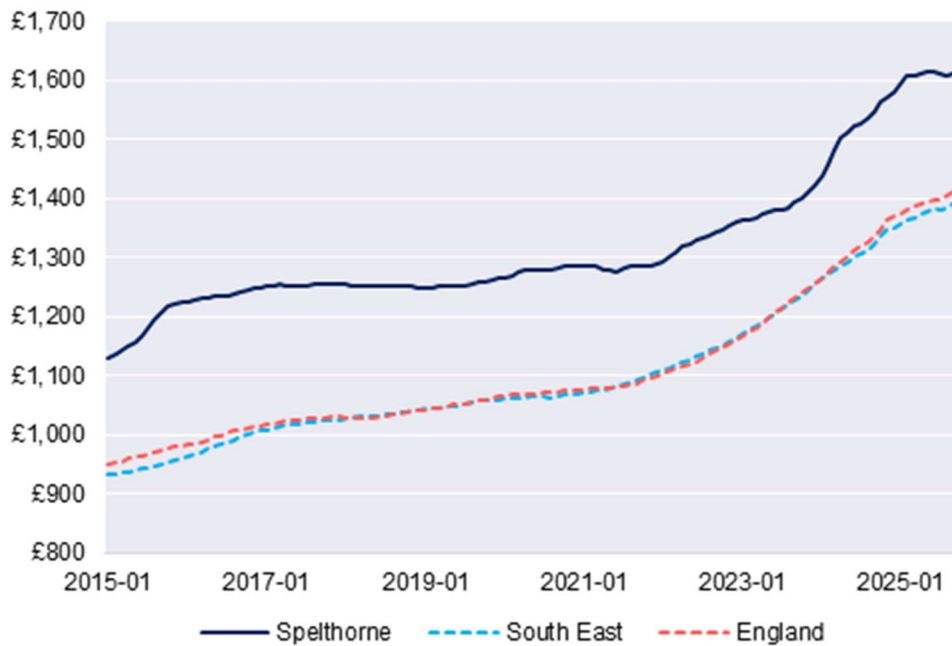
- 3.19 During the period 2015-2025 the median house price in Spelthorne has increased by 51.7% (£155,050 in absolute terms). The following table shows the median house price by housing type (year to September 2024).

Overall	Detached	Semi	Terrace	Flat
£455,000	£677,250	£505,000	£435,000	£285,000

### Affordability

- 3.20 The Office for National Statistics' ("ONS") workplace-based affordability ratio in Spelthorne, which compares the median earnings of individuals working within an area to the median house prices in that area is 10.44, compared to the regional figures of 9.61 and 7.71 across England. This has reduced slightly since 2020, however is significantly higher than the ratio recorded in 1997 at c.4.75, indicating that it has become much more difficult for workers in Spelthorne to afford a home in the area.
- 3.21 As with the sales market, Spelthorne has higher median rental prices at £1,620 per month, compared with the South East (£1,393) and England (£1,416). This is the same for all property sizes, with median rents in Spelthorne ranging from £1,176 per month for one bed properties to £2,387 for four or more beds. The figure below shows how significantly rents have risen in Spelthorne, particularly since 2022. All areas have seen growth, with prices in Spelthorne consistently above those of the region and England over the period assessed.

Figure 2: Rental Cost Change (2015-2025)



Source: ONS Price Index of Private Rental Statistics (as referred to in the HEDNA)

### Earnings and Household Income

- 3.22 Residents of Spelthorne have relatively high earnings compared to those in the broader South East and England. However, as noted above, the earnings to house price ratio is higher in Spelthorne.
- 3.23 Median, 25<sup>th</sup> and 75<sup>th</sup> percentile earnings in 2024 are set out in the table below.<sup>4</sup>

<sup>4</sup> ONS Annual Survey of Hours and Earnings (HEDNA).

Table 3: Median and 25/75th percentile earnings in 2024			
	Weekly	Monthly	Annual
<b>25th Percentile</b>	£655	£2,838	£34,060
<b>Median</b>	£877	£3,800	£45,604
<b>75th Percentile</b>	£1,155	£5,005	£60,060

3.24 The median household income in Spelthorne is estimated at £67,400, with a lower quartile income of £39,300. There are modest differences between areas with the range of median incomes going from £62,200 in Stanwell & Stanwell Moor, up to £69,100 in Staines.

#### Population Profile

3.25 Spelthorne's percentage of the population under the age of 16 (19.3%) is slightly higher than in the South East (18.5%) and England (18.4%), while the proportion that is over 65 (17.9%), is lower than the South East (19.8%) and England (18.7%).<sup>5</sup> This highlights the need for family sized housing in the area.

#### Housing Needs

3.26 The HEDNA estimates that there are 3,589 households living in unsuitable housing in the borough, including 560 households who have no accommodation (homeless or concealed households) and 1,983 households in overcrowded accommodation.

3.27 The housing needs assessment in the HEDNA undertaken through the Standard Method shows an overall housing need for 793 dwellings per annum.

3.28 The HEDNA also assesses the annual affordable housing need which is estimated as 514 dwellings, which comprises of 355 homes for households who are unable to rent or buy market tenure homes and 159 households who are able to rent but not buy. When taking into account that some of the households will already be living in housing, and so providing an affordable housing option does not lead to an overall net increase, the need figure for those unable to buy or rent is 275 homes per annum.

3.29 As the methodologies for assessing overall housing need and affordable housing need are different, the HEDNA notes that comparison of the two is difficult. Nevertheless, it concludes that the evidence shows that affordable housing delivery should be maximised where opportunities arise. The HEDNA recommends a tenure split between Social Rent / Affordable Rent and Intermediate housing at an 80:20 ratio, with 80% of rented homes at Social Rent and the remainder at affordable rents. This is a slightly higher proportion of Social Rent / Affordable Rent than the 75:25 split set out in Local Plan policy H2. The Council will continue to apply the approach in policy H2, however will keep this under review. The SPD also sets out a priority for Social Rent, particularly larger units, given the significant need for Social Rent identified in the evidence base.

#### **Households on the Council Housing Register**

3.30 There were 2,457 households on the Council's Housing Register in November 2025. Nearly two thirds of these households (1,592) are identified as being in more

<sup>5</sup> ONS (HEDNA).

significant forms of need.<sup>6</sup> This includes households experiencing overcrowding, medical issues, homelessness, sharing facilities, as well as care leavers, households in need of supported housing, and those experiencing harassment and violence, amongst others.

<b>Table 4: Reason for housing need for households in more significant need</b>		
<b>Reason</b>	<b>Number of Households</b>	<b>Percentage</b>
<b>Overcrowding</b>	559	35%
<b>Medical</b>	322	20%
<b>Sharing facilities</b>	209	13%
<b>Homelessness</b>	201	13%
<b>Overcrowding Sharing Facilities</b>	142	9%
<b>Care Leaver</b>	68	4%
<b>Supported Housing</b>	30	2%
<b>Harassment &amp; Violence</b>	17	1%

- 3.31 More than 600 of these households have been on the register for more than two years. These households are in need of Social Rent / Affordable Rent housing, with the following bedroom size mix:

<b>Table 5: Required bedroom size mix for households in more significant need</b>		
<b>Bedroom Size</b>	<b>Number of Households</b>	<b>Percentage</b>
<b>1 bed</b>	590	37%
<b>2 bed</b>	527	33%
<b>3 bed</b>	387	24%
<b>4 bed or more</b>	88	6%

- 3.32 This is highly consistent with the housing mix recommended in the SHMA which the Council will continue to apply, and demonstrates a continued need for a balanced mix of one-, two- and three-bed units, with a smaller but essential requirement for larger four-bed family homes.
- 3.33 The Council has also identified a particular need for wheelchair accessible Social / Affordable Rent homes which is partly reflected in the Housing Register data indicating a significant number of households with medical needs, as well as high demand for the Council's Disabled Facilities Grant Programme. This reinforces the importance of delivering a proportion of M4(3) homes as Social Rent wherever feasible, as set out in Section 4 of this SPD.
- 3.34 The latest housing evidence also identifies a high need for Social Rent housing and a balanced bedroom size mix. This evidence forms the basis of the Council's requirement for a 75% Social Rent / Affordable Rent: 25% Intermediate tenure split, prioritising the provision of Social Rent, and the bedroom size mix set out in Section 4 of this SPD.

<sup>6</sup> Band A – Emergency / Priority. Band B – Urgent need to move. Band C1 – Identified need to move. C2 - Cases with a reasonable preference need but no local connection.

### **Housing Development in Spelthorne – Latest Position**

- 3.35 The Authority Monitoring Report 2025 described that in 2024/25 105 affordable homes were granted planning permission and 200 affordable dwellings under construction. Overall housing delivery for the last three years for which data is available is set out in the table below:

<b>Table 6: Overall Housing Delivery – 2022/23 to 2024/25</b>			
	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>Dwellings completed (net)</b>	138	287	194
<b>Dwellings under construction</b>	1320	1509	1445
<b>Dwellings with planning permission (not started) (net)</b>	878	333	412

## 4. Affordable Housing Delivery

- 4.1 This section sets out the Council’s detailed approach to affordable housing delivery in Spelthorne. It explains when affordable housing is required, the thresholds that apply to different types of development, and the expected tenure mix, dwelling sizes, standards and design principles. It also provides guidance on accessible homes and other residential development types, including Build to Rent, specialist accommodation, self and custom build housing, and community-led or rural exception schemes.

### Affordable Housing Thresholds

- 4.2 The table below provides a simplified overview of affordable housing thresholds to aid interpretation. It must be read alongside the detailed provisions of this SPD and the Local Plan policies and Site Allocations which take precedence.

Table 7: Affordable Housing Thresholds Summary Table		
Site Type	Development Type	Affordable Housing Required (By Unit)
<b>Brownfield Sites</b>	<ul style="list-style-type: none"> <li>• 10+ Units (Net)</li> <li>• Site Area ≥ 0.5 Hectares ('Major Development')</li> </ul>	30% (20% Build to Rent)
<b>Greenfield Sites</b>		50% (20% Build to Rent)
<b>Non-Greenfield sites within the Green Belt</b>		45% (35% Build to Rent)
<b>Sites allocated within the Spelthorne Local Plan 2024 – 2039/40</b>	As specified in Local Plan Chapter 10: Allocations	

- 4.3 In line with Local Plan Policy H2, the Council will require at least 30% affordable housing units on all schemes of 10 units (net) or more. Affordable housing will also be sought from sites of 0.5 hectares or more, in line with the national definition of major development, regardless of the number of units. Greenfield sites will be expected to deliver at least 50% affordable housing.
- 4.4 For major residential proposals on non-greenfield sites (including Grey Belt) in the Green Belt subject to a planning application, 45% affordable housing will be required.<sup>7</sup>
- 4.5 Where an affordable housing requirement is specified for a site allocated in Section 10 of the Spelthorne Local Plan 2024 – 2039/40, the site allocation requirement will apply. Where an affordable housing requirement is not specified for a site allocated in Section 10 of the Spelthorne Local Plan 2024 – 2039/40, affordable housing requirements will apply in line with the paragraphs above.
- 4.6 The minimum amount of affordable housing to be delivered should be calculated based on the net total amount of provided dwellings. The calculation will be rounded up to the nearest whole affordable unit. When calculating the tenure split, the

<sup>7</sup> This is in line with the NPPF which requires that before development plan policies are updated to reflect the Green Belt 'golden rules' the affordable housing contribution is 15 percentage points above the highest existing requirement that would otherwise apply, subject to a cap of 50%.

number of Social / Affordable Rent units will be rounded up to the nearest whole unit.<sup>8</sup>

- 4.7 As set out in Policy H2, the Council will have regard to the whole development site in determining the appropriate level of affordable housing provision on-site. This includes where an applicant has sub-divided, fragmented or phased a site or it is not being developed to its full potential so as to fall under the affordable housing threshold. This ensures that the affordable housing requirement reflects the capacity of the whole site and prevents artificial subdivision intended to fall below policy thresholds.
- 4.8 Any applications for major residential development which do not meet the relevant affordable housing thresholds above or criteria set out below, or where this is not provided on-site, will be subject to viability assessment in line with the approach set out further below.<sup>9</sup>
- 4.9 The Council's Local Plan affordable housing requirement is measured on a per unit basis. Where a form of development attracts a policy requirement to provide affordable housing, but does not provide self-contained units, the quantum of affordable housing required will be measured by floor area taking into account the circumstances of the case.

#### **Affordable Housing Tenure Mix**

- 4.10 The table below provides a simplified overview of the Council's approach to affordable tenure mix. It must be read alongside the detailed provisions of this SPD and the Local Plan policies which take precedence. Definitions of the terms and tenures below are provided in the glossary.

<b>Affordable Housing Type</b>	<b>Proportion</b>	<b>Relevant Criteria</b>
<b>Social Rent / Affordable Rent</b>	75%	<ul style="list-style-type: none"> <li>• Priority is for Social Rent.</li> <li>• Total housing costs for Affordable Rent should be up to LHA rates and no higher than 80% of market rent.</li> </ul>
<b>Intermediate Rent</b>	25%	<ul style="list-style-type: none"> <li>• Preference for Intermediate housing is Intermediate Rent.</li> <li>• Eligibility: Households with a gross income lower than £65,000.</li> <li>• Total housing costs should be up to the lower of LHA rates and 80% Market Rent and not to exceed 40% of maximum net income.</li> </ul>
<b>Intermediate Ownership</b>		<ul style="list-style-type: none"> <li>• Shared Ownership generally only suitable for 1/2 bed homes.</li> <li>• Eligibility: Households with a gross income lower than £80,000.</li> </ul>

<sup>8</sup> Affordable housing numbers will be rounded to the nearest whole unit based on the net dwelling requirement. The 75% Social Rent / Affordable Rent: 25% Intermediate tenure split will then be applied, with rounding discussed on a case-by-case basis to ensure the policy requirement and tenure priorities are met.

<sup>9</sup> However, where development takes place on land situated in, or released from, the Green Belt which is subject to the NPPF 'Golden Rules', site specific viability assessment should not be undertaken for the purpose of reducing developer contributions, including affordable housing.

		<ul style="list-style-type: none"> <li>• Total housing costs not to exceed 40% of maximum net income.</li> </ul>
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- 4.11 The Council will require a tenure split of 75% Social Rent / Affordable Rent and 25% Intermediate housing (Intermediate Rent, Shared Ownership) based on the assessments of housing need, as referred to further above.

### **Social Rent / Affordable Rent Housing**

- 4.12 Social Rent and Affordable Rent are tenures that are provided for households in greatest housing need on the Council's Housing Register.
- 4.13 The Council's priority is for the delivery of Social Rent when meeting the Local Plan 75% tenure requirement for Social / Affordable rent. This is provided at rents set in accordance with government policy and is the tenure that most effectively addresses housing need.<sup>10</sup> This reflects the NPPF requirement that LPAs should plan to meet the needs of those who require Social Rent and that Social Rent is a key priority for the Social and Affordable Homes Programme 2026-36 ("SAHP"), with government setting out the expectation that at least 60% of all homes funded through the SAHP will be for Social Rent.<sup>11</sup>
- 4.14 There is a need for three and four bed Social Rent properties to provide homes for families and larger households. The Council will take this into account when assessing residential development proposals including those for other specialised residential types.
- 4.15 Family sized homes are not generally affordable when provided as Affordable Rent which is charged at rents which are significantly higher than Social Rent. Where Affordable Rent is provided, this should be limited to one and/or two bed units. To ensure that this remains affordable, total housing costs should not exceed the relevant LHA rate and should also not be higher than 80% of market rent.<sup>12</sup>

### **Intermediate Housing**

- 4.16 Intermediate housing is provided for households with middle incomes who cannot afford to purchase or rent on the open market. This includes tenures such as Intermediate Rent and Shared Ownership.

### Intermediate Rent

- 4.17 Taking into account median incomes in Spelthorne, the Council's preference is for the delivery of Intermediate Rent when meeting the 25% tenure requirement for Intermediate housing. Where evidence demonstrates a specific need for an

<sup>10</sup> Details of Social Rent are set out in policy and guidance published by government and the Social Housing Regulator. The latest versions of these documents at the date of this SPD are available at the following: <https://www.gov.uk/government/publications/direction-on-the-rent-standard-2026/policy-statement-on-rents-for-social-housing>

<https://www.gov.uk/government/publications/rent-standard-2026>

<sup>11</sup> Government has also consulted on including a minimum requirement for a proportion of new homes in each major development to be provided as Social Rent which the Council will apply if this is included in the revised NPPF.

<sup>12</sup> Rents should not exceed 80% of market rents for the specific home (inclusive of service charges). Although LHA rates are not referred to in the formal definition of affordable rent, they are commonly used in higher value areas as an affordability benchmark to help ensure that affordable rent is more affordable for low income households.

affordable home ownership product, this form of affordable housing can be provided instead.

- 4.18 Intermediate Rent is a discounted market rent product, provided in perpetuity, based on median incomes for households who are not eligible for Social Rent / Affordable Rent. This is also known as affordable private rent in the context of Build to Rent development (see below). Intermediate Rent can also be provided as a rent-to-buy product which enables the household to save towards a deposit to purchase the home as a shared ownership property after five years.
- 4.19 This form of affordable housing is also available for key workers who provide essential services that support the local and wider community and economy.<sup>13</sup> This approach also reflects that the previous NPPF minimum requirement for the provision of 10% affordable home ownership no longer applies. There is a particular need for three and four bed Intermediate Rent properties to provide more affordable Intermediate housing for families and larger households.
- 4.20 Total housing costs including rents and service charges for Intermediate Rent should not exceed the lower of the relevant LHA for the relevant size of property and 80% of the market rent for an equivalent property. This affordability requirement will be secured in Section 106 ("S106") Agreements.

#### Intermediate Ownership

- 4.21 Shared Ownership is a part buy, part rent, affordable ownership product. However, this can be unaffordable for households with incomes at or close to median incomes, particularly for larger units with a high market value. Given local market values, Shared Ownership may only be affordable for smaller unit types; this SPD therefore encourages that, where it is delivered, it should be in the form of one or two bed units. Shared Ownership should be provided in line with the Council's<sup>14</sup> and government guidance<sup>15</sup>.
- 4.22 Total housing costs, including mortgage repayments on equity purchases and rent on the unsold equity should remain affordable for households with a range of incomes below £80,000. These should not exceed 40% of net income for the maximum household income, which is the equivalent to £1,867 per month<sup>16</sup>. These affordability requirements will be secured in S106 Agreements.
- 4.23 First Homes are a Discount Market Sale, Intermediate ownership product that are sold at a discount to market value of at least 30% and subject to other criteria set out in national guidance.<sup>17</sup> The requirement to deliver a minimum of 25% of affordable housing as First Homes, as set out in 'Affordable Homes Update' Written Ministerial Statement dated 24 May 2021, no longer applies. The high market value of homes in Spelthorne can result in Discount Market Sale products like First Homes being unaffordable to middle income households. As such, the Council will prioritise other Intermediate tenures, as set out above.

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<sup>13</sup> Further guidance on the Council's approach to key worker housing is available here: <https://democracy.spelthorne.gov.uk/documents/s33540/Key%20Worker%20Housing%20Policy%20Final%20Draft.pdf>

<sup>14</sup> <https://www.spelthorne.gov.uk/media/2015>

<sup>15</sup> <https://www.gov.uk/shared-ownership-scheme>

<sup>16</sup> Net income calculated on the basis of 70% of gross income. Affordability criteria in line with London Plan approach.

<sup>17</sup> <https://www.gov.uk/guidance/first-homes>

### Eligibility for Intermediate Housing

- 4.24 Households with a gross income of up to £65,000 will be eligible for Intermediate Rent.<sup>18</sup>
- 4.25 Households with a gross income of up to £80,000 will be eligible for Intermediate ownership products.<sup>19</sup> Further eligibility criteria are set out in national guidance for Shared Ownership and First Homes (see footnote link).
- 4.26 Allocations for Intermediate housing should be prioritised for households with a local connection to Spelthorne that include at least one person who lives or works in Spelthorne at the time of their application. Where a tenant or purchaser with a local connection has not made a reservation for a property following three months marketing, during which the property must be available for occupation, the home may be let or sold (as relevant) to a household without a local connection.

### Dwelling Types, Sizes, Standards and Design

- 4.27 Affordable homes should be provided based on the following unit size mix which reflects evidence of housing needs for Social Rent and Affordable Rent, and Intermediate housing.

	1 bed	2 bed	3 bed	4 bed
<b>Social Rent / Affordable Rent</b>	35-40%	25-30%	25-30%	5-10%
<b>Intermediate</b>	15-25%	40-45%	25-35%	5-10%

- 4.28 This bedroom size mix is consistent with both the SHMA and the bedroom requirement profile in the Housing Register, which together demonstrate sustained need across one, two and three bedroom homes, and a smaller but critical need for four-bed family homes.
- 4.29 Affordable homes should be integrated within residential developments applying tenure-blind design and providing equal access to public realm and amenities for residents. This should avoid clustering or segregation of affordable units wherever possible, while also taking into account the management requirements of RPs, noting that in some apartment developments tenures may need to be located by building cores.
- 4.30 Unit sizes should not be lower than Nationally Described Space Standards (“NDSS”), and occupancy levels should not exceed those set out in NDSS.<sup>20</sup> Affordable homes should also achieve high-quality design including the provision of internal layouts to support healthy living in line with the National Design Guide<sup>21</sup>, Homes England Building for a Healthy Life principles<sup>22</sup> and Spelthorne Borough Council’s Design Code<sup>23</sup>.

<sup>18</sup> This can be updated based on the Consumer Prices Index from the date of this guidance but should not exceed the maximum income threshold for Shared Ownership set out in national guidance.

<sup>19</sup> Or as updated in national guidance.

<sup>20</sup> <https://www.gov.uk/government/publications/technical-housing-standards-nationally-described-space-standard>

<sup>21</sup> <https://www.gov.uk/government/publications/national-design-guide>

<sup>22</sup> <https://www.designforhomes.org/wp-content/uploads/2020/11/BFL-2020-Brochure.pdf>

<sup>23</sup> <https://www.spelthorne.gov.uk/page/1351/spelthorne-design-code>

### **Accessible Homes**

- 4.31 The NPPF requires local planning authorities to plan for people in their area with specific housing needs, including older people, and people with disabilities.
- 4.32 Based on evidence in the SHMA update, Local Plan policy H1, part 8 states that all new homes must be designed and constructed in a way that enables them to be adaptable, so they can meet the changing needs of their occupants over their lifetime, including as a result of any disability. The policy sets out requirements that all new build dwellings will, as a minimum, be constructed to Building Regulations M4 (2) Accessible and adaptable dwellings standards and any subsequent updates, unless it can be demonstrated that it is unfeasible to do so.
- 4.33 Major development schemes should also provide a minimum of 10% of new dwellings to accord with M4(3) Wheelchair user dwellings. All residential proposals should be accompanied by a document setting out how these standards are met. Any exemptions will only be considered where the applicant can robustly demonstrate that compliance would significantly harm financial viability, for example where the topography of the site makes provision not feasible, or would not be practical given flood risk. If this is the case, the provision of accessible homes would only be reduced by the minimum necessary and applicants are expected to consider all other reasonable options for accessible home provision, for example, ground floor provision or ramped access, prior to demonstrating an exemption is required.
- 4.34 As identified above, there is a particular need for affordable wheelchair accessible housing in Spelthorne given the number of households on the Housing Register with medical needs and high demand relating to the Council's Disabled Facilities Grants Programme. In view of this, the Council will prioritise the provision of M4(3) wheelchair user dwellings as Social Rent (or Affordable Rent) housing. Accordingly, major residential developments should provide M4(3) wheelchair-user dwellings as Social Rent (or Affordable Rent) wherever practicable and viable.
- 4.35 For example, for a 100 unit development providing 30% affordable housing in line with Local Plan policy H2, 23 Social Rent homes would be provided in line with the required 75% Social Rent/ Affordable Rent: 25% Intermediate tenure split. Applying the 10% minimum M4(3) requirement to the scheme as a whole, at least 10 wheelchair accessible homes would be required, and these should be provided as Social / Affordable Rent where practicable. Any exemptions to this approach will only be considered where it is robustly justified that this approach is not practicable or where there are wider benefits, for example if a level of affordable housing or Social Rent can be provided that is higher than the thresholds set out in policy H2.

### **Other Residential Development Types**

- 4.36 The following sections consider the approach to various other types of residential development. The principles and criteria set out above also apply to these uses unless stated otherwise.

#### **Build to Rent**

- 4.37 As set out in Local Plan policy H1, the Council is supportive of Build to Rent housing, where a need for this type of accommodation can be demonstrated. Where Build to Rent housing is proposed, the proportion of Affordable Housing

provision should be as set out in national guidance (20%).<sup>24</sup> For major Build to Rent proposals on non-greenfield sites (including Grey Belt) involving land released from the Green Belt through plan preparation or review, or on sites in the Green Belt subject to a planning application, 35% affordable housing will be required.<sup>25</sup>

- 4.38 Local Plan paragraph 6.16 states that affordable housing on Build to Rent schemes should be provided by default in the form of affordable private rent. This is an Intermediate Rent product provided for households with middle incomes who cannot afford to purchase or rent on the open market. This should be provided in line with the eligibility and affordability criteria for Intermediate Rent housing as set out in the Affordable Housing Tenure Mix section of this SPD above.
- 4.39 The Council also welcomes the provision of Social / Affordable Rent housing in Build to Rent development where this is proposed by the applicant or as part of mixed for-sale and build to rent housing schemes, where this affordable housing is owned and managed by a RP. It is noted that Social / Affordable Rent is eligible for grant under the Social and Affordable Homes Programme 2026-36.

#### Management and Tenancy Arrangements

- 4.40 In line with national guidance, affordable private rent (Intermediate Rent) and market rent units within a development should be managed collectively by a single build to rent landlord. The affordable units should be distributed throughout the development and physically indistinguishable from the market rent homes in terms of quality and size.
- 4.41 As with other affordable housing tenures, the process for managing the affordable housing will be set out in the S106 Agreement. This should set out the approach to lettings, total housing costs (including rents and service charges), apportionment of the homes across the development, and eligibility and marketing arrangements in line with this SPD and national guidance.
- 4.42 Build to Rent scheme operators will be required to provide an annual statement, confirming the approach to letting the affordable units, their ongoing status, and clearly identifying how the scheme is meeting the overall affordable housing level required in the planning permission. This requirement should be set out in the S106 Agreement.
- 4.43 In line with national guidance, the Council will also require:
- A planning condition that scheme operators offer tenancies of three or more years to all tenants in the development, who are eligible to live in the country for that period (under the right to rent). This should apply to all tenants, whether paying market rent or affordable private rent.
  - That there is no obligation on customers to take up the offer of a three year tenancy. They may prefer a tenancy of six months, one year or two years, and companies should offer these as an alternative, if requested.

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<sup>24</sup> <https://www.gov.uk/guidance/build-to-rent>: At the date of this SPD the Council intends to continue to apply the 20% threshold set out in planning practice guidance. This is subject to any updated benchmark level supported by further up-to-date evidence, plans or strategies that are published by the Council.

<sup>25</sup> This is in line with the NPPF which requires that before development plan policies are updated to reflect the Green Belt 'golden rules' the affordable housing contribution is 15 percentage points above the highest existing requirement that would otherwise apply, subject to a cap of 50%.

- That where the rent or service charges are to be reviewed during the period of the tenancy, the basis for the review and for calculating the increase (whether as a fixed percentage or index linked to inflation) should be clearly set out in the tenancy agreement.
- That tenants should not be locked into longer tenancies for the full period of the agreement. Tenants should have the option to terminate at one months' notice, after the first six months, without a break fee being payable.

#### Covenant, clawback and commuted sums

- 4.44 Build to Rent schemes would normally, by definition, remain within the rental sector, under common ownership and management, for the long term. To remove any financial incentive from benefiting from the lower affordable housing threshold for Build to Rent development, and then selling market units out of rented tenure, operators will be expected to commit to a covenant to retain market rent homes in rental tenure for a period of at least 15 years, and a clawback mechanism if this is broken.
- 4.45 The appropriate clawback amount will be the difference between the total value of the market rent units, assuming vacant possession, and those units valued on a 'for sale' basis at the point of sale. The Council should be notified of the sale price of units that are sold and this should inform the market value of remaining units to determine the clawback.<sup>26</sup>
- 4.46 Any affordable private rent homes included as part of a scheme, through a S106 Agreement, are provided specifically as a community benefit in perpetuity. The sale of a Build to Rent scheme, or the sale of individual homes within the scheme to other tenures, should not result in the loss of the affordable housing contribution.

#### **Specialist Accommodation**

- 4.47 Local Plan policy H1 part 10 states that the provision of well-designed specialist forms of accommodation, including sheltered housing, care homes and other appropriate forms of accommodation for the elderly and those with particular needs, will be permitted provided that the development:
- a) Meets demonstrable established local community need; and
  - b) Is in a sustainable location, with access to appropriate services and facilities where these are not provided on site. This includes public transport, shops, local services and community facilities.
- 4.48 Where specialist accommodation falls within a relevant use class as set out in policy H2(g) (C2, C3 or C4), an appropriate proportion of affordable housing in accordance with Policy H2 will be required (30%, or 50% on greenfield sites).
- 4.49 When assessing this, given the extent of need for Social / Affordable Rent housing in Spelthorne, which is estimated to account for c.60% of annual housing needs, the Council will seek the provision of affordable housing within specialist accommodation as Social Rent / Affordable Rent wherever possible, taking into account the circumstances of the relevant proposal.

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<sup>26</sup> A methodology for determining the value of the rented units should be set out in the S106 Agreement to enable to level of clawback to be calculated in the event that the covenant is broken.

- 4.50 The requirement for affordable housing in policy H2 applies to specialist accommodation schemes that provide self-contained residential units. The Council will consider the circumstances of each application, for example, whether C2 accommodation provides self-contained accommodation such as extra-care units. Where this is the case the affordable housing requirement in Local Plan policy H2 will apply, and should be provided on-site, unless an offsite or financial contribution is justified in line with the approach set out in Section 6 of this guidance.
- 4.51 For schemes that do not provide self-contained accommodation, such as C2 care homes providing bedrooms only with a high level of care, an affordable housing requirement will not apply. Schemes providing a mix of self-contained and non self-contained accommodation will be considered on a case-by-case basis, with affordable housing requirements only being applied to the self-contained residential component.
- 4.52 Other forms of specialist accommodation that provide affordable housing for households with specific needs such as hostels for rough sleepers or victims of domestic abuse, or accommodation for care leavers, will not be required to provide additional C3 affordable housing. Applicants seeking to provide these forms of accommodation should engage with the Council early, at pre-application stage if possible, so the approach for these applications can be fully considered.

#### **Self and Custom Build Housing**

- 4.53 Local Plan policy H1 part 13, states that the Council will support Self and Custom Build developments for residential accommodation in appropriate locations, in the interests of supporting high quality homes which meet the identified needs of Spelthorne. The Council will negotiate a mix of plots, informed by its self-build and custom housebuilding register.
- 4.54 Under policy H2, affordable housing is not sought from minor developments of less than 10 units, and so will not apply for smaller developments involving Self and Custom Build housing. For major developments where self and custom build housing is provided as part of the market housing within the scheme, the affordable housing requirements under policy H2 will apply. The custom and self-build homes will be counted as market housing when assessing the level of affordable housing required and the estimated revenue and costs should be taken into account in any Financial Viability Assessment (“FVA”) submitted.

#### **Community-Led Development and Rural Exception Sites**

- 4.55 The Council will support the delivery of community-led development and rural exception sites where these meet the relevant criteria in the NPPF including that the majority of homes should be affordable, taking into account the tenure and affordability requirements set out in Local Plan Policy H2 and this guidance. These are small sites that should address the needs of the local community by accommodating households who are either current residents or have an existing family or employment connection.
- 4.56 Some market homes may be allowed on the site where essential to enable the delivery of affordable units without grant funding, however the number of affordable homes should be maximised, and the proportion of market housing should not exceed 40% of the homes provided.

4.57 In line with national policy, these sites should be adjacent to existing settlements, proportionate in size to them<sup>27</sup>, not compromise the protection given to areas or assets of particular importance in the NPPF, and comply with design policies and standards set out in the Local Plan.

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<sup>27</sup> Community-led development exception sites should not be larger than one hectare in size or exceed 5% of the size of the existing settlement.

## **5. Application Procedure and Engagement**

- 5.1 This section explains how applicants should address affordable housing through the planning application process, including the information to submit, early engagement with the Council, and the role of section 106 planning obligations. It also covers engagement with Registered Providers, the use of grant funding, and how the Council will approach requests to vary affordable housing obligations or apply Vacant Building Credit.

### **Procedure for Affordable Housing in the Application Process**

- 5.2 Applicants should engage with the Council at an early stage, via pre-application discussions, for applications where a policy requirement to provide affordable housing applies. They should set out details of the proposed affordable housing in line with the Local Plan, this SPD and national guidance in an Affordable Housing Statement to be submitted with the application. The Affordable Housing Statement should clearly demonstrate how the proposal accords with Policy H2 and this SPD and identify any areas where deviation is proposed, with justification.
- 5.3 Draft S106 Heads of Terms should also be provided setting out the number and percentage of affordable units, tenure, nomination rights, unit size mix, affordability, eligibility and accessibility requirements, and other criteria set out in this SPD and national guidance. For outline applications where the specific number of housing units may vary, the overall percentage and tenure of the affordable housing should be set out.
- 5.4 Affordable housing planning obligations which reflect the approach in this SPD and relevant guidance, and which are necessary to make the development acceptable in planning terms, will be secured within the S106 Agreement which will be signed on the date of, or prior to, the permission being issued.

### **Engagement with Registered Providers and Grant Funding**

- 5.5 Affordable homes secured in S106 Agreements are typically purchased from developers by RPs who manage the properties, with nomination rights given to the Council for households on the Housing Register. As well as meeting housing need, the provision of affordable housing alongside market tenures reduces exposure to 'market absorption' sales rates, speeding up housing delivery and provides income for developers at an early stage of the construction process.
- 5.6 The Council's preference is for affordable housing to be delivered by RPs, although affordable housing delivery by suitably qualified charitable organisations and community-led housing groups is also welcomed where this meets the criteria set out in this guidance. This guidance uses the term "RP" for all organisations that might provide affordable housing. Community-led housing development is considered further below.
- 5.7 The wider RP market for S106 affordable homes has been affected by financial constraints on Social Landlords, however a number of steps have been taken to recapitalise RPs. In addition, in some cases RPs have also identified concerns with the design, tenure mix and management arrangements of S106 affordable homes. To address this, applicants should engage with RPs and the Council at an early stage and take into account their requirements relating to the design, tenure mix and management arrangements for affordable homes to meet future tenants'

needs.<sup>28</sup> Applicants should notify the Council of their intended RP partner during pre-application or, for minor schemes, at the earliest opportunity. They should also evidence how they have taken into account RP requirements with respect to the design, mix, accessibility and management of the affordable homes prior to any contractual commitment.

- 5.8 The Council may, where appropriate, use funding sources such as Right to Buy receipts, the Local Authority Housing Fund, or commuted sums to acquire affordable homes directly. Applicants are therefore encouraged to engage with the Council at an early stage where acquisition by the Council may be an option.
- 5.9 RP partners should also explore the availability of grant funding under the Social and Affordable Homes Programme 2026-36 and any other relevant or subsequent funding programmes to maximise the delivery of affordable housing in Spelthorne.
- 5.10 In view of this and steps being taken at a national level to support demand for S106 affordable homes, and in line with national policy, the Council will not accept 'cascade' mechanisms in S106 Agreements that set out provisions that enable applicants to change the tenure of affordable homes or for these to be sold to market tenure.
- 5.11 If an applicant proposes to provide a financial contribution in lieu of on-site affordable housing, including in respect of seeking a variation to a S106 Agreement to change the tenure of the affordable home due to not being able to find a purchaser, the Council will take into account the following factors:
- Whether evidence is provided that demonstrates that a scheme is genuinely stalled due to the lack of a purchaser.
  - Whether the developer has undertaken all reasonable actions to find a buyer based on the marketing of the homes and notification of RPs active in the area and undertaken other relevant requirements in the S106 Agreement.
  - Whether the applicant has marketed the affordable homes on the Homes England Clearing Service or alternative platform.
  - Whether the affordable homes could be changed to a more affordable tenure which would more effectively meet affordable housing need and attract greater RP demand, such as Social Rent or Affordable Rent (or switching to Intermediate Rent from Shared Ownership).<sup>29</sup>
  - Whether the homes have been completed or are due for completion by 1 December 2027, after which under government policy schemes will revert to the tenure mix in the original S106 agreement.<sup>30</sup>
  - Whether the developer has informed the Council of any and all bids received from RPs. The Council will also not accept a change to a less affordable or market tenure if the applicant has received a reasonable offer from a willing and

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<sup>28</sup> This should include requirements set out by the G15 group of large housing associations, available here: <https://g15.london/wp-content/uploads/2025/04/S106-Guidance-Building-together-Building-better.pdf>

<sup>29</sup> These circumstances do not arise from a lack of viability but relate to the respective demand from RPs for different affordable housing products which meet housing need and their eligibility for grant funding. The potential for this and for terms to be agreed between the RP and developer on this basis should be explored, reflecting that affordable housing should be provided on-site except for in genuinely exceptional circumstances.

<sup>30</sup> Completion is defined as when a home is ready for occupation or when a completion certificate is issued. <https://www.gov.uk/government/publications/policy-statement-a-roadmap-for-section-106-delivery-in-england/policy-statement-a-roadmap-for-section-106-delivery-in-england>

suitable RP or the Council, and will consider whether this reflected the market value of the relevant homes at the time of the bid.

- 5.12 In the event that the Council considers that an amendment to the relevant tenure may be acceptable, it will seek the provision of an alternative affordable tenure, or if there is no buyer for such a tenure, the equivalent affordable housing should be provided on an alternative site within the Council's area. If this is demonstrated to not be feasible, a financial contribution should be made in lieu of on-site affordable housing in line with the approach set out in this SPD below.

#### **Variations to Affordable Housing Planning Obligations**

- 5.13 The Council encourages proposals that increase the level of affordable housing or the affordability of homes, compared with that secured as part of the original application. This may arise for various reasons, including where an applicant switches from market tenure housing or Shared Ownership to tenures that better meet housing need and are in greater demand from purchasers, or due to the availability of additional grant.
- 5.14 Applications that propose a reduction in affordable housing or changes that reduce affordability will be subject to viability testing in line with the approach set out in this SPD further below. Any application seeking to amend affordable housing requirements must present clear evidence of the changed circumstances being relied upon, as well as an explanation of why these circumstances could not have been anticipated when the original permission was granted.
- 5.15 The Council will carefully scrutinise applications to revisit fundamental issues of viability or planning obligations, including Section 73 applications.<sup>31</sup> The applicant should provide a robust justification for any changes proposed to planning obligations associated with the original permission. The Council will have regard to the harm that such a reduction or change in affordability may cause and give this appropriate weight in the overall planning balance.

#### **Vacant Building Credit**

- 5.16 The NPPF 2024 states that to support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount. This is known as Vacant Building Credit ("VBC"). This would be equivalent to the existing gross floorspace of the existing buildings. The approach does not apply to vacant buildings which have been abandoned, or to major development on land within or released from the Green Belt, for which the NPPF 'Golden Rules' should apply.
- 5.17 However, the Draft NPPF published in 2025 omits any references to VBC, which indicates the government's intention to withdraw this. This reflects their manifesto commitment to strengthen the existing developer contributions system and to deliver the biggest boost in social and affordable housebuilding in a generation. In view of this, and the significant need for affordable homes in Spelthorne, the

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<sup>31</sup> The statutory basis for seeking variations to affordable housing secured through planning obligations in S106 Agreements is S106A of the Town and Country Planning Act 1990 (as amended), whereas the legal purpose of S73 applications is to enable the discharge of or variation to planning conditions that form part of the planning permission, which are not normally used to secure affordable housing.

Council will not apply VBC if it does not form part of national policy, and will otherwise carefully consider its application alongside housing need, and the government's intentions to significantly boost affordable housing delivery.

- 5.18 All schemes where the applicant considers that the VBC should be applied will be subject to viability assessment to demonstrate that the maximum possible level of affordable housing is being provided in line with the approach set out in this SPD further below.
- 5.19 When assessing any application that seeks to rely on VBC the Council will also seek to ensure that this operates in a way that delivers the intention of policy and does not reduce the level of affordable housing in schemes that would have come forward without it. As such, if relying on VBC, the applicant should demonstrate how this provides an incentive for brownfield development on sites containing vacant buildings that would not otherwise have been developed.
- 5.20 In line with this, the Council will have regard to the following factors when assessing whether VBC should apply:
- The building is not in use at the time the application is submitted.
  - The site is not subject to an extant or recently expired permission.
  - The site is not allocated for an alternative land use to that being proposed; and
  - The building has not been made vacant for the sole purpose of redevelopment.
- 5.21 To demonstrate that a building has not been made vacant for the sole purpose of redevelopment, an applicant would be required to provide evidence that the relevant buildings have been vacant for a continuous period of three or more years before the application was submitted and to provide evidence that the site has been actively marketed for at least two years at realistic market prices. These should be demonstrated through the provision of two independent market valuations. All bids or offers from prospective tenants or purchasers should be provided to the Council.
- 5.22 It should be noted that if an applicant is claiming that the scheme qualifies for VBC, it cannot also claim for a reduction in Community Infrastructure Levy through the occupancy test.
- 5.23 Where the Council considers that the VBC applies because the above criteria are met, the relevant affordable housing requirement (as set out above), should be applied on a gross floorspace basis to residential uses within the proposed development. The gross floorspace of existing vacant buildings that meet the criteria above will be deducted from this figure to determine the reduced affordable housing requirement. Gross floorspace figures for the existing and proposed buildings should be provided by the applicant and set out on plans.

## **6. Financial Contributions in Lieu of On-site Affordable Housing**

6.1 This section sets out when the Council may exceptionally accept off-site provision or a financial contribution instead of on-site affordable housing, and the evidence applicants must provide to justify that approach. It explains how contributions will be calculated, collected and spent, with the aim of ensuring that any off-site solution remains equivalent to the affordable housing that would otherwise have been delivered.

6.2 Paragraph 64 of the NPPF states that policies should expect the required affordable housing to be met on-site unless:

- Off-site provision or an appropriate financial contribution in lieu can be robustly justified; and
- The agreed approach contributes to the objective of creating mixed and balanced communities.

6.3 In line with policy H2(2)(b)(iii) of the Local Plan, the Council will only accept a financial contribution in lieu of on-site affordable housing where it can be satisfactorily demonstrated that on-site or off-site provision is not feasible.

6.4 This SPD sets out circumstances where the Council may agree that on-site or off-site provision is not feasible. It also sets out the methodology that will be used to determine the level of financial contribution that would be required where the Council has agreed to accept one. Any acceptance of a financial contribution will be strictly exceptional and evidence led.

6.5 This SPD also confirms how these financial contributions will be collected and spent by the Council.

### **When Off-Site Provision or a Financial Contribution may be Acceptable**

6.6 Where an applicant is seeking to provide affordable housing off-site, or in the form of a financial contribution, the applicant should engage with the Council as early as possible, preferably at the pre-application stage.

6.7 Off-site affordable housing provision (i.e. on an alternative site) will only be accepted where proportionate and robust evidence demonstrates there are practical difficulties with providing affordable housing on-site that cannot reasonably be overcome.

6.8 A financial contribution will only be acceptable where proportionate and robust evidence demonstrates the following:

- There are demonstrable practical difficulties with providing affordable housing on-site that cannot reasonably be overcome.
- There is no alternative site within Spelthorne which could feasibly accommodate the affordable housing.

6.9 Guidance on engagement with RPs is set out in Section 5 of this SPD. It sets out the factors that the Council will consider if an applicant seeks to provide a financial contribution in lieu of on-site affordable housing, including in relation to a variation to a S106 Agreement to change the tenure of an affordable home due to the applicant/developer not being able to find a purchaser.

- 6.10 With respect to demonstrating that there are no off-site options that could feasibly accommodate the affordable housing, applicants must provide evidence of having carried out a systematic search of sites with residential development potential being marketed for sale. Reasons why sites identified cannot feasibly accommodate the affordable housing should be provided – these could relate to location, capacity, deliverability or any other constraint. At its discretion, the Council may decide to appoint an external expert to assess the site search carried out and the reasonable costs of doing so must be met by the Applicant. The scope of any site search should be proportionate to the scale of the affordable housing requirement and should focus on sites capable of timely delivery within Spelthorne.
- 6.11 Any alternative site identified by an applicant as being feasibly able to accommodate the affordable housing would need to be agreed by the Council as being suitable.
- 6.12 Applicants seeking to provide a financial contribution must also provide an explanation as to why the provision of the contribution will support the objective of creating mixed and balanced communities.
- 6.13 The responsibility for demonstrating that a financial contribution is justified lies with the applicant and any submitted evidence will be robustly assessed by the Council to ensure that non-delivery of affordable housing on-site is an exception. At its discretion, the Council may decide to appoint an external expert to assess evidence submitted by an applicant and the reasonable costs of doing so must be met by the applicant.
- 6.14 All applications that seek to provide a financial contribution in lieu of on-site affordable housing must be accompanied by a Financial Viability Assessment. The Council will appoint an external expert to assess the submitted assessment and the reasonable costs of doing so must be met by the applicant.

#### **The Approach to Determining the Level of a Financial Contribution**

- 6.15 The level of contribution should be equivalent to a policy compliant level of affordable housing, or if this is found to not be viable, the maximum viable amount of affordable housing, assuming a policy compliant tenure and unit mix, that would be provided on-site if it were feasible to do so.
- 6.16 In principle, the contribution should be equivalent to the difference in value between the scheme as proposed without affordable housing, and the same scheme with a policy compliant level of affordable housing, or if this is found to not be viable, the maximum viable amount of affordable housing. Additional CIL and Sales/Marketing fees arising for the developer as a consequence of providing additional market tenure housing can also be accounted for. At its own discretion the Council may consider other factors, or if circumstances direct, an alternative approach.
- 6.17 The contribution should not assume an increased developer return that may arise from the provision of additional market tenure housing. This is to ensure that the overall level of financial contribution received by the Council is close to equivalent to what would have been provided had on-site delivery been feasible. This ensures there is no financial benefit to the applicant relative to on-site provision, nor an additional incentive to provide a financial contribution.

- 6.18 Applicants should use the following formula to calculate a financial contribution equivalent to on-site provision:

**Financial Contribution Formula**

$$X = ((A - B) \times C) - D - E$$

X = the financial contribution (£).

A = the average market value of a square metre of floorspace in the development.<sup>32</sup>

B = the average value of affordable housing per square metre of floorspace.<sup>33</sup>

C = the number of square metres of affordable housing floorspace equivalent to a policy compliant affordable housing offer, or where this is found to not be viable, the maximum viable amount of affordable housing identified through the viability assessment process.

D = Net increase in CIL chargeable amount arising from the provision of additional market units

E = Additional sales/marketing fees relating directly to the disposal of the additional market housing units

- 6.19 Components A to C above should assume a Net Sales Area (or an appropriate equivalent where this replaces it), as set out in the Royal Institution of Chartered Surveyors' ("RICS") most recent Code of Measuring Practice.
- 6.20 The components of the formula should be set out and evidenced within the FVA submitted by the applicant and agreed with the Council through the viability assessment process. Component B should represent a blended value of the affordable housing tenures assumed – the submitted FVA should clearly show how this component has been calculated.
- 6.21 The responsibility for calculating the contribution in line with the methodology set out in this document lies with the applicant. The Council will appoint an external expert to assess the submitted FVA and the calculation of the contribution carried out, and assumptions and evidence referred to in doing so. The reasonable costs of doing so must be met by the applicant. All calculations and datasets must be provided in an auditable form so that the calculation of the components of the formula can be independently verified.
- 6.22 Viability Review Mechanisms will apply to all schemes providing a financial contribution in lieu of on-site provision, reflecting the approach set out in Section 7 of this SPD, unless the contribution is accepted by the Council to be equivalent to a policy compliant amount of affordable housing. These should reflect the methodology advised in Section 8 of this document. The review mechanisms can result in an increased contribution being payable.

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<sup>32</sup> This should be calculated by dividing the total GDV of the market tenure homes by the net floorspace of the same homes.

<sup>33</sup> Reflecting the tenure split and unit size mix set out in the Local Plan or subsequent affordable housing need evidence produced by or on behalf of the Council.

- 6.23 Certain types of development may be less suitable for the provision of on-site affordable housing, such as student accommodation or purpose-built shared living. This is because these schemes do not provide a secure and long-term housing option for those on the housing needs register, especially families, nor do they deliver self-contained dwellings that meet national space standards. As a result, the provision of affordable housing units on-site would not normally be appropriate. Any financial contribution payable in respect of these development types should be calculated and paid in line with the guidance in this section.

#### **Collection and Expenditure of Financial Contributions**

- 6.24 The default position is that a financial contribution is payable on commencement of construction of the proposed scheme. In exceptional circumstances (such as in the case of phased schemes) and at its own discretion the Council may agree a different payment profiling approach.
- 6.25 The collection and expenditure of Financial Contributions will be reported annually in the Council's Infrastructure Funding Statement, including the number and tenure of affordable homes delivered and any acquisitions or conversions funded.
- 6.26 Financial Contributions will be spent on the provision of affordable housing in Spelthorne. The Council will do this in a variety of ways and will pool contributions as necessary and therefore requires sufficient flexibility for this to be reflected within the S106 Agreement or Unilateral Undertaking.
- 6.27 The Council will prioritise the provision of new Social and Affordable Rent Homes using financial contributions collected. Expenditure may involve purchasing affordable or market tenure units on the open market, including from a developer (which may be on a forward fund basis), and providing them as affordable housing. It can also involve direct delivery by or on behalf of the Council, or the provision of grant funding to an RP. The Council may also use financial contributions to convert Intermediate affordable homes to Social or Affordable Rent.
- 6.28 Given the significant levels of housing need and homelessness, and the acute shortage of affordable housing within Spelthorne, such financial contributions may also be used to support the acquisition of properties for temporary accommodation.

## **7. Viability Assessment**

- 7.1 This section explains when a Financial Viability Assessment may be required and how it should be prepared, assessed and interpreted. It provides an overview of what an FVA is and sets out the process for viability assessment in Spelthorne, including when FVAs can be submitted, the role of the viability assessor, information requirements, how key inputs/assumptions into an FVA should be assessed and how its results should be reported and interpreted.
- 7.2 Policy H2(2)(b) of the Local Plan requires that developments will be expected to be policy compliant in providing affordable housing. It is for applicants to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage to determine the maximum viable level of affordable housing.
- 7.3 Given that the delivery of affordable housing is a key priority for the Council, applicants are expected to explore a range of options before seeking to reduce affordable housing provisions in a planning application below policy compliant levels. The approach to be taken will need to vary on a case-by-case basis but could involve the prioritisation of affordable housing provision above other policy requirements and financial obligations.

### **What is a Financial Viability Assessment?**

- 7.4 An FVA is a document submitted in support of a planning application typically to justify the application not proposing to provide a policy compliant level of planning obligations, usually affordable housing. An FVA can also comprise an assessment commissioned by the Council to review an FVA submitted by an applicant.
- 7.5 FVAs primarily use the residual method of valuation, which assesses whether a scheme is financially viable by deducting the costs of development from the value that it will generate through the sale and letting of the completed scheme. The output of an appraisal in an FVA can be either of the following:
- The Residual Land Value (“RLV”), which is the amount of money available to purchase the site. This is then compared with the Benchmark Land Value (“BLV”) which is considered later in this section.
  - The residual developer’s return, which is the amount of money available for the developer as profit. This is then compared with a target developer return.
- 7.6 The diagram below provides a summary of the values and costs typically included in viability assessment and shows a RLV output approach:<sup>34</sup>

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<sup>34</sup> The diagram is illustrative and the values and costs for a specific scheme may be of a different proportion to those indicated in the diagram.

Affordable Housing		Residual Land Value (Output)
		Finance Costs
Market Tenure Housing		CIL and Planning Obligations
		Developer Return
		Disposal Costs
		Professional Fees
		Construction Costs
Scheme Value		Scheme Costs

**Viability Assessment Process**

**When can a Financial Viability Assessment be Submitted in Spelthorne?**

- 7.7 Where a development proposal set out in a planning application attracts an affordable housing policy requirement under Local Plan policy H2, and an applicant considers that a scheme is not capable of providing a policy-compliant level of affordable housing, the applicant will be required to submit an FVA to evidence this position. All applications proposing a financial contribution in lieu of on-site affordable housing are required to be accompanied by an FVA.
- 7.8 The NPPF 2024 describes that the use of site-specific viability assessment for land within or released from the Green Belt should be subject to the approach set out in national planning practice guidance on viability. This guidance states that where development takes place on land situated in, or released from, the Green Belt and is subject to the NPPF ‘Golden Rules’, site specific viability assessment should not be undertaken for the purpose of reducing developer contributions, including affordable housing. Whilst the adopted NPPF and national planning practice guidance on viability states this, the Council will not accept FVAs submitted in respect of such schemes.
- 7.9 It is a local planning application validation requirement to submit an FVA and this should, where possible, be provided as part of pre-application stage discussions.
- 7.10 It is for applicants to demonstrate whether particular circumstances justify the need for viability assessment at the application stage. Particular circumstances could include where:
  - The development is significantly different from any typology assumed in the Council’s Viability Study.

- Site characteristics differ substantially from the assumptions used to assess viability when the relevant development plan policies were prepared.
- The development is demonstrably burdened by costs which were unforeseeable when the development plan was prepared.
- Site or economic circumstances have changed significantly since the development plan was prepared.

### **Role of the Viability Assessor**

- 7.11 FVAs should provide an independent, objective and realistic assessment of the development site; be based on relevant evidence; and follow the approach in this guidance, as well as guidance published by the Government, and Professional Standards published by the RICS. FVAs should use standardised inputs and not necessarily those that apply to a specific applicant or developer.
- 7.12 Assessors should be suitably qualified, and act in accordance with Professional Standards published by the RICS including the need to ensure objectivity and professional integrity. Assessors and consultancy firms must act in the public interest and take responsibility for their actions to maintain public confidence in the process.
- 7.13 In an FVA, the assessor should confirm that:
- They have acted impartially and with reference to all appropriate sources of information.
  - No performance-related or contingent fees have been agreed.
  - The report has been prepared on the basis that it can be made publicly available.
  - Where the assessment relies on external contributors, they are considered to be competent and understand that they must comply with Professional Standards published by the RICS.
  - Adequate time was taken to produce the assessment, proportionate to the scale and complexity of the application.

### **Information Requirements**

- 7.14 FVAs, including those commissioned by the Council as the Local Planning Authority, must include detailed evidence that justifies the inputs and assumptions adopted. The role of the Council is to scrutinise submitted viability information; the evidential burden lies with the applicant.
- 7.15 The FVA must include full details of the proposed scheme, including site area, residential unit numbers by tenure, and unit sizes. Floorspace figures should also be provided for both residential uses (by tenure) and non-residential uses by Gross Internal Area and Net Sales Area.
- 7.16 FVAs should be based upon and refer back to the Viability Study that informed the Local Plan. The FVA should identify where it adopts different inputs and assumptions and provide evidence for doing so.

- 7.17 The costs of resourcing an FVA prepared on behalf of the Council acting as the Local Planning Authority, must be met by the applicant. This includes but is not limited to the costs of specialist expertise such as relating to construction costs, the development programme, or formal valuations relating to the existing site or proposed scheme. The Council will select the most appropriate viability consultant or expert specialist to act on its behalf, in line with the Council's procurement process.
- 7.18 The Council will endeavour to notify the applicant of these costs as soon as possible, although it may be necessary to update these costs throughout the course of the application, following further consideration of the information submitted.
- 7.19 To support public engagement, FVAs should include a clear Non-technical Summary which outlines the key inputs, assumptions and conclusions of the assessment. They should also include appraisal summaries showing all value and cost inputs including allowances for land, finance and required developer's return, and the outputs of the assessment.
- 7.20 The applicant should also provide the full working viability appraisal model in an unlocked and editable format, which should use commercially available software such as Argus Developer.
- 7.21 Where the applicant's and the Council's assessors disagree, the parties should seek to resolve these differences of opinion, where possible through the submission of further evidence and follow-up assessments. Amendments to the development proposal, such as an increase in the level of affordable housing and/or an improvement in affordable housing tenure or affordability, may be required, based on the FVAs carried out.
- 7.22 The Council will make FVAs, related information, all related correspondence/future iterations and information submitted in respect of Viability Review Mechanisms, publicly available in full unless there are statutory grounds not to.
- 7.23 In very exceptional circumstances, prescribed by legislation, there may be legitimate reasons for not publishing elements of FVA-related information. For this to be the case an applicant should provide a full justification of the reasons for this as soon as these are known. These reasons will be carefully reviewed by the Council with reference to the overriding public interest.
- 7.24 In submitting viability information, an applicant does so in the knowledge of the approach set out in this guidance and knowing that the Council may not accept the applicant's view that information should not be made publicly available.

### **Key Inputs and Assumptions**

#### Gross Development Value ("GDV")

- 7.25 The GDV of a scheme is its combined value, comprising of:
- The sales values of residential units, parking spaces and any other buildings or land to be sold.
  - The capitalised rental value of any investment elements of the scheme before any deduction for purchaser's costs.

- 7.26 The value of the investment elements of a scheme are usually represented on a Net Development Value basis which is the GDV less any allowance for the deduction of the purchaser's costs. Purchaser's costs are the typical acquisition costs that a buyer would reasonably incur when purchasing a property and can include Stamp Duty Land Tax, Agency and Legal Fees.
- 7.27 Residential sales values should be based on Market Value (as defined by the RICS) and justified with reference to up-to-date transactions for comparable new build properties and other forms of relevant market evidence.
- 7.28 Values should be adjusted to take account of any differences between the comparable evidence and the application scheme, with a clear justification provided for any differences. The methodology used to make adjustments for location, facilities, quality of construction, height, aspect and specification should be provided. An FVA should usually include a unit-by-unit pricing schedule.
- 7.29 Where the investment approach is used for the valuation of commercial or residential property, rents should be based on market evidence.
- 7.30 Assumptions on pre-lets, rent-free periods and letting voids should be supported by market evidence, and the impact on value clearly set out.
- 7.31 FVAs for residential investment schemes such as Build to Rent, student accommodation and shared living, should include a breakdown of gross rents and operating expenses to evidence the net rental income assumed.
- 7.32 Operating expenses should be supported by detailed information, including an itemised list of cost headings based on comparable completed and occupied schemes. The figures should be provided as a percentage of gross rent, and on a per-unit and per-square-foot/metre basis.
- 7.33 Investment yields should be based on an analysis of market evidence. Supporting evidence should include transaction amounts, the nature and timing of the receipt (for example, the details of income under a forward funded transaction or receipt from a sale at stabilisation). Yield evidence should be applied in a manner consistent with the analysis of that yield and the type of transaction assumed. The transactions referred to should be analysed on a per-unit and per-square-metre / foot basis to enable accurate comparison.
- 7.34 Purchaser's costs used to derive a Net Development Value should be fully justified. They should be based on costs likely to be incurred, taking account of the probable nature and timing of any transaction, economies of scale and any reliefs that may be available (for example, relief on Stamp Duty Land Tax). With respect to residential investment schemes such as Build to Rent, these are not always incurred if the developer and operator are the same entity or may be substantially lower if a special purpose vehicle would be the likely purchaser of the scheme.
- 7.35 With respect to values for affordable housing, these should reflect early engagement with RPs and any offers agreed for the proposed units. Affordable housing values should otherwise be derived using the Investment Method of valuation and a Discounted Cash Flow Analysis. All inputs should be clearly set out and justified including management, major repairs and maintenance costs. Values should also include capital receipts as appropriate (including staircasing receipts for shared-ownership units).

- 7.36 It will usually be appropriate for appraisals in FVAs to reflect early payments made by Registered Providers which can improve a scheme's cashflow and viability.
- 7.37 Estimated grant funding and any other form of public subsidy should be included in the appraisal cashflow when this is or is likely to be made available by the relevant authority. No developer's return should be applied to this.

#### Sales Timings

- 7.38 The timing of income should take into account the type of residential development proposed. FVAs for Build for Sale residential schemes should include off-plan sales and post-completion sales rates. These must be benchmarked to comparable schemes and justified with reference to local absorption rates.
- 7.39 Income from residential investment developments should generally be modelled in line with expected delivery models.
- 7.40 Income for affordable housing should normally be assumed at different stages over the construction period in line with typical arrangements between developers and RPs.
- 7.41 Income from commercial property should generally be assumed at practical completion unless there is market evidence which indicates a different approach.

#### Construction Costs

- 7.42 FVAs submitted by applicants should be supported by elemental Cost Plans that are consistent with the level of detail provided in drawings submitted in support of planning applications. They should clearly apportion costs between the different uses proposed.
- 7.43 Cost Plans should set out separate costs for:
- Preliminaries.
  - Demolition/site clearance/site preparation.
  - Base build costs.
  - Abnormal costs.
  - On-site infrastructure and utilities.
  - Off-site infrastructure (where delivered by the developer and directly related to the scheme).
  - Contractor's overheads and profit.
  - Contingency/risk allowances.
- 7.44 There should be a clear alignment between a development's specification, assumed build costs, and development values, and there should be consistency with comparable sites. Wherever possible, Cost Plans should include benchmarking against other similar projects as well as sources such as the Build Cost Information Service.
- 7.45 The Council will instruct cost consultants to rigorously assess scheme proposals and verify whether costs are appropriate. Consideration will also be given to

scheme design and programme, and whether development costs could be reduced as part of a value engineering or cost-reduction exercise.

#### Professional Fees

- 7.46 Professional fees are generally expressed as a proportion of construction costs and should take the scale and nature of the scheme into account. Economies of scale would generally be expected to apply to larger schemes, and a lower allowance may be justified where a scheme is repetitive in terms of design. Higher allowances may be appropriate for particularly complex schemes, such as where listed or historic buildings are being redeveloped. Where possible, professional fees should be benchmarked against similar completed schemes.

#### Disposal Costs

- 7.47 Sales agent, letting agent, marketing and legal fees should be based on the likely costs of disposing of the scheme. They should reflect economies of scale and discounts that would apply where an agent or solicitor is appointed to manage the disposal of a substantial number of units. It is expected that where high marketing costs are adopted that this would result in improved sales rates assumptions.

#### Construction Programme

- 7.48 FVAs should clearly set out any pre-construction period and the construction programme length assumed. The timing of construction costs should be evidenced, based on a detailed construction programme prepared with reference to similar schemes.
- 7.49 The payment of financial planning obligations should reflect local payment timing requirements, and the payment of the Community Infrastructure Levy should account for scheme phasing and the Council's Instalments Policy.

#### Finance Costs

- 7.50 Finance costs should be justified according to the specific development proposal. Evidence should be provided in respect of:
- The likely interest rate throughout the development period, taking into account the type of development and the likely structuring of finance for the scheme.
  - The cash flow including assumptions on the timing of income and expenditure, including any pre-sales or forward-funding of the development.

#### Planning Obligations and Community Infrastructure Levy ("CIL")

- 7.51 Applicants and landowners should take account of relevant planning obligations and CIL likely to be payable in respect of the scheme.
- 7.52 Planning obligations should be determined in accordance with the Development Plan and related guidance. These should be secured in the S106 Agreement.
- 7.53 CIL liabilities assumed in an appraisal should take account of the Council's CIL Charging Schedule and Instalment Policy, as well scheme phasing, reductions for occupied floorspace and affordable housing relief under the CIL Regulations.

### Other Development Costs

- 7.54 Land assembly costs can be included in FVAs for estate-regeneration schemes, including the buy-back of residential leasehold interests, and tenant and leaseholder compensation costs where it is likely that a compulsory purchase order will be required. These should be clearly itemised and evidenced.
- 7.55 On schemes where there are existing non-residential uses, the cost of acquiring leases cannot be included as this value is generally accounted for in the BLV. However, tenant compensation for the loss of premises under the Landlord and Tenant Act 1954, where the lease has protection, may be appropriate if fully evidenced. Compulsory purchase compensation such as disturbance or home loss payments can be included where appropriate.
- 7.56 Rights of Light costs may be included as development costs where fully evidenced and it is demonstrated that these are likely to be incurred.

### Developer's Return

- 7.57 The primary approach to developer return should usually be a proportion of the scheme's GDV. If an 'Internal Rate of Return' ("IRR") approach is considered as a measure of profitability on larger, or longer-term, or phased schemes, a full justification must be provided for the assumed development programme and the timing of cost and value inputs. IRR should always be evidenced and cross-checked against other measures of developer return including the return as a percentage of GDV.
- 7.58 Developer return allowances in FVAs should reflect the minimum return required for a reasonable developer to bring forward a scheme for development. They should take account of the individual characteristics of the scheme, including the type of development proposed, the likely approach to delivery and funding, and whether it provides pre-sold/ pre-let accommodation. A rigid approach to developer return should be avoided.
- 7.59 The level of return required for affordable housing should reflect significantly lower levels of risk when compared to market tenure residential units.
- 7.60 Where a land use in a scheme is proposed to be retained that would accommodate existing occupiers, the required return for this element of the scheme should reflect the more limited risk associated with the sale or letting of this floorspace. For example, where a supermarket is being redeveloped to include a housing scheme and a replacement store, a lower return could be expected for the replacement store.
- 7.61 Returns for residential investment proposals should reflect the lower levels of risk as longer term rental products as well as the delivery models assumed. For example, a forward-funded scheme might require a different return to a scheme assumed to be sold at or following completion.

### Benchmark Land Value

- 7.62 The process for establishing an appropriate BLV for an FVA is important because it represents the threshold for determining whether a scheme is viable or not. A development is typically deemed to be viable if the RLV is equal to or higher than the BLV.

- 7.63 Under no circumstances should price paid be used as the basis for the BLV. This is because if it is assumed that the granting of planning permission will increase the value of the site, but the costs of fully complying with policy requirements are not reflected in the price paid, the BLV will be inflated. If the price paid was then included in the assessment as the BLV, or as a development cost, this would make it inevitable that planning requirements would be found to make developments unviable. This is known as the ‘circularity issue’, which has previously been found to undermine the implementation of Development Plan policies and the ability of planning authorities to deliver sustainable development.
- 7.64 The primary approach to determining the BLV is the Existing Use Value (“EUV”) plus a landowner’s premium which should reflect the circumstances of the site. The principle of this approach is that a landowner should receive at least the value of the land in its ‘pre-permission’ use, which would normally be lost when bringing forward land for development.
- 7.65 The EUV should be fully justified based on the income-generating capacity of the existing use, with reference to comparable evidence on rents, yields and capital values that exclude any hope value associated with a potential redevelopment of the comparable site. This evidence should relate to sites and buildings of a similar condition and quality. Applicants should provide a schedule of condition (where requested) and photographs of existing buildings in order to facilitate an accurate assessment.
- 7.66 Any premium or uplift over EUV should be fully justified, reflecting the circumstances of the site. For a site that does not meet the requirements of the landowner or creates ongoing liabilities/costs, a lower or no premium would be expected.
- 7.67 The level of premium can be informed by BLVs that have been accepted for planning purposes on other comparable policy-compliant schemes and sites, where determined on an EUV-plus basis that is consistent with this guidance. Historic BLVs for non-policy-compliant developments cannot be used.
- 7.68 Alternative Use Values (“AUV”) are assessments of land value for an alternative development proposal using the residual valuation method. Caution should be applied when considering AUVs. Extant consents that could be implemented and delivered can be used as AUVs, subject to any future changes introduced by the government that may affect their applicability.
- 7.69 Other alternative schemes are able to be used as AUVs, but only where it is demonstrated, to the Council’s satisfaction, that the alternative scheme would gain planning permission. These alternative schemes should reflect the full costs of policy compliance, including affordable housing at the levels set out in the Development Plan.
- 7.70 Where an AUV is used, the applicant should provide a detailed alternative proposal based on architect’s plans and floorspace schedules, and a detailed Cost Plan with a similar level of detail to the Cost Plan for the proposed scheme. Detailed supporting evidence should be provided in the inputs and assumptions. The Council will robustly assess the information and evidence submitted. The applicant should also explain why the proposed scheme is being pursued rather than the alternative scheme.

- 7.71 If an applicant proposes to use the refurbishment of existing buildings as a basis for establishing BLV, this should generally be assumed to be an AUV and assessed accordingly with supporting evidence of the refurbishment costs. No premium should be added to an AUV. An AUV should not be used to determine a premium above EUV.
- 7.72 Land transactions can only be used as a cross-check to other evidence and should not be used in place of BLV. If land transactions are used in this way, they must fully reflect the cost of policy compliance, including for affordable housing at the levels set out in the Development Plan or be adjusted accordingly.

### **Reporting and Interpreting the Results of an FVA**

- 7.73 The results of an FVA will typically either be in the form of an RLV or a residual developer's profit. FVAs should clearly set these out alongside either the BLV or target developer's return as appropriate, to identify the extent to which the proposed scheme is viable.
- 7.74 Residual valuations are highly sensitive to changes in value and cost assumptions and as such should always be subject to sensitivity testing. Sensitivity testing must, as a minimum, include variation in GDV and construction costs, due to the impact of variation in these inputs on the outcomes of appraisals.
- 7.75 Assessors should undertake a 'stand back and check' exercise to consider whether the outputs of the residual valuation are realistic. This can include reviewing sensitivity testing carried out.
- 7.76 If a scheme generates a low RLV or is in deficit, the value and cost assumptions may not be realistic and/or the scheme may not be optimally designed. Where an applicant's FVA results in a substantial deficit the applicant should demonstrate how the scheme will be deliverable. This could involve providing appraisal testing that assumes growth in values and inflation in construction costs, with the rates used to be based on the best available evidence. However, where the deficit is so significant that the rate of value growth or change in costs required to achieve the BLV or target profit is unrealistic, a review of value and cost inputs in the base appraisal is likely to be required.
- 7.77 The weight to be applied 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 viability evidence underpinning the plan is up-to-date; site circumstances including any changes since the plan was brought into force; and the transparency of assumptions behind evidence submitted as part of the viability assessment. The decision maker should consider whether the assessment and its conclusions are objective, reasonable and realistic.

## **8. Viability Review Mechanisms**

- 8.1 This section explains how Viability Review Mechanisms will be used to capture improvements in scheme viability over time and secure additional affordable housing where possible. It sets out the principles, trigger points and formulas for Early, Late and Mid-Stage Reviews, and explains how review outcomes should be secured through legal agreements.
- 8.2 Policy H2(2)(h) of the Local Plan states that Viability Review Mechanisms should be applied to all viability tested applications at early and late stages in the development process, and that mid-term reviews should apply in the case of longer phased schemes. This is to ensure that affordable housing delivery is maximised as a result of any future improvement in viability.
- 8.3 This SPD sets out key principles relating to Viability Review Mechanisms, matters that a S106 Agreement (or similar) should include, and the methodology that will generally be applied in Spelthorne. This section also refers to how viability deficits can be taken account of with regard to the methodology advised.

### **Key Principles**

- 8.4 Viability Review Mechanisms are secured to assess whether affordable housing contributions can be increased where viability improves and so enable the maximum level of affordable housing provision over the lifetime of a development. They provide an opportunity to achieve policy compliance and optimal public benefits by recognising the potential for changes in values and build costs between the application stage and different stages of the development programme.
- 8.5 Viability Review Mechanisms can help to address uncertainties that cannot be addressed as part of viability assessment exercise carried out in respect of a planning application. However, they should not be used as an alternative to a realistic assessment at application stage for viability-tested applications. Review mechanisms apply only to schemes that are viability-tested at application stage and do not reach policy-compliant affordable housing levels. They are not intended to reassess schemes that already achieve full compliance.
- 8.6 Where the scheme is delivered in a way that is consistent with how it was assessed at application stage, development values and development costs should be assessed on the same basis in review mechanisms as at application stage. Where this is not the case, appropriate adjustments may be required. This is to ensure that viability reviews are equitable and robust.
- 8.7 Viability Review Mechanisms apply where a development scheme proposed in a planning application attracts a policy requirement to provide affordable housing and where the affordable housing proposed does not comply with the affordable housing policies in the Local Plan. They will typically be secured by way of a planning obligation in a S106 Agreement. When drafting provisions relating to review mechanisms in a S106 Agreement, applicants should reflect any standard template clauses published or used by the Council.
- 8.8 The primary approach to review mechanisms set out in this document is a formula-based approach – the formulas to be used are set out later in this section. The formula-based approach assesses changes in development values and build costs, which are the most significant variables within an assessment. This avoids the need

for a full reassessment of viability and reduces information requirements, enabling a shorter review assessment period that has less scope for disagreement.

- 8.9 The Council, at its discretion, may require a full reassessment that considers all values and costs at the time of the review, except for developer return and BLV, which are expected to be determined at application stage.
- 8.10 Reviews involving full reassessments are more likely to be suitable for the following types of development proposals:
- Residential investment schemes, such as Build to Rent: This is because several types of disposals could inform the reviews, all of which can produce different scheme values depending on the timing of the sale and the obligations and risks adopted by the parties. Formula-based reviews refer back to a scheme value derived through a specific methodology at application stage so are not typically able to be compatible with values generated based on different types of transaction. The S106 Agreement for these schemes should include provisions for, where necessary, adjusting the developer return to reflect the delivery model used for the review stage assessment. Where the delivery model is not known, the review should be carried out on the same basis as the application stage assessment.
  - Schemes where there is exceptional and significant uncertainty about some elements of value or costs, or where a development may be delivered in a different way to that tested at application stage. It may be particularly appropriate on larger, longer-term schemes, or outline applications where less detail is available at application stage, and/or where the Council agrees that an Internal Rate of Return is an appropriate profit metric.
- 8.11 Affordable housing requirements are applied where they are required to make an application acceptable in planning terms. Viability Review Mechanisms are not a tool to protect a return to the developer and as such should not be used to reduce the base level of affordable housing contributions, additional affordable housing secured in an earlier review or other obligations which are required as part of the planning permission.
- 8.12 Although securing additional affordable housing where a surplus arises in a review is the priority, at the Council's discretion, the review mechanism may also be used to improve the affordability of secured affordable homes, particularly through the provision of additional Social / Affordable Rent housing, or contribute to other policy requirements which may not have been viable at application stage.

### **Early Stage Reviews**

- 8.13 The viability of a scheme is more likely to change when the period between the grant of consent and when a development is built out is longer. In view of this, Early Stage Reviews are to only be triggered where a substantial implementation of the scheme has not been achieved within two years of the planning permission, or a period agreed with the Council. This can incentivise the commencement and delivery of development.
- 8.14 Substantial implementation should reflect a reasonable level of progress by that stage in the programme. The definition of substantial implementation will be set out in the S106 Agreement, and should comprise the completion of all ground-

preparation works, the foundations for the core of the development, and construction of the ground or first floor. If substantial implementation is achieved within the agreed period, the review will not be triggered.

- 8.15 Provisions that seek to delay the trigger date for an Early Stage Review must not be included in the S106 Agreement, as this review is intended to secure additional affordable housing where viability allows – regardless of the reason development may have been delayed.
- 8.16 Where the Early Stage Review is triggered, the review itself will take place at the point that substantial implementation is actually reached. Where practical and feasible, additional affordable housing arising from the Early Stage Review should be provided on-site prior to occupation of a specified proportion of market units. Information that identifies which homes will be provided as additional affordable units should be submitted to the Council for approval.
- 8.17 Where an early stage review identifies a surplus that is insufficient to support on-site affordable housing, this should be paid to the Council as a financial contribution following the review, and prior to the occupation of a specified proportion of market units (for example, 50%). Where this is the case, the payment amount can be included as a cost in subsequent viability reviews.

#### **Late Stage Reviews**

- 8.18 Late Stage Reviews should take place close to the point at which the development scheme is fully occupied. The benefit of this approach is that the review can be substantially based on actual values achieved and costs incurred, meaning they are able to be more accurate. Setting the late stage review trigger prior to full occupation of a development scheme helps to ensure that the review itself, and the payment of additional contributions that arise, can be enforced.
- 8.19 Late Stage Reviews for shorter term schemes should be triggered on occupation of 75 per cent of the homes in the scheme, with an occupation restriction of no more than 90 per cent of homes applying until the review is resolved and any surplus arising is paid to the Council.
- 8.20 With respect to longer term and phased schemes, the Late Stage Review should take place on occupation of 75 per cent of homes in the final phase or plot; or at an alternative level of progress (which may include at occupation of a specific number of units) as determined by the Council.
- 8.21 For Late Stage Reviews on residential Build for Sale schemes, it will generally be acceptable for any surplus arising to be provided in the form of a financial contribution rather than through on-site provision. This is to reflect the potential practical implications of delivering an increased amount of affordable housing on-site at a late stage in a scheme. Residential investment schemes that are able to provide intermediate / affordable private rent housing blended within the development scheme are able to provide additional affordable housing in the development scheme.
- 8.22 For Late Stage Reviews it may be acceptable for an element of surplus return to be retained by the developer. No surplus return retained by the developer for any review should exceed 40 per cent of the surplus, with the remainder to be used by the Council for additional affordable housing.

### **Mid-Stage Reviews**

- 8.23 Mid-Stage Reviews should apply to longer phased schemes where a policy compliant level of affordable housing is not achieved.
- 8.24 Mid-Stage Reviews take place throughout the course of a development at points to be agreed with the Council. These should take into account actual values and costs for earlier phases, and estimated figures for subsequent phases. Unlike Early Stage Reviews, which may not take place if the agreed level of progress is achieved, Mid-Stage Reviews always take place when the delivery of the development has reached a specific point. Any surplus amount identified through the review should be used to provide additional on-site affordable housing.
- 8.25 More than one Mid-Stage Review may be required depending on the size of the scheme and the number of phases, plots or buildings. It is generally appropriate for schemes proposing 500 to 999 homes to be subject to one Mid-Stage Review, whereas schemes of 1,000 homes or more should generally be subject to at least two of these reviews. The number of Mid-Stage Reviews and the trigger points will be agreed on a case-by-case basis at application stage, reflecting phases, plots or reserved matters sequencing.
- 8.26 For outline or hybrid schemes it may be appropriate for reviews to take place as part of reserved matters applications, to enable affordable housing to be included within the design of the relevant phase or future phases. It may also be appropriate to link Mid-Stage Reviews to the delivery or occupation of an agreed number of units.
- 8.27 Where a Mid-Stage Review identifies a surplus that is insufficient to support on-site affordable housing, this should be paid to the Council as a financial contribution following the review, and prior to the occupation of a specified proportion of market units. Where this is the case, the payment amount can be included as a cost in subsequent viability reviews.

### **Section 106 Agreements**

- 8.28 Whenever review mechanisms are used, the S106 (or similar legal agreement) should, in addition to matters set out above, do the following:
- Identify the point(s) at which the review(s) should be carried out, in line with the guidance set out above.
  - Ensure that the application stage development value figure includes, and the review-stage development value definition references, any public subsidy that is available at the time that they are assessed.
  - Set out the basis for determining whether a 'surplus return' is generated over and above the required developer's return necessary for a scheme to be deemed viable.
  - Include the developer's return agreed by the Council at application stage. The required developer's return should not be applied to any public subsidy available to the scheme.
  - Confirm the scope of the review(s) in respect of viability inputs and ensure that this will be based on the most robust and up-to-date information available which

will generally be the price paid or market value of the homes, and the actual build costs incurred where available.

- Developer overheads should be excluded from reviews, but where a scheme is delivered directly by the developer as the main contractor, a reasonable allowance for contractor overheads and preliminaries can be included within build costs.
- Ensure that where actual build costs are used, no contingency is applied.
- Where a formula-based approach is used, ensure that the review is carried out on the same basis, and with the same approach to inputs, as the application stage viability assessment, with any arrangements for appropriate adjustments clearly set out. Adjustments may include, for example, making allowances for different assumptions on profit and finance if a scheme that was assessed as Build for Sale comes forward as Build to Rent, or where a residential investment typology (such as Build to Rent) is delivered using a different model than that assessed at application stage.
- Set a 'cap' on the affordable housing provision that will be sought through the reviews, which mirrors the policy compliant requirement applicable to the site.
- Ensure that a monetary cap for additional affordable housing at a Late Stage Review is not secured, as this may not equate to the shortfall against a policy target at the time of review.
- Make provision for the full costs of the Council in negotiating, undertaking and assessing a viability review to be borne by the developer.
- Make provisions for appropriately reporting affordable housing provision, including that provided by way of Review Mechanisms, as well as any Financial Contributions secured, to the Council in line with relevant formal reporting processes.
- Set out how and where the developer should submit Viability Review Mechanism information to the Council when they are triggered.

### **Review Formulas**

#### Formula 1 – Early Stage Viability Review

- 8.29 This formula identifies whether a contribution is payable to the Council through an Early Stage Viability Review.

#### **Formula 1: Early Stage Review**

**X = Surplus Return available for Additional Affordable Housing Units**

$$X = ((A - B) - (C - D)) - P$$

A = Estimated GDV of development as determined at the time of review (£)

B = Application-stage GDV of development as determined at the grant of planning permission (£)

C = Estimated build costs as determined at the time of review (£)

D = Application-stage build costs as determined at grant of planning permission (£)

$P = (A - B) * Y$  = Developer return on change in GDV (£)

Y = Developer return as a percentage of GDV as determined at the application stage (per cent)

- 8.30 Inputs A and C are determined as part of the Early Stage Review assessment process, whereas inputs B and D are to be determined through the viability assessment process at application stage.
- 8.31 Inputs A and B should include any public subsidy known to be available at the time the input is considered, although the profit allowance (component P) should not be applied to any public subsidy that makes up these GDV figures.
- 8.32 Where component P is lower than zero, which arises where the GDV reduces between application and review stages, it should equate to zero.
- 8.33 Where the review applies to a residential investment scheme, such as Build to Rent, the GDV components (A and B), should equate to the Net Development Value of the asset, i.e. should exclude purchaser's costs.

Formula 2 – Additional Affordable Housing Requirement

- 8.34 This formula identifies the extent of additional on-site affordable housing that should be provided as a result of a surplus arising from either an Early or Mid-Stage Review. It allocates a proportion of the surplus to different affordable tenures based on the Local Plan Tenure Split. It calculates the additional affordable floorspace to be provided based on difference in average value of the market housing and the relevant affordable housing tenure.

**Formula 2: Early / Mid-Stage Review Additional Affordable Housing Requirement**

**X = Additional Social Rent / Affordable Rent housing requirement (square metres)\***

$$X = ((D * E) \div (A - B))$$

**Y = Additional Intermediate housing requirement (square metres)\***

$$Y = ((D * F) \div (A - C))$$

A = Average value of market housing per m<sup>2</sup> (£)

B = Average value of Social Rent / Affordable Rent housing per m<sup>2</sup> (£)\*

C = Average value of Intermediate housing per m<sup>2</sup> (£)\*

D = Surplus return available for additional affordable housing (as determined in Formula 1 (Early Stage Review) or Formula 5 (Mid-Stage Review) (£)

E = Percentage of surplus return available for additional affordable housing to be used for Social Rent / Affordable Rent housing (per cent)

F = Percentage of surplus return available for additional affordable housing to be used for Intermediate housing (per cent)

\*delete as relevant based on tenures required

- 8.35 With respect to components B, C, E and F, the affordable tenure they assume should represent the most appropriate tenure based on discussions with the Council.
- 8.36 Components E and F should accord to the relevant part of the Local Plan tenure split. Due to the substantial need for Social and Affordable Rent accommodation, where this form of affordable housing proposed in the application does not meet the tenure split proportion for this tenure, component F can be increased above the tenure split allowance in the Local Plan to make up for the shortfall in this tenure.
- 8.37 The outputs of this formula are the number of square metres to be provided as additional affordable housing. These should be applied in the development scheme in a pragmatic way and with reference to the Council's affordable housing bedroom size mix.

#### Formula 3 - Late Stage Viability Review

- 8.38 This formula identifies whether a contribution is payable to the Council through a Late Stage Viability Review.

#### **Formula 3: Late Stage Review Contribution**

**X = Late Stage Review Contribution**

$$X = (((A + B) - C) - ((D + E) - F) - P) \times 0.6$$

A = GDV achieved on occupation of 75 per cent of residential units from parts of the development disposed of and the value of other income receipts (£)

B = Estimated GDV for parts of the development that are yet to be disposed of and other income sources (£)

C = Application-stage GDV determined as part of the assessment of viability at the grant of planning permission or, if a surplus arose in any previous review, the total GDV in the last review where a surplus was identified, minus the surplus in that review (£)

D = Build costs incurred at the time of review (£)

E = Estimated build costs of development yet to be carried out as determined at the time of review (£)

F = Application-stage build costs determined as part of the assessment of viability at application stage or, if a surplus arose in any previous review, the total build costs in the last review where a surplus was identified (£)

P = (A + B - C) \* Y = Developer return on change in GDV (£)

Y = Developer return as a percentage of GDV as determined at the time planning permission was granted (per cent)

- 8.39 The component “(A + B) – C” reflects the change in GDV from the application stage (or a previous review if a surplus was identified) to the Late Stage Review, so takes account of where an Early or Mid-Stage Review is triggered and finds a surplus.
- 8.40 As with Formula 1 above:
- The GDV related Inputs (A, B and C) should include any public subsidy known to be available at the time the input is considered, although the profit allowance (component P) should not be applied to any public subsidy that makes up these GDV figures.
  - Where component P is lower than zero, which arises where the GDV reduces between application and review stages, or between a review and a later one, it should equate to zero. Otherwise, this component could result in a contribution arising where the viability of the scheme deteriorates between application and review stage.
  - Where the review applies to a residential investment scheme, such as Build to Rent, the GDV components (A, B and C), should equate to the Net Development Value of the asset, i.e. should exclude purchaser’s costs.
- 8.41 This formula contains a split of any surplus arising between the Developer and the Council. This is to ensure that a developer remains incentivised to maximise value from a scheme. The split is 60/40 with 60 per cent of surplus profit used for additional affordable housing.
- 8.42 Where the whole of or part of the scheme is delivered as Build to Rent, but this has been assessed at application stage as Build for Sale:
- The GDV-achieved figure (component A of the formula) should be adjusted to take account of the following:
    - The timing of any receipt and impact on developer’s finance costs.
    - Any difference in profit requirement between the residential typology assumed at application stage and the residential typology delivered and transacted. Component A should be increased by the appropriate profit differential to reflect the lower risk associated with whole or part of the scheme being sold in a single transaction.
  - The developer return allowance (component Y of the formula) should also be adjusted to reflect an appropriate allowance given the revised residential typologies assumed.

Formula 4

- 8.43 Contributions payable under a Late Stage Review are capped at a monetary amount equivalent to a policy compliant affordable housing quantum and tenure split. This formula identifies the maximum affordable contribution payable as a result of a Late Stage Review. It does this by identifying the affordable housing shortfall

against policy compliance and by calculating what financial contribution would be required to make up that shortfall.

**Formula 4: Late Stage Review Cap**

**X = Late Stage Review Cap**

$$X = (((A * D) - (B * D)) * E) + (((A * D) - (C * D)) * F)$$

A = Average value of market housing per m<sup>2</sup> (£)

B = Average value of Social Rent/ Affordable Rent housing per m<sup>2</sup> (£)\*

C = Average value of Intermediate housing per m<sup>2</sup> (£)\*

D = Average number of net residential square metres in scheme per home (m<sup>2</sup>)

E = Social Rent/ Affordable Rent shortfall on-site (homes)\*  
(determined at application stage or as updated following previous review)

F = Intermediate housing shortfall on-site (homes)\* (determined at application stage or as updated following previous review)

\* delete as relevant based on tenures required

- 8.44 The initial part of this formula (prior to the “+” sign) is calculating the financial equivalent of the shortfall in Social Rent/ Affordable Rent housing, whereas the latter part is calculating the financial equivalent of the shortfall in Intermediate housing.
- 8.45 Component D should be specified in the formula in the S106 Agreement wherever possible and be based on the total net area of the total residential units divided by the number of homes in the scheme.

**Formula 5 – Mid-Stage Viability Review**

- 8.46 This formula identifies whether a contribution is payable to the Council through a Mid-Stage Viability Review. It identifies a surplus available for additional on-site affordable housing but uses actual values and costs for completed parts of the development at the time of the review and estimated figures for the rest of the scheme.
- 8.47 It determines whether any change in development values and/or build costs has occurred since the previous viability review was carried out, or where no previous review was triggered, the change in development values and/or build costs since the application stage.

### **Formula 5: Mid-Stage Review**

**X = Surplus return available for additional on-site affordable housing**

$$X = (((A + B) - C) - ((D + E) - F) - P)$$

A = GDV achieved up to the point of the review (£)

B = Estimated GDV for parts of the development that are yet to be disposed of and other income sources (£)

C = Application-stage GDV determined as part of the assessment of viability at the grant of planning permission or, if a surplus arose in any previous review, the total GDV in the last review where a surplus was identified, minus the surplus in that review (£)

D = Build costs incurred at the time of review (£)

E = Estimated build costs of development yet to be carried out as determined at the time of review (£)

F = Application-stage build costs determined as part of the assessment of viability at application stage or, if a surplus arose in any previous review, the total build costs in the last review where a surplus was identified (£)

P = (A + B - C) \* Y = Developer return on change in GDV (£)

Y = Developer return as a percentage of GDV as determined at the time planning permission was granted (per cent)

8.48 The component “(A + B) – C” reflects the change in GDV from the application stage (or a previous review if a surplus was identified) to the Mid-Stage Review, so takes account of if an Early or previous Mid-Stage Review is triggered and finds a surplus.

8.49 As with Formulas 1 and 3 above:

- The GDV related Inputs (A, B and C) should include any public subsidy known to be available at the time the input is considered, although the profit allowance (component P) should not be applied to any public subsidy that makes up these GDV figures.
- Where component P is lower than zero, which arises where the GDV reduces between application and review stages, or between a review and a later one, it should equate to zero. Otherwise, this component could result in a contribution arising where the viability of the scheme deteriorates between application and review stage.
- Where the review applies to a residential investment scheme, such as Build to Rent, the GDV components (A, B and C), should equate to the Net Development Value of the asset, i.e. should exclude purchaser’s costs.

- 8.50 In addition, in line with Formula 3, where the whole of or part of the scheme is delivered as Build to Rent, but this has been assessed at application stage as Build for Sale:
- The GDV-achieved figure (component A of the formula) should be adjusted to take account of the following:
    - The timing of any receipt and impact on developer's finance costs.
    - Any difference in profit requirement between the residential typology assumed at application stage and the residential typology delivered and transacted. Component A should be increased by the appropriate profit differential to reflect the lower risk associated with whole or part of the scheme being sold in a single transaction.
  - The developer return allowance (component Y of the formula) should also be adjusted to reflect an appropriate allowance given the revised residential typologies assumed.

- 8.51 Where this formula identifies a surplus, Formula 2 is to be used to convert it into additional on-site affordable housing.

#### **Viability Deficits and Review Mechanisms**

- 8.52 As set out in section 7, applicants should demonstrate that development proposals are deliverable and that viability assessments are realistic. If a deficit and/or a shortfall in land value or developer's return is assessed by an applicant this may indicate that development value has been understated, development costs have been overstated and/or the scheme has been sub-optimally designed.
- 8.53 Deficits should not normally be accounted for in review mechanisms, which would reduce the likelihood of delivery of additional affordable housing over the lifetime of the development. As such, these should only be allowed exceptionally and where agreed by the Council.
- 8.54 The extent of any deficit should be determined by the Council and reflected in the S106 Agreement. Viability deficits may be reduced or overcome through reductions in build costs and through increases in development values. To reflect this a Breakeven Appraisal can be undertaken at application stage to assess the level of GDV and build costs at which the scheme is viable.
- 8.55 In order that both the build costs and the GDV are adjusted to arrive at the breakeven position, the build costs should first be reduced by a reasonable percentage of the deficit to reflect potential cost savings. The GDV should then be increased until the appraisal reaches a breakeven position. The updated 'Breakeven GDV' and the 'Breakeven Build Cost' should replace the application-stage GDV and build-cost figures in the formulas.
- 8.56 Improvements in viability identified in review mechanisms will first be applied to reduce or eliminate any identified deficit before any additional affordable housing or financial contribution is sought. This approach recognises developer risk at application stage, encourages higher upfront affordable housing offers, and ensures that only genuine improvements in viability result in uplifted affordable housing provision. No deficit additional to the one determined by the Council will be recognised in any review.

## 9. Glossary

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 of the definitions below. It includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision.
Affordable Rent	Affordable housing for rent which meets all of the following conditions: (a) the rent is set in accordance with the Government's rent policy for Affordable Rent and is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a Registered Provider, and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. The Council also uses LHA rates to determine maximum housing costs for Affordable Rent to ensure that it remains affordable.
Alternative Use Value	The value of land for uses other than its existing use.
Benchmark Land Value	The value against which a development proposal is typically assessed for viability. It is an allowance for land in an assessment of viability.
Brownfield	Previously developed land that has been built on before and may be suitable for redevelopment.
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.
Council Housing Register	A waiting list maintained by local authorities of individuals or households eligible for affordable housing.
Disabled Facilities Grant Programme	A government-funded grant provided by local authorities to help pay for adaptations to homes to enable disabled people to live independently.
Existing Use Value	The value of land in its existing use, with no expectation of that use changing in the foreseeable future.
First Homes	An intermediate ownership affordable housing product which provides discounted market sale units which: a) must be discounted by a minimum of 30% against the market value; b) are sold to a person or persons

	meeting the First Homes eligibility criteria (see below); c) on their first sale, will have a restriction registered on the title at HM Land Registry to ensure this discount (as a percentage of current market value) and certain other restrictions are passed on at each subsequent title transfer; and, d) after the discount has been applied, the first sale must be at a price no higher than £250,000. Available for households with a gross income of up to £80,000 and subject to other local and national eligibility criteria.
Forward-funded	Transaction where a funder acquires the scheme from a developer, prior to or during the asset being constructed and the developer continues to deliver the scheme until practical completion.
Golden Rules	Policy requirements applied to major housing developments on land released from the Green Belt through plan preparation or review, or on sites in the Green Belt subject to a planning application. They seek to secure enhanced public benefits such as affordable housing, necessary infrastructure, and accessible green space.
Grey Belt	For the purposes of plan-making and decision-making, 'Grey Belt' is defined as land in the Green Belt comprising previously developed land and/or any other land that, in either case, does not strongly contribute to any of purposes (a), (b), or (d) in paragraph 143 of the NPPF. 'Grey Belt' excludes land where the application of the policies relating to the areas or assets in footnote 7 (other than Green Belt) would provide a strong reason for refusing or restricting development.
Green Belt	A land designation to prevent urban sprawl by keeping land around urban areas open.
Greenfield	Land that has not been previously developed, often agricultural or natural land.
Gross Development Value (GDV)	Combined market value of the proposed development before allowances for purchaser's costs.
Hope Value	An element of market value in excess of the Existing Use Value (EUV), reflecting the prospect of some more valuable future use.
Intermediate Housing	An overarching term used to describe affordable housing provided for key workers or middle income households who neither own a home nor have the means to buy a market home. Includes Intermediate Rent, and intermediate ownership products Shared Ownership and First Homes. Allocations are prioritised for households with a local connection to Spelthorne that include at least one person who lives or works in Spelthorne at the time of their application.

Intermediate Rent	An intermediate affordable housing discounted market rent product, provided in perpetuity, based on median incomes for households who are not eligible for Social Rent or Affordable Rented housing but cannot afford market rent. This is also known as affordable private rent in the context of Build to Rent development. Intermediate Rent can also be provided as a rent-to-buy product which enables the household to save towards a deposit to purchase the home as a shared ownership property after five years. Total housing costs including rents and service charges should not exceed 80% of the market rent for an equivalent property. The Council also uses LHA rates as a benchmark to help ensure that Intermediate Rent remains affordable. Available for households with a maximum gross income of £65,000.
Internal Rate of Return (IRR)	A developer return metric. Discount rate (expressed as a percentage) at which the net present value of a cash flow is equal to zero.
Investment Approach	Property valuation method designed to assess the potential return on investment through ongoing income from a property.
Investment Yield	Usually calculated as a year's rental income as a percentage of the value of the property.
Key Worker	An essential worker who is eligible for intermediate (or Social Rent / Affordable Rent) housing, and occupies a role and qualifies for housing as set out in the Council's Key Worker Housing Policy (or as updated in this guidance). <sup>35</sup>
Local Housing Allowance (LHA)	The maximum amount of housing benefit or Universal Credit housing element that can be paid for private rented homes, based on the 30 <sup>th</sup> percentile of local market rents in a Broad Rental Market Area. Applies to private rented sector tenants but is also used as a measure of maximum rental cost for some affordable housing products.
Local Housing Need	The number of homes identified as being needed through the application of the standard method set out in national planning practice guidance.
Local Plan	A plan for the future development of a local area, drawn up by the local planning authority in consultation with the community.
Local Planning Authority	The public authority whose duty it is to carry out specific planning functions for a particular area. All references to local planning authority include the district council, London borough council, county council, Broads Authority, National Park Authority, the

<sup>35</sup> Spelthorne Key Worker Housing Policy.

	Mayor of London and a development corporation, to the extent appropriate to their responsibilities.
M4(2) Housing	Accessible and adaptable dwellings as set out in Building Regulations. Where a new dwelling makes reasonable provision for most people to access the dwelling and incorporates features that make it potentially suitable for a wide range of occupants, including older people, those with reduced mobility and some wheelchair users.
M4(3) Housing	Wheelchair user adaptable dwellings as set out in Building Regulations. Where a new dwelling makes reasonable provision, either at completion or at a point following completion, for a wheelchair user to live in the dwelling and use any associated private outdoor space, parking and communal facilities that may be provided for the use of the occupants.
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 <sup>2</sup> 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.
Market Value	The price at which the sale of the relevant property interest would have been completed unconditionally for cash consideration based on detailed comparable market evidence assuming: <ul style="list-style-type: none"> <li>(a) a willing seller and a willing buyer</li> <li>(b) that, prior to the date of valuation, there has been a reasonable period of not less than six months for the proper marketing of the interest (having regard to the nature of the property and the state of the market) for the agreement of the price and terms and for the completion of the sale</li> <li>(c) that no account is taken of any additional bid by a prospective purchaser with a special interest</li> <li>(d) that both parties to the transaction have acted at arm's length.</li> </ul>
Net Development Value (NDV)	The GDV less assumed purchaser's costs.
Planning Obligation	A legal agreement entered into under section 106 of the Town and Country Planning Act 1990 to mitigate the impacts of a development proposal.
Purchaser's Costs	Costs of acquiring a property including (if appropriate) stamp duty and acquiring agents/ legal fees.
Registered Provider	A Registered Provider of social housing is an organisation that is officially listed and regulated to offer low-cost housing to people in need. These providers must meet specific standards set by the Social Housing Regulator, including consumer

	standards, tenant involvement, and community standards. Registered Providers can include local authorities and private Registered Providers, and they are required to publish annual reports detailing their compliance with these standards.
Residual Developer's Return	Amount remaining once the costs of development of a project including an appropriate land value are deducted from its NDV.
Residual Land Value (RLV)	Amount remaining once the costs of development of a project including an appropriate profit are deducted from its NDV.
Residual Valuation Method	Valuation/appraisal of a development based on a deduction of the costs of development and either profit or land cost from the anticipated proceeds.
Rural Exception Sites	Small sites used for affordable housing in perpetuity where sites would not normally be used for housing. Rural exception sites seek to address the needs of the local community by accommodating households who are either current residents or have an existing family or employment connection. A proportion of market homes may be allowed on the site at the local planning authority's discretion, for example where essential to enable the delivery of affordable units without grant funding.
Section 73 Application	A planning application made to vary or remove conditions attached to an existing planning permission.
Section 106 Agreement	A legal agreement under Section 106 of the Town and Country Planning Act 1990 used to secure planning obligations.
Self-Build and Custom Housebuilding	The building or completion by a) individuals, b) associations of individuals, or c) persons working with or for individuals, of houses to be occupied as homes by those individuals; but does not include the building of a house on a plot acquired from a person who builds the house wholly or mainly to plans or specifications decided or offered by that person.
Sensitivity Testing	Series of tests that assess the impact on the residual appraisal of changes to one or more inputs e.g. sales values, build costs, etc. This is normally carried out on a current day basis in addition to growth testing.
Shared Ownership	An intermediate affordable housing ownership product that allows individuals to buy a share of a property and pay rent on the remaining share. Typically, this is between 10% and 75% of the property's value, with a minimum deposit of 5%. Intended to help those who cannot afford the full deposit and mortgage payments for a home that meets their needs. Shared ownership homes are usually leasehold properties. The share owned can be increased through a process called

	staircasing. Available for households with a gross income of up to £80,000 and subject to other local and national eligibility criteria. Total housing costs should not exceed 40% of net income for the maximum household income.
Social Rent	Affordable housing that meets all of the following conditions: (a) the rent is set in accordance with the Government's rent policy for Social Rent; (b) the landlord is a Registered Provider; and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. It is the most affordable tenure of rented housing.
Specialist Housing	Housing that has been specifically designed to meet the needs of people with particular requirements (including sheltered housing, supported housing, extra care housing and residential/nursing care homes). It can refer to housing that has been purpose designed or designated for a particular client group to assist tenants to live independently.
Standard Method	The government's formula used to calculate local housing need.
Target Return	Minimum rate of return/ profit required by a reasonable developer for the development to proceed considering its risk, expressed as either a simple ratio of GDV/cost or as an annual return over the development period (IRR).
Use Class C2	Residential institutions (e.g. care homes)
Use Class C3	Dwellinghouses (e.g., houses/flats)
Use Class C4	Small Houses in Multiple Occupation (3–6 occupants)
Value Engineering	Review of build costs by developer's professional team to see if a more cost-effective solution exists that will achieve the same project objectives including development value.
Viability Review Mechanisms	A review of development viability included in a S106 Agreement enabling the reassessment of development viability after permission has been granted. These reviews occur at an early, mid and late stage in the development process, and address uncertainties in the application-stage assessment of viability to enable the maximum level of affordable housing provision and policy compliance over the lifetime of a development.

## **10. Appendix A: Financial Contributions in Lieu of On-site Affordable Housing – Worked Examples**

Below are two worked examples demonstrating how a financial contribution would be calculated using the methodology set out in this SPD.

All assumptions and inputs are indicative and are provided solely for the purposes of these worked examples.

### **Worked Example 1**

#### **Scenario/Assumptions**

The application is for 100 Build for Sale C3 residential homes on Brownfield Land within the Spelthorne Local Authority area.

Evidence submitted by the applicant that it is not feasible to provide the affordable housing on or off-site, has been accepted by the Council.

A viability assessment exercise has identified that 25% affordable housing represents the maximum viable amount, with this reflecting a tenure mix of 75% Social Rent, 25% Intermediate Rent units.

The relevant Net Sales Areas of the scheme assuming on-site affordable provision are set out below, with the quantum of affordable housing floorspace identified as the maximum viable amount through the viability assessment process:

- Market Tenure Housing: 5,250 Sq. M
- Social Rent Affordable Housing: 1,312.5 Sq. M
- Intermediate Rent Housing: 437.5 Sq. M
- Total Floorspace: 7,000 Sq. M
- Total Affordable Housing Floorspace: 1,750 Sq. M

The contribution payable is calculated by applying the following formula:

$$X = ((A - B) \times C) - D - E$$

X = The financial contribution (£).

A = The market value of a square metre of floorspace in the development.

B = The value of affordable housing per square metre of floorspace<sup>36</sup>.

C = The number of square metres of affordable housing floorspace established as the maximum viable amount of affordable housing through the viability assessment process.

D = Net increase in CIL chargeable amount arising from the provision of additional market units

E = Additional sales/marketing fees relating directly to the disposal of the additional market housing units

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<sup>36</sup> Reflecting the tenure split and unit size mix set out in the Local Plan or subsequent affordable housing need evidence produced by or on behalf of the Council.

The approach to deriving each of the components of the formula, and the corresponding calculation using the formula, is set out below:

Component A - The market value of a square metre of floorspace in the development

Through the viability assessment process, a value of £6,000 per sq. m for the proposed floorspace has been agreed.

Component B - The value of affordable housing per square metre of floorspace

Through the viability assessment process, a value of £2,000 per sq. m for the proposed Social Rent floorspace, and a value of £3,500 per sq. m for the proposed Intermediate Rent Floorspace, has been agreed.

This component represents the blended value of the affordable housing assumed which is calculated as follows:

Social Rent:  $75\% \times £2,000 = £1,500$

plus

Intermediate Rent:  $25\% \times £3,500 = £875$

Equals

£2,375 = Component B

Component C - The number of square metres of affordable housing floorspace established as the maximum viable amount of affordable housing through the viability assessment process

Based on the floor areas provided in the Scenario/Assumptions section above, this component equates to 1,750.

Component D - Net increase in CIL chargeable amount arising from the provision of additional market units

An additional CIL liability of £350,000 was identified as being payable due to the provision of the additional market tenure units.

Component E = Additional sales/marketing fees relating directly to the disposal of the additional market housing units

It was agreed through the viability assessment process that additional sales and marketing costs of 2.5% of the revenue generated by the additional marketed tenure units. This equated to a monetary amount of £158,594.

Component X - The financial contribution (the formula applied)

$((£6,000 - £2,375) \times 1,750) - £350,000 - £158,594 = \mathbf{£5,835,156}$

**Worked Example 2**

Scenario/Assumptions

The application is for 200 Build for Sale C3 residential homes on Brownfield Land within the Spelthorne Local Authority area.

Evidence submitted by the applicant that it is not feasible to provide the affordable housing on or off-site, has been accepted by the Council.

A viability assessment exercise has identified that 20% affordable housing represents the maximum viable amount, with this reflecting a tenure split of 75% Social Rent, 25% Shared Ownership units.

The relevant Net Sales Areas of the scheme assuming on-site affordable provision are set out below, with the quantum of affordable housing floorspace identified as the maximum viable amount through the viability assessment process:

- Market Tenure Housing: 12,800 Sq. M
- Social Rent Affordable Housing: 2,400 Sq. M
- Shared Ownership Housing: 800 Sq. M
- Total Floorspace: 16,000 Sq. M
- Total Affordable Housing Floorspace: 3,200 Sq. M

The contribution payable is calculated by applying the following formula:

$$X = ((A - B) \times C) - D - E$$

X = The financial contribution (£).

A = The market value of a square metre of floorspace in the development.

B = The value of affordable housing per square metre of floorspace<sup>37</sup>.

C = The number of square metres of affordable housing floorspace established as the maximum viable amount of affordable housing through the viability assessment process.

D = Net increase in CIL chargeable amount arising from the provision of additional market units

E = Additional sales/marketing fees relating directly to the disposal of the additional market housing units

The approach to deriving each of the components of the formula, and the corresponding calculation using the formula, is set out below:

#### Component A - The market value of a square metre of floorspace in the development

Through the Viability Assessment process, a value of £5,000 per sq. m for the proposed floorspace has been agreed.

#### Component B - The value of affordable housing per square metre of floorspace

Through the Viability Assessment process, a value of £1,800 per sq. m for the proposed Social Rent floorspace, and a value of £3,750 per sq. m for the proposed Shared Ownership floorspace, has been agreed.

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<sup>37</sup> Reflecting the tenure split and unit size mix set out in the Local Plan or subsequent affordable housing need evidence produced by or on behalf of the Council.

This component equates to the blended value of the affordable housing assumed which is calculated as follows:

Social Rent:  $75\% \times \text{£}1,800 = \text{£}1,350$

plus

Shared Ownership:  $25\% \times \text{£}3,750 = \text{£}938$

equals

$\text{£}2,288 = \text{Component B}$

Component C - The number of square metres of affordable housing floorspace established as the maximum viable amount of affordable housing through the viability assessment process

Based on the floor areas provided in the Scenario/Assumptions section above, this component equates to 3,200.

Component D - Net increase in CIL chargeable amount arising from the provision of additional market units

An additional CIL liability of  $\text{£}750,000$  was identified as being payable due to the provision of the additional market tenure units.

Component E = Additional sales/marketing fees relating directly to the disposal of the additional market housing units

It was agreed through the viability assessment process that additional sales and marketing costs of 2.5% of the revenue generated by the additional marketed tenure units. This equated to a monetary amount of  $\text{£}217,000$ .

Component X - The financial contribution (the formula applied)

$((\text{£}5,000 - \text{£}2,288) \times 3,200) - \text{£}750,000 - \text{£}217,000 = \text{£}7,713,000$

## 11. Appendix B: Viability Review Mechanisms – Worked Example

Below is a worked example demonstrating how review mechanisms would be applied using the methodology set out in this SPD.

All assumptions are indicative and are provided solely for the purposes of these worked examples.

### Worked Example

#### Scenario Assumptions

A scheme of 100 Build for Sale C3 residential homes on Brownfield Land within the Spelthorne Local Authority area gained planning permission and the S106 Agreement contained provisions pertaining to Early and Late Stage Viability Reviews.

15% Affordable Housing by home was secured in the scheme with this reflecting a tenure mix of 75% Social Rent, 25% Intermediate Rent units. Information on the number of homes in the assumed scheme, as well as the policy compliant position is set out below:

<u>Table 9</u>	<b>Scheme</b>	<b>Policy Compliant</b>	<b>Shortfall</b>
<b>Total Homes</b>	100	N/A	N/A
<b>Homes - Market Tenure</b>	85	70	15
<b>Homes - Affordable Housing (Total)</b>	15	30	-15
<b>Homes - Social Rent</b>	11	23	-11
<b>Homes - Intermediate Rent</b>	4	8	-4

The following application stage viability inputs were included in the S106 Agreement:

- Application Stage GDV: £32,500,000
- Application Stage Build Costs: £22,000,000
- Target Return: 15% on GDV

In addition, the average number of sq. m net residential square metres in scheme per home (which is an input to formula 4), was included as 70.

#### Early Stage Viability Review

The assumed scheme did not reach substantial implementation by the target date of within 24 months of planning permission, so when the scheme did reach substantial implementation after 30 months, the Early Stage Viability Review was triggered.

The viability review process identified that the estimated GDV of the development had increased to £35,000,000 (from £32,500,000 at application-stage) whereas the build costs had increased from £22,000,000 to £23,500,000.

A surplus of £625,000 was identified through the application of the Early Stage Viability review formula, as follows:

<b>Formula 1: Early Stage Review</b>	

<b>X = ((A – B) – (C – D)) – P</b>	<b>£625,000</b>
A = Estimated GDV of development as determined at the time of review (£)	£35,000,000
B = Application-stage GDV of development as determined at the grant of planning permission (£)	£32,500,000
C = Estimated build costs as determined at the time of review (£)	£23,500,000
D = Application-stage build costs as determined at grant of planning permission (£)	£22,000,000
P = (A – B) * Y = Developer return on change in GDV (£)	£375,000
Y = Developer return as a percentage of GDV as determined at the application stage (per cent)	15%

#### Early Stage Viability Review Additional Affordable Housing Requirement

Following the identification of a surplus of £625,000 in the Early Stage Review, Formula 2 was applied to identify how many additional square metres of affordable housing needed to be provided. It used the following values identified through the review process:

- Value per sq. m of Market Housing: £6,000 per sq. m.
- Value per sq. m of Social Rent housing: £2,000 per sq. m.
- Value per sq. m of Intermediate Rent housing: £3,000 per sq. m.

When applied the formula identified that an additional 117 square metres of Social Rent floorspace and 39 square metres of additional Intermediate Rent floorspace could be provided using the surplus identified, as follows:

<b>Formula 2: Early Stage Review Additional Affordable Housing Requirement</b>	
<b>X = Additional Social Rent housing requirement (square metres)</b>	
<b>X = ((D * E) ÷ (A – B))</b>	<b>117</b>
<b>Y = Additional Intermediate Rent housing requirement (square metres)</b>	
<b>Y = ((D * F) ÷ (A – C))</b>	<b>39</b>
A = Average value of market housing per m <sup>2</sup> (£)	£6,000
B = Average value of Social Rent housing per m <sup>2</sup> (£)*	£2,000

C = Average value of Intermediate Rent housing per m <sup>2</sup> (£)*	£3,000
D = Surplus return available for additional affordable housing (as determined in Formula 1 (Early Stage Review) or Formula 5 (Mid-Stage Review) (£)	£625,000
E = Percentage of surplus return available for additional affordable housing to be used for Social Rent housing (per cent)	75%
F = Percentage of surplus return available for additional affordable housing to be used for Intermediate Rent housing (per cent)	25%

Following consideration of the output of the formula, two additional Social Rent homes and one further Intermediate Rent home was provided on-site.

### Late Stage Viability Review

On occupation of 75 per cent of homes within the scheme the Late Stage Viability Review was triggered.

The viability review process identified that the combined actual and estimated GDV of the development had increased to £40,000,000 (from £35,000,000 at Early Stage Review) whereas the build costs had increased from £23,500,000 at Early Stage Review to £25,000,000.

A Late Stage Review Contribution of £1,968,750 was identified through the application of the Late Stage Viability Review formula, as follows:

<b>Formula 3: Late Stage Review Contribution</b>	
<b>X = Late Stage Review Contribution</b>	
<b><math>X = (((A + B) - C) - ((D + E) - F) - P) \times 0.6</math></b>	<b>£1,968,750</b>
A = GDV achieved on occupation of 75 per cent of residential units from parts of the development disposed of and the value of other income receipts (£)	£30,000,000
B = Estimated GDV for parts of the development that are yet to be disposed of and other income sources (£)	£10,000,000
C = Application-stage GDV determined as part of the assessment of viability at the grant of planning permission or, if a surplus arose in any previous review, the total GDV in the last review where a surplus was identified, minus the surplus in that review (£)	£34,375,000
D = Build costs incurred at the time of review (£)	£18,750,000
E = Estimated build costs of development yet to be carried out as determined at the time of review (£)	£6,250,000

F = Application-stage build costs determined as part of the assessment of viability at application stage or, if a surplus arose in any previous review, the total build costs in the last review where a surplus was identified (£)	£23,500,000
P = (A + B – C) * Y = Developer return on change in GDV (£)	£843,750
Y = Developer return as a percentage of GDV as determined at the time planning permission was granted (per cent)	15%

#### Formula 4: Late Stage Review Cap

Following the identification of a Late Stage Review Contribution of £1,968,750, Formula 4 was applied to calculate whether the contribution exceeded an amount equivalent to a policy compliant contribution. It used the following values identified through the review process:

- Value per sq. m of Market Housing: £6,500 per sq. m.
- Value per sq. m of Social Rent housing: £2,000 per sq. m.
- Value per sq. m of Intermediate Rent housing: £3,000 per sq. m.
- Shortfall in Social Rent homes against policy compliance following Early Stage Review: 9.
- Shortfall in Intermediate Rent homes against policy compliance following Early Stage Review: 3.

The formula found that a contribution of £3,587,500 would mean the overall affordable housing offer would be policy compliant, as shown in the formula below:

<b>Formula 4: Late Stage Review Cap</b>	
<b>X = Late Stage Review Cap</b>	
$X = (((A * D) - (B * D)) * E) + (((A * D) - (C * D)) * F)$	<b>£3,587,500</b>
A = Average value of market housing per m <sup>2</sup> (£)	£6,500
B = Average value of Social Rent/ Affordable Rent housing per m <sup>2</sup> (£)	£2,000
C = Average value of Intermediate Rent housing per m <sup>2</sup> (£)	£3,000
D = Average number of net residential square metres in scheme per home (m <sup>2</sup> )	70
E = Social Rent shortfall on-site (homes)	9
F = Intermediate Rent housing shortfall on-site (homes)	3

As the Late Stage Review Contribution of £1,968,750 was lower than the Late Stage Review Cap of £3,587,500, the developer was liable to pay the full amount of the Late Stage Review Contribution.