Matter 9 – Infrastructure (including transport), viability and implementation including monitoring

Follow up to Inspector's Note on Viability and Planning Obligations

1. This note has been prepared following the Inspectors' questions on viability (sections 1-5) which are set out and responded to below. It should be read alongside the Viability Background Paper (EIP20) which sets out a summary on the viability of the Plan, further details of the supporting viability evidence base prepared by BNP Parabis and Avison Young on behalf of the Council to support the New Southwark Plan and notes where each policy is considered within the viability studies (Table 1 of EIP20). It also contains section 6 (update to Policy IP3 following NSP22 discussion), section 7 (the response to Inspector's Action Point 34 (Biodiversity Net Gain)) and section 8 (update to Policy IP6 and Monitoring update).

Inspector's comment:

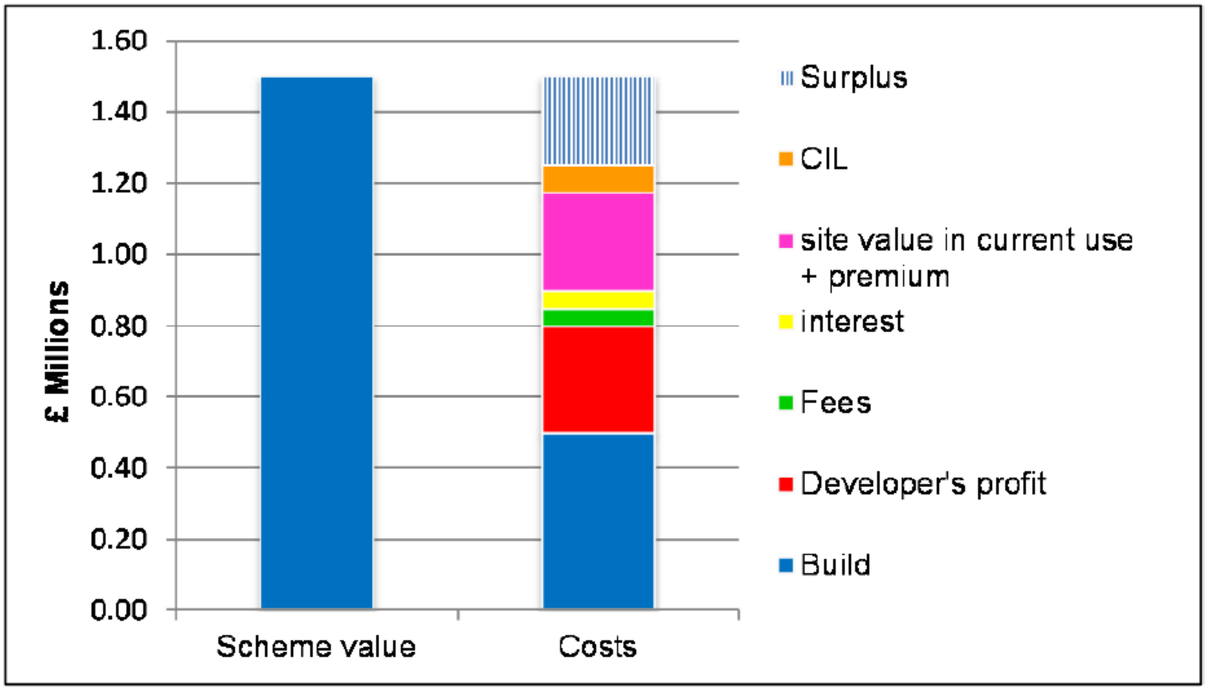
1. **A single summary table of the key input costs, highlighting where policy costs have been specifically accounted for in the collective viability appraisal work, would be particularly helpful. For example, have some policy costs have been incorporated as adjustments to construction costs? (Appendix 1 attached as a starting point)**

   [We have taken the 2017 BNPPRE report as the key baseline viability document, which has then been supplemented by the specific 2019 updates to reflect specific policy progression.]

LBS response:

1. **New Southwark Plan Evidence Base: Housing Policy Viability Update Study November 2017 by BNPPRE** – Section 4 sets out that:

2. Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and the payment from a Registered Provider ('RP') for the completed affordable housing units. For a commercial scheme, scheme value equates to the capital value of the rental income. The model then deducts the build costs, fees, interest, Section 106 contributions and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner.



3. The 2017 Study recognises that there can be problems with key variables as follows:

- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in ‘normal’ circumstances. In boroughs like Southwark, many sites will be previously developed. These sites can sometimes encounter ‘exceptional’ costs such as decontamination. Such costs can be very difficult to anticipate before detailed site surveys are undertaken;
- Development value and costs will also be significantly affected by assumptions about the nature and type of affordable housing provision and other Planning Obligations. In addition, on major projects, assumptions about development phasing; and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of the obligations are deferred, the less the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and
- While Developer’s Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. While profit levels were typically up to around 15% of completed development value at the peak of the market in 2007, banks currently require schemes to show a higher profit to reflect the current risk. Typically developers and banks are targeting around 17% to 20% profit on gross development value generated by private elements (GDV) or cost.

4. Table 1 below sets out the inputs of the 2017 and 2019 Viability Studies. The build costs have been informed by a Cost Report prepared by WT Partnership provided at Appendix 2 of the 2017 Viability Study. These costs include some of the more general policy requirements which would be expected to be met as standard, e.g. building design and quality.

5. As set out within the Viability Study 2017 a notional value of £2,000 per dwelling and £30 per sqm for commercial has been added to the viability testing, this can cover a range of requirements which is also set out in Table 1.

6. These figures also informed SP109 - New Southwark Plan Evidence Base: Housing and Affordable Workspace Policies Further Viability Sensitivity Testing July 2019 by BNPPRE.

Table 1: Cost inputs

Cost Input	Value applied	Relevant policy
Construction costs	Various – see WT Report, Appendix 2 to 2017 BNPPRE The base cost estimate excludes cost of any demolitions and external works and separate allowances are indicated for these. The costs for site abnormal items such as asbestos removal, remediation, ground water, unforeseen obstructions and the like are excluded. The costs exclude professional fees, design fees, contingency, non –recoverable VAT, latent defects insurance, marketing suites, show units and the like. The costs exclude any contribution to off-site energy strategies to meet carbon reductions. Costs adopted in Tables 5.39.1 and 5.39.2 of the 2017 Study	P68 BREEAM P69 Energy P7 accessible and adaptable homes M4(3) and M4(2) P12 design of places P13 design quality P15 designing out crime - Secure by Design principles P14 residential design (further detail on open space set out below) P27 access to employment and training P53 car parking and electric vehicle charging points P66 Water efficiency
	2017 Viability study sets out the build costs which are informed by Appendix 2 2017 Study WT Report – recommended base rate Residential build costs: Six storeys - £2,342/m2 7-13 storeys - £2,914/m2 14-35 storeys - £3,371/m2 Allowances of 0.35% of base build costs for lifetime homes, 0.5% for car parking and electric vehicle charging.	
	Commercial build costs: Office CIL Zone 1 - £2,746/sqm Office CIL Zone 2 – 2,746-£2,231/sqm Office CIL Zone 3 - £1,950/sqm	N/A

	For commercial uses, 1% of base build costs to achieve BREEAM excellent. Commercial build costs adopted in typology set out in Table 5.39.2 in 2017 Study. Commercial revenue inputs set out in Table 5.34.1 for office, retail and student housing.	
	Retail build costs: £1,716/sqm (1% BREAAM)	N/A
	Student accommodation build costs: £2,875/m2 An allowance of 0.5% for wheelchair accessible student accommodation.	N/A
External works	10% allowance added for all uses section 5 – 2017 Study	N/A
SUDs	0.4% allowance added for all uses section 5 – 2017 Study	P67 reducing flood risk
Existing energy policies	2.5% allowance added for all uses section 5 – 2017 Study	P69 energy
Demolition	£120 per sqm section 5 – 2017 Study	N/A
Contingency	5% section 5 – 2017 Study	N/A
Professional Fees	10-12% section 5 – 2017 Study	N/A
Marketing Costs	3% section 5 – 2017 Study	N/A
Development Finance	7% section 5 – 2017 Study	N/A
CIL	2017 and 2019 Studies included the Southwark and Mayoral CILs requirements with an adjustment – 20% discount to CIL liable floorspace which has been occupied for 6 months in the last 36 months as per CIL Regs	Education facilities (P26) Infrastructure (IP1) Transport infrastructure (IP2)

	Mayoral CIL – London-wide infrastructure (Crossrail 1 and Crossrail 2) Borough CIL - Fund strategic and local infrastructure across the borough - transport, education, open space, community facilities	
S106	Notional £2,000 per dwelling and £30 per sqm for commercial	Open space + OKR 5sqm (P14) Public realm (P12/P14) Communal space/facilities (P14) Archaeology (P22) Site-specific highways (P49) Biodiversity net gain (P59) Trees (P60) Air Quality (P64) OKR Transport prior to BLE - negotiated with TFL Green infrastructure (P58) Broadband and digital infrastructure (P43) Council's S106 Monitoring fee
Developer Profit	20% of GDV	N/A
Developer Profit on Build to Rent	15%	N/A
Profit on Affordable Housing	6%	N/A
Exceptional costs	Decontamination, flood risk mitigation and other "abnormal" costs is reflected in base build costs data as such costs are frequently encountered on sites that form the basis of the benchmark data that have informed WT Partnership's advice. above – section 5 – 2017 Study	N/A
Benchmark Land Values (EUV + premium)	Low, medium and high benchmark land values set out by CIL Zones in Table 5.58.1 of 2017 BNPPRE	N/A
Residential Sales Values	Low medium and high values set out per CIL zone in table 5.21.1 of the 2017 Study	N/A

Rental values	Set out in table 5.24.1 of the 2017 Study. An allowance of 25% which accounts for the costs of maintenance, lettings management, repairs, void periods, insurance, utilities and replacement of fixtures. Capitalised the net annual rental income of the units by a net yield of 3.15%.	N/A
Policy Requirements		
Affordable Housing @ >35% (P1)	2017 Study tested typologies to deliver 10% to 50% affordable housing at 5% increments, as well as 0% and 100% affordable housing. Assessed the 25% social rented homes element at both locally calculated social rents and London Affordable Rents for 2017/18 as set out in the Homes for Londoners London Affordable ('LAR') Homes Programme 2016-2021 (November 2016). Intermediate income threshold is set out in Table 5.31.1 Table 5.32.1 - London Living Rent considered based on GLA ward based rental data for Southwark. Payment in lieu – tested in 2019 study	N/A
Housing Mix (3 bed family homes) (P2)	Requirement for increase to 3 bed properties tested in 2019 Study	N/A
Private rented homes (P4)	2017 Study tested affordable housing requirement 2019 Study assessed amendment to policy requirement 5% affordable rent (incomes of £60-90k) requirement to 15% social rent equivalent and 20% affordable rent capped at London Living Rent.	N/A
Student homes (P5)	2017 and 2019 Studies assessed affordable housing and affordable student accommodation and 10% wheelchair accommodation requirement	N/A
Affordable Workspace (P30)	2019 Study assessed the requirement for a proportion of at least 10% of commercial floorspace to be provided as affordable workspace at discounted market rents.	P30 Affordable Workspace

	Generally the testing showed a 10% floorspace requirement at a discount of 25% would be viable in the majority of scenarios. The Affordable Workspace Support – Evidence of Needs - Avison Young Study 2019 (SP422) further tested peppercorn rents, 25% discount, 50% discount and 75% discount for five different typologies. The discount is not set out in policy as this is considered on a site by site basis. The mechanism for calculating in lieu payments is the Affordable Workspace Calculator recommended by BNPPPE in the 2019 study which we have suggested adding to the policy (see answers to Q4 below).	
Access to employment and training (P27)	This requirement was not specifically tested. The requirement is usually met on site in terms of providing training and jobs for local people. A financial contribution would be provided in exceptional circumstances. With respect to the NPPG paragraph 23b-004-20190901, the mechanism for calculating financial contributions is contained in the adopted S106 and CIL SPD (EIP49). Similar requirements are in adopted policy and therefore the council is not introducing a new formulaic approach. We have suggested an update to the reasons to explain how financial contributions would be used. The policy continues to require the delivery of training and jobs on site, and the mechanism for securing this is shown in EIP206. In exceptional circumstances, financial contributions would be sought instead. Please refer to document EIP206 for further information.	Policy P27 Access to employment and training
Office and business development (P29)	The 2017 Viability Study looks at the viability of mixed use developments as the New Southwark Plan policy P29 requires all development to reprovide employment	P29 Office and business development

	floorspace where a scheme is being redeveloped to include residential and other uses. Mixed use schemes including a range of employment uses are being committed to and under construction in different parts of the borough. For example, schemes in Old Kent Road and Parkhouse Street commit to providing light industrial floorspace. Construction is underway on some of the sites in Old Kent Road providing industrial co-location.	
Cycle hire scheme (P52)	This requirement was not specifically tested. For any planning application requiring contributions towards cycle hiring scheme, this is determined by Transport for London and is negotiated during the pre-application and planning application process.	Policy P52 Cycle hire
Car parking (P53) (was DM48) Car Club membership (P53)	As set out above, 2017 Study through the construction costs included the requirement one car parking space per unit average of 0.5% and electric vehicle charging. This requirement was not specifically tested.	Policy P53 Car parking
Council's S106 Monitoring	£132.35 per affordable property. This requirement was not specifically tested.	N/A
Residual land value by CIL Zone	The residual land values are set out within the appendices of the viability report for the 2017 Study. 2017 Study - each page of the full results in Appendices 3 and 4 show the residual land value generated by the scheme (based on the particular combination of affordable housing percentage, sales values and costs), in the grey boxes, and compares this to the high, medium and low benchmark land values for each CIL Zone, identified in the yellow boxes.	N/A

Policy P64 Air Quality	The requirement was not specifically tested. The policy requires any shortfall in air quality standards to be secured off site through planning obligations or as a financial contribution. The S106 and CIL SPD (EIP49) references that air quality contributions would be considered on a site by site basis. To date the vast majority of applications have met the air quality standards so financial contributions have not been necessary.	Policy P64 Air Quality

7. Some requirements have not been specifically viability tested within the Viability Studies, however they have been a long standing requirement at Southwark. In addition, some requirements have not been viability tested within the viability studies, however, these requirements are being met in a number of schemes that are being delivered, these are identified in the Viability Background Paper (EIP20), for example:

TFL bus requirement on schemes along Old Kent Road

8. This is a requirement of Transport for London and not a London Borough of Southwark requirement which requires £2,700 per unit on every scheme. For any planning application that requires bus contributions, this is determined by Transport for London and is negotiated during the pre-application and planning application process. Schemes on the Old Kent Road are coming forward as policy compliant – over 8,000 homes have been approved and built that are providing policy compliant levels of Section 106 requirements, e.g. 62 Hatcham Road and 180 Ilderton Road.

Open space

9. Open space is required on site on a number of site allocations as set out at Section 4 of the Site Allocations Methodology Report. Where the open space cannot be met on site on the locations identified on the Old Kent Road AAP masterplan, schemes on the Old Kent Road are required to provide a payment in lieu (Policy P14). P14 also requires a financial contribution where private and communal amenity space or child play space cannot be provided on site. This mechanism is included in the existing S106 and CIL SPD (EIP49).

10. As set out in in EIP82a at Section 4 (pages 47-48) any shortfall in the required provision of amenity space, play space and public open space will be charged at £205 per square metre. £205 per square metre represents an average cost in Southwark for improving open space, taking into account all costs including fees and construction costs as detailed within the S106 and CIL SPD (EIP49). The contributions go towards improving existing public open space or play space in other parts of Old Kent Road. This mechanism has been used for schemes approved in Old Kent Road. Appendix 1 of EIP148 (OKR Open Space background paper) sets out the schemes that have provided in-lieu payments in sub area 4 of the Old Kent Road AAP.

11. As set out in the 2017 and 2019 Studies the testing identify that the Council's affordable housing requirement of 35% affordable housing is a reasonable requirement across all developments in the LBS. The testing has identified that some schemes, subject to their benchmark land values, are able to achieve higher quantities of affordable housing (50% and more affordable housing), however looking holistically across the schemes tested we would recommend that the Council maintains its requirement at 35%. Therefore a buffer is included which provides flexibility for schemes coming forward.

12. As is to be expected with any strategic viability testing, some schemes are identified as having challenging viability regardless of the Council's affordable housing policy i.e. they are identified as being unviable at 0% affordable housing. In Southwark we consider this to be mainly as a result of high benchmark land values. In practice therefore, such sites would not come forward for development as they are more valuable in their existing use.

13. The Council's flexible approach in the application of their affordable housing policy i.e. that the provision of affordable housing is subject to viability, considered on a site by site basis, will assist with both development viability and ensuring the delivery of the maximum quantum of viable affordable housing.

Inspector's comment:

2. **Where policy costs are unknown or unaccounted for, the extent to which the nominal allowance of £2,000 per dwelling or £30 per sqm of commercial for S106 (or identified headroom in the residual value approach) can absorb these policy requirements?**

LBS response:

1. As set out in the Viability Background Paper (EIP20) the viability analysis in the studies provides a high level understanding of the viability of potential development sites in the context of the cumulative impact of our emerging planning policies. Some sites may require more detailed site and scheme specific viability analysis when they come forward through the development management process. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

2. Table 1 above sets out some of the notional requirements which would be expected to be absorbed through the £2,000 per dwelling and £30 per sqm of commercial.

3. Schemes coming forward which are policy compliant demonstrate that it is viable to meet these requirements.

Inspector's comment:

3. **Any potential viability implications arising from proposed changes in relation to climate change discussed at Matter 1b?**

LBS response:

1. Please refer to the Energy Background Paper Addendum (EIP59A).

Inspector's comment:

4. **Clarification on the viability of the 500sqm threshold for affordable workspace and the references from the 2019 Avison Young report provided by the Council in discussion on Matter 5 on 3 March 2021. This has been further highlighted in correspondence from Avison Young (10 March 2021). Our analysis of the BNPPRE 2019 Update (SP109) indicates that a 2,500sqm threshold is the minimum that has been assessed (Appendix 7 and elsewhere), although further interpretation of paragraph 3.41 of the 2019 report would be welcomed.**

LBS response

1. The council has two evidence base reports which look at the viability of the provision of affordable workspace (SP109 prepared by BNPPRE and SP422 prepared by Avison Young). Both studies were prepared to test a draft policy which set out a threshold of

500sqm for the provision of affordable workspace (SP109, para 3.36, SP422 para 8.6) . Neither study suggested this approach would not be appropriate.

BNPPRE report (Housing and Affordable Workspace Policies Further Viability Sensitivity Testing) (SP109)

2. The first study by BNPPRE (SP109) viability tested the impact of seeking a proportion of new commercial floorspace in developments as affordable workspace. Para 3.37 sets out the scenarios that were tested which ranged from 10%-50% of floorspace let at a discount to market rents of 25% or 50%. Para 3.38 sets out the appraisals adopt the inputs as per the Viability Study 2017 for commercial space and allowing for affordable workspace. A higher yield was applied to account for additional running costs of affordable workspace. Para 3.39 sets out the appraisals which include three commercial typologies likely to come forward in the borough with varying discounts to market rents and quantums of affordable workspace. The three typologies included commercial schemes of 2,500sqm, 50,000sqm and 75,000sqm in the three CIL zones of the borough. For Zone 1, a £65 per square foot market rent was tested. For Zone 2, high, medium and low values of £50, £35 and £25 per square foot was tested. For Zone 3, high, medium and low values of £25, £20 and £18 per square foot was tested.

3. Para 3.39 explains the testing focused on pure commercial schemes, however equally applies to the commercial elements of mixed use schemes containing over 500sqm of commercial floorspace given that the only element of the scheme changing as a consequence of the policy would be the difference between market and affordable workspace.

4. Para 3.41 sets out the testing in Appendix 7 of the report and identifies that viability of commercial schemes can be challenging in the borough, however this is not due to the council's policies, rather it is market factors such as values and build costs. The paragraph concludes that where viability is demonstrated in the testing, a requirement for 10% of floorspace at a discount to market rent of 25% is deliverable in the majority of scenarios.

5. Whilst the study did not include testing of other sizes of schemes outside of the three size thresholds (the lowest being 2,500sqm), additional high-level analysis from BNPPRE testing a 500sqm scheme adopting the same assumptions as used in the original study suggests a reduction in capital value/GDV of between circa 3.8 and 3.5% difference where 10% of floorspace is provided at 25% discount to market rent and circa 5.67% - 5.87% where the rent is provided at 50% of market rent. The difference in capital value is relatively modest in terms of overall scheme viability and the size threshold is therefore justified in terms of viability. The Council will consider schemes on a case by case basis where developers present evidence relating to their scheme with respect to the viability and feasibility of delivering affordable workspace. This is now proposed to be included as an update to Policy IP3 (see section 6 below).

6. In circumstances where this is not feasible to provide on site, an in-lieu payment will be required to secure off-site provision of affordable workspace.

7. The BNPP study set out the recommended mechanism for in-lieu payments in the form of the affordable workspace calculator where it may not be feasible to provide affordable workspace on site (EIP159). Para 3.46 of the report sets out this calculates payments in lieu on a site by site and scheme specific basis. This would entail the assessment each individual site and scheme's differential in terms of the value of the purely market rent scheme that is proposed to be delivered, and the value of the scheme assuming the proposed quantum of affordable workspace at the proposed rental discount. The calculator allows for bespoke inputs per scheme for the total amount of lettable floorspace, the amount of affordable workspace proposed, the full market value rent, and the market investment yield. The calculator automatically adds on 1% to the market investment yield input to account for increased running costs of affordable workspace.

8. As the calculator allows for bespoke scheme inputs, the mechanism is considered to be sound.

9. The NPPG sets out at Paragraph: 004 Reference ID: 23b-004-20190901:

   "It is not appropriate for plan-makers to set out new formulaic approaches to planning obligations in supplementary planning documents or supporting evidence base documents, as these would not be subject to examination."

10. The affordable workspace policy is a relatively new policy and while it has been applied in the borough consistently in draft (including in-lieu payments where necessary), the mechanism for in lieu payments is not contained in the council's existing S106 and CIL SPD (EIP49). The council therefore suggest the following modification to Policy P30 to set out the approach for securing in lieu payments for affordable workspace. The evidence has been provided to the Examination so this is a mechanism which can reasonably be included in the policy as a main modification.

    Policy P30 Affordable Workspace (Point 3)

    3. If it is not possible to provide affordable workspace on site, an in lieu payment will be required for off site affordable workspace. <u>This will be calculated using the Affordable Workspace Calculator.</u>

Avison Young report – Affordable Workspace Support – Evidence of Needs (Dec 2019) (SP422)

11. The council commissioned the Avison Young study after the BNPP study to:

- Provide information on the evidence of needs for affordable workspace in the borough in terms of type, scale and sectors
- Recommend further information on the discount to market rents in five identified sub areas that would suit the types of affordable workspace sectors most in need
- Provide viability evidence to justify specific discounts to market rent in different locations in the borough, different build typologies and different sectors.

12. Avison Young endorsed the approach to in-lieu payments where affordable workspace could not be provided on site however the council did not require additional information on

the exact mechanism to calculate the payments because this had already been recommended by BNPP and the approach was considered to be justified. The Executive Summary of the report (page 1) notes *that a financial contribution should be sought from developments that would deliver below the minimum thresholds of affordable workspace.*

13. The Executive Summary recommends that the council should consider: Using funds collected through the financial contributions from below thresholds developments to subsidise the rent (further discount, beyond the level sets in policy) for targeted businesses or provide grants/loans for upfront investments for targeted businesses (i.e. allowing some businesses to invest into the initial fit-out and equipment).

14. The AY study notes (para 8.11) that the policy requirement would lead to the delivery of affordable workspace units as small as 50 sqm, which are unlikely, as standalone units, to be operationally viable for most commercial operator and challenging for any kind of operator, including charities and non for profit organisations. Paragrap 8.12 notes it may therefore be beneficial for the policy to seek to establish an investment pool from 'in kind' payments, which can then be used to deliver a more meaningful scale workspace that offers a viable proposition for operators.

15. The council's response to Matter 5 Q5.28 explained the threshold is also informed by the evidence of need for affordable workspace in the borough, and by the average size of a micro business unit at 50sqm. This is the minimum unit size which could be accommodated in proposals which include separate micro business units. We opted for 500sqm as a threshold as 10% of 500sqm is 50sqm which is the average site of a single small workshop, which could feasibly be provided as affordable workspace. There is not considered to be operational difficulties in providing this where the space would be managed by a workspace operator, as it could be that discounted rents could be secured for one unit, or secured as an incubator unit for start-ups. In office development discounted membership options could be provided to secure co-working space. The definitions in the fact box recognise that workspace can be delivered by a workspace occupier with an affordable element. Therefore their operational management would be viable for a larger area of floorspace with a smaller part of it reserved for the required affordable element. There are many options for how affordable workspace can be delivered and we are flexible and open to various options. However we do acknowledge that it can sometimes be operationally difficult to provide affordable workspace particularly where a building is designed for a single occupier for example, and therefore the policy is sufficiently flexible to allow for in lieu payments where it is not feasible to provide it on site.

16. Paragraph: 003 Reference ID: 10-003-20180724 of the NPPF sets out as follows:

    Should every site be assessed for viability in plan making?

    Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable. Plan makers can use site typologies to determine viability at the plan making stage. Assessment of samples of sites may be helpful to support evidence. In some circumstances more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies.

17. The AY study tested five typologies likely to come forward in five sub areas of the borough. These are summarised in Table 23 of the report on page 86. Paragraph 7.12 explains the typologies are based upon schemes which have come forward across London, and are aligned with generalised locations, i.e. town centres etc, which have been agreed are most likely to support new workspace schemes across Southwark.

18. In the Hearing, the council referenced para 7.6 (page 83) which endorses the council's approach to a small 500sqft unit (46sqm) that could act as a single stand-alone unit. The reference is then given to Type 1 typology (micro site). The typologies are set out on pages 87-100. Typology 1 (micro site) is shown on pages 87-89. This includes an example of a typology with a total of 1,750sqm commercial floorspace of which 190sqm is affordable workspace (just over 10% provision).

19. The viability considerations and method of viability testing of the five typologies in the five sub areas is set out on pages 101-113. The methodology includes considerations of RLV, BLV, base assumptions, commercial values, CIL charges and build costs. The summary of the testing is includes on Table 50 on page 113. The summary table includes the testing of peppercorn rents, 75% discount, 50% discount and 25% discount off market rents. It demonstrates which typologies are viable for which of the five sub areas and for how much discount to market rent. Typology 1 was tested in four of the sub areas at peppercorn rents and was found to be viable in all scenarios, including at residential and industrial BLVs in all sub areas and office BLVs in the Southbank area.

20. For requirements of provisions of smaller schemes including affordable workspace on site, the viability testing therefore shows rents as low as peppercorn rents would be viable.

Refurbishment schemes

21. The council has considered how the policy should apply in practice to schemes which would refurbish or extend existing offices. The policy applies for schemes which add 500sqm gross employment floorspace. In order to ensure the policy was sufficiently clear, the council added clarification to the reasons as follows:

5. The policy applied to all new build developments providing over 500sqm of new employment floorspace regardless of any existing employment uses that will be demolished. For extensions to buildings or changes of use, the policy applies to the new floorspace created if the extension of change of use is over 500sqm.

22. This was considered a reasonable approach. The policy would not apply to refurbishment schemes where no new floorspace is created, therefore not unfairly hindering the improvement of existing offices/other employment space. However, where a scheme is proposing a large extension over 500sqm, it is reasonable that the policy should apply given the demand for affordable workspace in the borough. A large extension could reasonably accommodate a small proportion of affordable workspace on site in the new refurbished and extended design. If this is not feasible, for example where a single occupier would continue to occupy the building, the in-lieu payment would be required as set out in the policy.

23. The council notes the submissions from Avison Young (29 March 2021 letter) which suggests that the policy could disincentivise landowners from bringing forward small scale office refurbishments and extensions. AY state that this is due to the additional policy requirements of the *provision of long and short stay cycle parking spaces, showers, lockers, accessible toilets and showers on each floor to comply with the London Plan (2021). As such, modest extensions are often required to balance this loss in order to make schemes viable, as the provision of higher quality office is not enough with significant refurbishment costs, and policies that seek to secure affordable workspace payments in lieu on minor development of less than 1,000sqm means that this acts as a disincentive to bring forward small scale office refurbishments and extensions.*

24. Whilst the viability studies did not specifically test an office extension typology, the viability evidence supports the threshold based on testing of 500sqm stand-alone schemes which justifies the policy threshold. If there are site specific circumstances that justify a departure from the policy due to viability, this would be considered on a case by case basis and the council would consider a viability assessment submitted by the applicant.

Affordable workspace schemes

25. As discussed in the Hearing sessions for Matter 5, the council has been applying the draft affordable workspace policy to schemes and to date has secured commitments of 70,000sqm affordable workspace in the borough. Six schemes have provided less than 2,500sqm commercial floorspace and as a result of the 10% affordable workspace policy have also provided 250sqm or less affordable workspace provision on site. This includes a scheme where a single workspace unit of 45sqm (equating to 10% of the total employment space provided) was agreed at 301-303 ILDERTON ROAD, LONDON SE15 1NW. The council have successfully negotiated in-lieu payments for large and smaller office extensions on two other schemes using the calculator. A smaller office extension (two upper storeys) at 150-154 BOROUGH HIGH STREET, LONDON SE1 1LB (19/AP/1173) proposed an upward extension including 689sqm new office floorspace. An affordable workspace contribution of £296,640 has been secured on this site based on 10% affordable workspace. This was calculated using the Affordable Workspace Calculator.

Inspector's comment:

5 <u>Approach to Planning Obligations</u>

The PPG chapter on 'Planning Obligations' at paragraph 23b-004-20190901 advises that policy requirements should be clear, including policies for planning obligations. In particular it states: "It is not appropriate for plan-makers to set out new formulaic approaches to planning obligations in supplementary planning documents……as these would not be subject to examination."

During the Part 1 hearings, the Council directed us to its S106 Planning Obligations and CIL Supplementary Planning Document 2015 (updated in 2017 for Old Kent Road).

Paragraph 1.7 of the Viability Background Paper states that the S106 requirements arising from the New Southwark Plan "do not differ significantly" from those already sought within the existing development plan framework. Section 3 of the Viability Paper sets out where there are new requirements that would arise from the adoption of the New Southwark Plan. Paragraph 2.22 of the Viability Paper states that additional requirements will need to be reflected in an updated S106 and CIL SPD.

Where there are new requirements, for example, affordable workspace, we will want to discuss with the Council at Matter 9 the scope for additional plan content that would either provide the outline of the approach/formula the Council will take and/or make clear reference to detail being set out in an update to the S106/CIL SPD.

LBS response:

1. The Policies in the New Southwark Plan reference where a financial contribution is required within development. The updates to the S106/CIL SPD are a process matter which will follow adoption of the New Southwark Plan and is set out within the Local Development Scheme. It is not appropriate to include reference to the relevant contributions/SPDs as these documents are updated/amended over time.

6. Site allocation NSP22 viability discussion

1. There was some discussion in this session about the council's approach to viability where particular schemes demonstrate that would not be viable to meet all the policy requirements. The council confirmed it would consider viability on a site-by-site basis however there is currently no policy that requires this. Rather than amend individual policies or sites, we consider that an appropriate update would be an edit to Policy IP3 as follows. This is consistent with the NPPF para 57, the NPPG, and Policy DF1 of the London Plan.

Policy IP3: Community infrastructure levy (CIL) and Section 106 planning obligations

Development must

1. ~~We will~~ Ensure that any potential adverse impact that makes a proposed development unacceptable ~~will be~~ ~~offset~~ is mitigated by using Section 106 legal agreements that either ~~requires the developer to~~ a) ~~offset~~ mitigates the impact or b) pay the council a financial contribution to enable the council to ~~offset~~ mitigate the impact.
2. ~~The council will secure money from~~ Pay the community infrastructure levy (CIL) which is required to fund the essential infrastructure identified by the council in our Regulation 123 list.
3. Submit a viability assessment where the proposed development departs from any planning policy requirements due to viability. In circumstances where it has been demonstrated that all policy requirements cannot be viably supported by a specific development, priority will be given to the provision of social rented and intermediate

housing in housing-led and mixed-use schemes. The weight to be given to a viability assessment will be assessed alongside other material considerations, ensuring that developments remain acceptable in planning terms.

Reasons

2. (end of para) Carbon offsetting projects will be funded by the carbon offset fund.

3.The policies in this plan have been subject to a viability assessment which has tested the cumulative impact of relevant standards, obligations and requirements to ensure they do not put implementation of the plan at risk. In instances where applicants do not propose to meet all of the policy requirements due to viability, the council will assess the viability of a specific site upon submission of a viability assessment. Priority will be given to the provision of social rented and intermediate due to the acute need for affordable housing delivery in London and Southwark.

26. Document EIP182 suggested a name change and a policy edit relating to the carbon offset fund. On further review the council considers the carbon offset fund is a S106 requirement that is already covered by the policy however the carbon offset fund should be referred to in the reasons as shown above.

7. Biodiversity net gain (Inspector action 34)

1. New Southwark Plan policy P59 Biodiversity requires any shortfall in net gains in biodiversity to be secured off site through planning obligations or as a financial contribution. P59 is in general conformity with London Plan Policy G6 Biodiversity and access to nature. Paragraph 8.6.6 of the London Plan (2021) states: ... “The Mayor will be producing guidance to set out how biodiversity net gain applies in London.”

2. The GLA have confirmed they will be looking to start work on Biodiversity Net Gain planning guidance in autumn 2021. The GLA has been advised that DEFRA is due to launch a formal consultation on the secondary legislation required for Biodiversity Net Gain during summer 2021 which should provide further clarity on what the mandatory requirements will be for developers and LPAs. An example of this is to ensure provision for local decision makers to agree biodiversity net gain plans with developers. The consultation builds on DEFRAS’s 2019 consultation here: https://www.gov.uk/government/consultations/biodiversity-net-gain-updating-planning-requirements

3. Although the London Plan guidance on Biodiversity Net Gain is therefore undecided, the GLA advise that it is likely to require the continued use of Section 106 agreements to secure contributions at the borough level, with boroughs managing any contributions locally to fund priorities in their BAPs or Local Nature Recovery Plans.

4. The council will be updating its S106/CIL SPD which will follow the adoption of the New Southwark Plan. Biodiversity Net Gain will form part of the review taking into account practical guidance for developers and applicants, calculations and costs, management and monitoring. The SPD review will take place as the secondary legislation and GLA guidance emerges and will ensure consistency of approach.

5. In practice, the majority of development in Southwark will take place on sites with a low biodiversity baseline where Net Gain can be achieved through the onsite design of urban greening needed to meet the London Plan's Urban Greening Factor policy requirements. It is therefore likely that the contributions will not need to be routinely collected contributions for major development. It will be more difficult to achieve Biodiversity Net Gain where there is higher quality habitat on site to start with, such as a SINC. In these cases, the offset contribution required would likely be larger and secured through a S106 agreement.

6. The GLA have recently published a short design guide alongside guidance on the Urban Greening Factor to show how the two requirements can work together to support onsite delivery: https://www.london.gov.uk/what-we-do/urban-greening-biodiversity-net-gain-design-guide

8 Monitoring

1. In relation to the future digital monitoring tool potential, the council has recently completed two digital discovery projects for its planning service that reviewed data management and service design processes within the planning division, and sets out next steps to deliver upgraded processes, including how we monitor our local plan.

2. The council has also recently submitted a bid to MHCLG's Digital Local Plan pathfinder (https://www.gov.uk/government/publications/local-plan-pathfinders-expressions-of-interest/local-plan-pathfinders-expressions-of-interest). The pathfinder is underway in response to the one of the key reforms set out in the 'Planning for the Future' White Paper which is how planning harness digital technology to make it much easier for planning information (local plans, development proposals) and data to be accessed and understood. The Pathfinder bid focuses on:

- How LPAs receives, processes and stores local plan data to ensure it is accurate, accessible and usable
- How the LPAs can improve public engagement and present local plan data in a variety of clear, accessible formats, to assist public engagement with residents, developers, stakeholders?
- What local plan data stakeholders want and in what format.

3. One of the primary outputs of the pathfinder will be to identify options for the digital tools for data management. The council aspires to make monitoring data focused and digitalised encouraging data to be submitted at application stage and monitored throughout the

application process, through to decision and S106 sign off, and feeding through into LDD/the future London datahub (GLA project). Whilst this is an ongoing project, identifying the data indicators as we have done in the Monitoring Table is the first step in this process to ensure effective monitoring of the council's policies and reduce manual monitoring tasks for the team.

4. The council is committed to improving its approach to monitoring and making the information easily accessible, dynamically updated and linked to spatial mapping.

5. The Planning Policy and Digital Transformation Team has recently expanded the number of officers within the team in response to the emerging digital planning paradigm and has the resources to deliver an upgraded Monitoring Framework

6. We propose the following update to Policy IP6:

IP6 Monitoring development

We will continue to monitor development to assess how our planning policies are working and responding to people's needs in Southwark. We will require applicants and developers to provide data about their development in a digital format and standard that we need to successfully monitor it.

Reasons

Annex 4 contains the New Southwark Plan Monitoring Framework which explains how we will collect and publish data and work towards a new digital monitoring system. Monitoring data and results will be published in the Authority Monitoring Report (AMR). The AMR sets out the type and amount of development and conservation taking place in Southwark. It sets out an evaluation of whether planning policies are making a difference and lets us assess how the policies can be improved by future plan making. ~~We will update the AMR to measure all of the new policies and the strategic New Southwark Plan indicators have been updated to be the same as those for Regeneration For All.~~ These will enable us to measure our progress and success, ensuring we track and evaluate changes that make Southwark successful, such as full employment, health improvements, a more skilled labour market and places that are safe and clean. The AMR is now a website information hub, available online.