

Real Estate & Planning

Working Papers in Real Estate & Planning 12/13

The copyright of each Working Paper remains with the author.
If you wish to quote from or cite any Paper please contact the appropriate author.
In some cases a more recent version of the paper may have been published elsewhere.

Inside the Black Box: Unravelling the Development Viability Appraisal Process

Patrick McAllister¹, Emma Street² and Peter Wyatt²

¹ University College London, Bartlett School of Planning, Wates House, 22 Gordon Street, London, WC1H 0QB, UK

² University of Reading, School of Real Estate and Planning, Henley Business School, Reading , RG6 6AW, UK,

Inside the Black Box: Unravelling the Development Viability Appraisal Process

Abstract

Over the last decade issues related to the financial viability of development have become increasingly important to the English planning system. As part of a wider shift towards the compartmentalisation of planning tasks, expert consultants are required to quantify, in an attempt to rationalise, planning decisions in terms of economic ‘viability’. Often with a particular focus on planning obligations, the results of development viability modelling have emerged as a key part of the evidence base used in site-specific negotiations and in planning policy formation. Focussing on the role of clients and other stakeholders, this paper investigates how development viability is tested in practice. It draws together literature on the role of calculative practices in policy formation, client feedback and influence in real estate appraisals and stakeholder engagement and consultation in the planning literature to critically evaluate the role of clients and other interest groups in influencing the production and use of development viability appraisal models. The paper draws upon semi-structured interviews with the main producers of development viability appraisals to conclude that, whilst appraisals have the potential to be biased by client and stakeholder interests, there are important controlling influences on potential opportunistic behaviour. One such control is local authorities’ weak understanding of development viability appraisal techniques which limits their capacity to question the outputs of appraisal models. However, this also is of concern given that viability is now a central feature of the town planning system.

Key words: Development viability appraisal, calculative practice, client influence, stakeholder consultation.

Introduction

Dating back to the 1947 Town and Country Planning Act, various policies have been introduced that attempt to capture some (and initially all) of the uplift in land value that accrues to the landowner when planning permission is granted. The current incarnation of land value capture is a policy mix that allows local authorities to secure planning obligations and infrastructure levies. However, policy now dictates that targets for affordable housing, community services and infrastructure payments must be set at levels that do not compromise the financial viability of proposed developments. Whilst this might seem like a reasonable test, in practice its operation has proved problematic. The practice of development viability appraisal (DVA) centres on the calculation of land value using one of a number of standardised, industry-developed models. These models, in seeking to quantify complex (and often contested) information, provide an impression of technocratic rationality (see McAllister et al, 2013).

DVA can be seen as a form of calculative practice that has become increasingly embedded in the English planning system in recent years (McAllister et al, 2013). The apparently value neutral process of quantification can be associated with a tendency for unquestioning, institutionalised trust in numbers which permits essentially political processes to be presented as technical procedures by reconfiguring subjective and contestable judgements as pseudo-scientific (Mennicken *et al*, 2008). It has been argued that, in terms of their current application to planning, such calculative procedures are fundamentally flawed since they estimate whether policies to be implemented in the future on actual sites are viable at present for hypothetical sites (McAllister, *et al*. 2013). In addition, and perhaps not surprisingly, the assumed return to the landowner has been a highly contested issue in terms of the DVA assumptions.

Policy formation regarding planning obligations presents planners with 'wicked' problems without value free, true-false solutions (Wilson, 2013). Indeed, in mediating between competing and/or conflicting interests, planning perspectives on development tend to involve different conceptualizations of the overarching 'problem' (i.e. the appropriate balance between individual property rights and responsibilities to the community), and the appropriate distribution of wealth between private individuals, the state and the community. As noted above, at the core of the wicked problem in the context of planning obligations is the distribution of the financial gains from planning permission between the community, developers and landowners. The application of financial viability modelling techniques can be interpreted as an attempt to solve this problem using a rational, technocratic and quantitative method.

The widespread use of financial viability modelling can be analysed within the broader framework of ‘the politics of quantification’ and a longer term ‘quantitative turn’ towards framing the analysis of socio-economic issues in arithmetical terms (see Simmel, 1997; Sangolt, 2010). In the voluminous literature of the new economic sociology there is a duality in analyses of the performativity of calculative practices with advantages and disadvantages posited. Exploring some of these conflicting interests for a moment, some see the benefits of quantification as its ability to reduce complexity, to incorporate diverse values and interests, and to offer a common language for negotiation thus providing a framework for conflict resolution. In his seminal work *Trust in Numbers*, Porter’s (1998) central point is that quantification, by making differences of opinion more public and open to evaluation by similar standards, enables the production of trust. In the case of financial feasibility modelling of development, below we present evidence to suggest that this type of analysis has some plausibility.

As Christophers (2013) demonstrates, the origins of the application of financial viability modelling in the English planning system can be traced back to the testing of developers’ objections to perceived high affordable housing targets proposed by the Mayor of London. Furthermore, it is difficult to argue against the proposition that the need to model the financial viability of area-wide planning policy and site-specific development proposals has forced local authorities, developers and landowners to be more transparent in their decision-making and negotiation processes, albeit developers have often been resistant to disclosing ‘sensitive’ information. However, Fligstein (1998) suggests that such an analysis is only partial. He argues that the *development* of quantification reflects the relative power of stakeholders and is deeply embedded in political and economic arrangements that dictate how and under what conditions quantification is used.

Whilst quantification may provide the impression of precision, objectivity and mechanical decision-making, numbers are necessarily socially constructed. A contrast is often drawn between technocratic, rational, expert-led decisions and politically-led and perhaps less rational decisions. Denis et al (2009) argue that this dichotomy between rationalism/quantification and politics is false. Quantification can facilitate the exercise of power so that “strategists armed with numbers can exert power. Numbers make things governable...”, promote control and legitimacy by providing power and authority to act that may be particularly valuable in pluralistic organizations (Denis *et al*, 2006, 350).

In the organisational decision-making literature, studies have demonstrated that rational decision procedures can be used to legitimise predetermined preferences and to support a case (see Meyer, 1984 and Lindblom and Cohen, 1979). In the context of development viability modelling, McAllister et al (2013) argue that these issues are crystallized in the intense debate about the assumptions that should be used to establish an appropriate or competitive return to the landowner when modelling

viability. They suggest that it is in this specific, highly contested modelling assumption about the distribution of the financial gains from a development that the competing interests of the community and landowner is most apparent and the façade of technocratic rationality is most apparent.

In this paper, the focus is on the roles of clients and other stakeholders in the process by which DVAs are produced. We draw upon two strands of literature to investigate potential sources of bias in the production of DVAs. Given that a DVA is essentially a category of real estate appraisal, the first area relates to the potential for clients to bias independent real estate appraisals in order to serve their own interests. Related to the application of such appraisal techniques in the planning system, the second strand refers to the role of consultation and participation in planning policy formation processes.

An essentially conventional real estate appraisal technique, with all its recognised shortcomings, is now at the heart of a wider participatory/consultative planning process and so the aim of this paper is to bring the real estate literature on client influence and appraisal bias into conversation with the planning participation literature. In the next section we review literature on real estate appraisal that deals with the issues of client influence and potential bias on the DVA process. This is followed by a linked review of collaborative planning literature which has discussed at length the (dis)benefits of engaging a range of stakeholders in the development and planning process but has had little to say about this in relation to development viability. We then draw together elements from these literatures to interpret data from a range of interviews conducted with those involved in the DVA process. The role of different stakeholders, including clients, consultants, local authority planners and community actors, and their level of input into the DVA process is assessed. The paper concludes by drawing together observations about potential sources of bias in DVAs before reflecting more broadly on the roles of stakeholders in decision-making around specific development sites and the formation of planning policy.

Development Viability Appraisal in the Planning System

In the academic literature, Campbell and Henneberry (2005) were probably the first to identify the introduction of financial modelling into planning practice. In formal policy terms *Circular 05/05* proposed the need for ‘financial information’ to inform the process of setting planning obligations. Between 2008-2010 *Planning Policy Statement 12: Local Spatial Planning* and *Planning Policy Statement 3: Housing* and a series of planning appeals underpinned this shift. The current UK coalition Government has also maintained this approach. In 2012, the National Planning Policy Framework emphasised that local planning authorities should pay “careful attention to viability”. It states that

“[T]o ensure viability, the costs of any requirements...such as requirements for affordable housing, standards, infrastructure provision and other requirements should... provide competitive returns to a willing landowner and a willing developer to enable development to be deliverable” (DCLG, 2012, 41)

Viability is assessed using a relatively straightforward financial appraisal model: a development scheme is considered viable if the projected revenues from a development scheme are sufficient to justify incurring the costs of development. Development costs typically include:

1. *A financial return to the landowner* that is sufficient to incentivise sale of the land;
2. *Costs associated with the development scheme* (site preparation, construction, professional fees, stamp duty, marketing and leasing, etc.);
3. *A financial return to the developer* sufficient to incentivise undertaking the development; and
4. *Planning obligations* including the Community Infrastructure Levy.

Embodying these core principles, guidance from the Royal Institution of Chartered Surveyors defines financial viability for the purposes of town planning decisions as:

“An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project.” (RICS, 2012)

While financial viability modelling is obviously key to the development process in general, and to developers and their financiers in particular, it has become a central feature of the town planning system comparatively recently. Scheme viability is now a material consideration in determining levels of developer contribution via mechanisms such as s106 of the Town and Country Planning Act 1990 and the Community Infrastructure Levy. This places a responsibility on local planning authorities to understand viability issues in the context of site-specific development planning decisions as well as area-wide planning policy.

Viability is assessed using a financial appraisal method that has long been criticised by the various professions that have had to use it (Coleman *et al.* 2012). Conventionally the method has been used to value individual development sites so the inputs relate to the particular circumstances of a scheme, so-called ‘site-specific DVAs’. This is important because site-specific costs, often referred to as abnormal costs, can constitute a significant proportion of the development costs. This is particularly so in the case of complicated brownfield sites with existing buildings to remove, neighbouring buildings close-by, potential contamination, fragmented land ownership and so on. The use of DVAs as an evidence base for planning policy formation requires extrapolation from this snapshot or site-specific appraisal, to an area-wide (local authority district, for example) appraisal. These have a

potential shelf life of five to ten years or more (the life of a typical local plan). Area-wide DVAs typically consist of a test of whether potential policies regarding planning obligations and CIL and site allocation are deliverable. Our focus in this paper is solely on these area-wide DVAs. The highly contested issues surrounding site-specific appraisals are the focus of a forthcoming paper.

Drawing on previous work on the methods, techniques and assumptions used in DVAs, McAllister and Wyatt (2013) identify five limitations of, and problems with, the current approach to DVA for policy formation. The criticisms centre on whether models are technically robust, appropriate for purpose and, entering the realm of value judgement, equitable¹.

1. Whilst landowners, developers and government generally accept the calculative principles underpinning DVAs, there are a number of simplifications or assumptions used in some variations of the models that are considered to lack robustness from the perspective of corporate finance theory.
2. DVAs have become central to policy setting and negotiations over the distribution between landowner and community of financial gains generated by planning permission, but the appraisal model itself distils to a single focal point; setting an appropriate return to the landowner. This remains a contested and as yet unresolved issue and current guidance is variable and ambiguous.
3. As noted above, DVA models applied on an area-wide basis are effectively estimating whether *future* planning policy targets for planning obligations, affordable housing and community infrastructure are *currently* viable.
4. Due to variations in development costs and values, there can be significant local variations in the capacities of sites to support planning obligations and infrastructure payments. Fixing a standard tariff across a wide geographical area can mean that marginally viable sites are not brought forward and extremely viable sites do not yield high levels of planning gains for the community. In fiscal terms, if we interpret planning obligations and infrastructure payments as a quasi-hypothecated tax, the current system is regressive. Due to differences in the earning capacities of sites over time and space, fixed levies or tariffs mean that different developers/land owners may pay similar *amounts* of ‘tax’ but very different *rates*. It is likely that sites generating the lowest level of value uplift will incur the highest rates of ‘tax’.

¹ A much more detailed discussion of these issues can be found in Crosby, Wyatt and McAllister (2012), McAllister, Wyatt and Coleman (2013) and Coleman, Crosby, McAllister and Wyatt (2012).

5. The current system ‘taxes’ expected income in advance of earnings. In addition, the amount paid often bears little relation to the externalities generated by a development. Further, given that the scope for planning obligations from sites is broadly linked to economic vitality, the current system tends to reinforce existing spatial inequalities.

Much of the literature on DVA to date focuses on modelling techniques and information inputs; there has been little consideration of the DVA *production process*, that is, how models are produced, by whom, and how they are used to inform decision-making? This lack of research, which at least partly stems from the relatively recent integration of DVA into the town planning system, is of concern for two main reasons. First, the level of importance being placed on DVAs by the current government through national planning policy is increasing. Some see this as part of the rise of neo-liberalism with its ‘emphasis on the market as the key indicator of individual and, in an aggregated form, societal preference’ (Campbell and Marshall, 2006: 240). The emphasis now placed by the town planning system on quantifying the costs of and revenue from development has increased as a result of government intervention in the housing market with the result that local planning authorities are being encouraged to renegotiate extant but unimplemented planning permissions to determine whether planning obligations are stalling development (DCLG, 2012).

One consequence is that models increasingly confront people without the requisite quantitative or modelling backgrounds but who are nonetheless tasked with reaching an informed and unbiased decision based, in part, on the outputs of these models (Jakeman *et al*: 2006). While some DVAs are conducted in-house at local authorities, resource constraints, compounded by a lack of financial modelling expertise, mean that expert input from professional development viability consultants is usually required to inform decision-making. This can be seen as part of a wider shift whereby planning is carved up into a series of discrete or ‘particular’ tasks including the production of DVAs, Environmental Impact Assessments, and statements of Community Involvement (amongst others), requiring a series of technical inputs from specialists (see Campbell and Marshall, 2006; Gunn and Vigar, 2012; Raco *et al*, 2013). What this ‘expert’ input is, how independent it is, and how it informs client (local planning authority) decision-making, are matters of interest to this paper.

Second, despite increased reliance on DVAs, the relationships between stakeholders engaged in, and affected by, viability appraisals remain poorly understood. While the imperative to consult a range of actors in reaching planning decisions (at the policy and site-specific level) is now embedded within the planning system, the arrangements that underpin DVAs are largely unknown outside of the industry. As such, despite professional requirements that require the recording of meeting minutes (see following section), ensuring appraisals are conducted in a transparent, fair and ethical manner is

left in the hands of the actors involved, including private consultants working on a for-profit basis, to self-regulate. Questions that arise include: which stakeholders are (not) involved in DVAs, what are their respective roles, how do these roles then exert influence over decision-making, and what is the potential for bias?

Client Influence in Real Estate Appraisals

Over the last decade, as the concept of viability has become more central to policy formulation and, in particular, to the delivery of affordable housing through s106 agreements, DVAs have become a standard offering from various private sector organisations. In most mature real estate markets, commercial real estate appraisals are typically regulated by a blend of governmental legislation and professional institutions. In the UK, the Royal Institution of Chartered Surveyors (RICS) produces guidance on professional standards and is one of the organisations that have been drafting guidance on the production of DVAs for planning purposes. The RICS (2012a) states that an appraiser must act independently and objectively. The appraisal standards also identify the particular threat to objectivity of communication with a client or another party before a valuation report is produced:

“A threat to the valuer’s objectivity can arise where the outcome of a valuation is discussed before its completion with either the client or another party with an interest in the valuation. While such discussions are not improper, and indeed may be beneficial to both the valuer and the client, the valuer must be alert to the potential influence that such discussions may have on his or her fundamental duty to provide an objective opinion” (RICS, 2012a, VS 1.7, para 7)

Following potential problems of client influence in appraisals identified in the UK through academic research (a summary of which follows), professional regulatory requirements to record meetings on ‘drafts’ appraisals were introduced (see Baum *et al*, 2000). This guidance supported the notion of beneficial client influence and endorsed the practice of meetings between client and appraiser during the appraisal production process (RICS, 2002, p22).

In the real estate literature, there is a fairly well established body of work on client influence in real estate appraisals. Crosby *et al* (2010) argue that clients often have the means, motives and opportunities to influence real estate appraisals. Their *motives* tend to be economic, for example to enhance apparent investment performance. The *opportunity* to influence is provided by the typically high level of consultation with clients on appraisals. The *means* are provided by the intrinsic uncertainty in appraisal models together with expertise of some clients in this area. The literature has also identified different *types* of influence (coercive, covert, reward, information) on different categories of appraisal (e.g. for brokerage or investment performance measurement) at different stages of the process (instruction, information collection, calculation, reporting, etc.) as shown in Table 1.

The table provides a summary of the typical stages of a DVA process in its role in providing an evidence base for area-wide planning policy formation, along with the respective actors involved.

Table 1 – The Area-Wide Development Viability Appraisal Process

Stage	Instruction, tender process, contract negotiation	Information collection and consultation	Processing and calculation	Draft reporting & feedback	Hand-over
Involve-ment	Local authority, consultants	Local authority, consultant, stakeholders	Consultants, market advisors	Local authority, councillors, consultants	Local authority, consultants

The majority of studies used quasi-experimental (see Hansz, 2004; Amidu and Aluko, 2007; Amidu, Aluko and Hansz, 2008), interview (see McAllister *et al*, 2004; Crosby *et al* 2004 and Levy and Schuck, 2005) and postal survey-based (see Smolen and Hambleton, 1997; Kinnard *et al*, 1997; Gallimore and Wolverton, 2000; Yu, 2002) approaches. A stylized fact that emerges from this body of work is that clients sometimes attempt to influence appraisal outcomes and that appraisals are likely to respond to client pressure. McAllister *et al* (2004) in particular identified that there could also be quality assurance benefits from client feedback. Clients can assist by providing information about the properties or the market that the appraiser may be unaware of. Clients may also monitor the appraiser to ensure that sufficient effort is being applied. It is also common for expert clients to check appraisals for errors or omissions.

Obviously this type of behaviour is not unique to real estate appraisers. There is a large body of research on information intermediaries (auditors, ratings agencies, equity analysts *inter alia*) indicating that their advice and analyses are not always independent. For equity analysts, it has been found that analysts' recommendations can be systematically biased by their organisation's business relationship with companies being analysed (see Lin and McNichols, 1998; Michaely and Womack, 1999; Malmendier and Shantikumar, 2005). More notoriously, a range of explanations for the poor performance of the rating agencies include "rating shopping"; the role of competition and pursuit of market share; and employment impacts of the close relationship between rating agencies and issuers (see Benmelech and Dlugosh 2009a, 2009b and Ashcraft *et al*, 2010). In the auditing literature, problems can occur where there is "mutuality of interests" between auditor and client, due mainly to incentives created by auditor economic dependence and/or the provision of non-auditing services by the auditing firm (see Zhang, 1999; Windsor and Ashkansay, 1995; Zimbelman and Waller, 1999). However, studies have also found evidence of counterincentives to mitigate the potential agency costs associated with economic dependence. Reynolds and Francis (2000) and Gaver and Paterson (2007)

found that, consistent with potential large costs of lawsuits, the Big Five US audit firms tend to be more conservative in auditing larger firms.

Drawing upon Trevino's (1986) interactionist model of ethical organisational decision-making, the extent of negative client influence can be analysed as a product of the balance of internal and external variables on both clients and appraisals. For clients, the salience of the appraisal is the key situational factor creating the incentives to influence it. The incentives for the individual appraiser to respond to pressure from clients to deviate from their independent estimates of value are also contingent on the relative costs and benefits of yielding to client pressure. Situational drivers, such as economic dependence, are refracted through clients and appraisers. Internal or dispositional factors then become determinants of the outcome of any appraisal consultation process. In the auditing literature the main focus has been on variations in the level of moral reasoning among individuals (see Trevino, 1986). Windsor and Ashkansay (1995) identify three categories of individual – autonomous, pragmatic and accommodating – that tend to respond in different ways to client pressure. Individual behaviour will also be affected by the organizational culture in which they operate (see Schein, 1985). Furthermore, individuals and firms exist within a wider business culture and it is generally acknowledged that different markets and cultures have different rules and expectations regarding ethical behaviour from market participants (Ahmed, Chung and Eichenseher, 2003).

The Rules of (Stakeholder) Engagement

The client influence literature, which highlights the role that (unregulated) activities such as stakeholder behaviour, organizational culture and institutional practices exert over the appraisal process, challenges the way in which DVA has often been presented. Typically, and particularly in guidance issued by government or professional bodies, DVA is characterised as a wholly *technical* or *value-neutral* process of quantification. The effect of this is to obfuscate the political nature of the issues, assumptions and contested (human) decision-making processes that it is embedded within and constituted through (Mennicken *et al*, 2008; see also Swyngedouw, 2006). While there has been little discussion of these issues in relation to DVA *specifically* (although see McAllister *et al*, 2013, Christopher, 2013), there is consensus within the planning theory literature that development and planning should be conceptualised as inherently *political* matters (see Campbell and Marshall, 2004, Flyvbjerg, 1998, Hillier, 2000).

It is our intention to bring these more established, and small and emerging, literatures into conversation to challenge representations of DVA as largely technical and value-free exercise in quantification. Much of the work conducted thus far, and which we build upon in this paper, has identified the difficulty in reconciling what, ostensibly, is a straightforward process of quantification

involving the input of 'hard' market data, with the 'soft' involvement of (and responsibility towards) a range of stakeholders, some of whom may have a vested interest in skewing model outputs. In the following section, we turn towards the wider planning literature to consider the reasons for engaging different *stakeholder* interests in DVA (understood as part of the inherently *political process* of planning and development), and compare and contrast this with the literature from a modelling perspective.

In recent years, a large literature has emerged that draws attention to the (conflicting) interests that occupy the terrain of planning and development (see, for example, Brindley *et al*, 2005; Campbell and Marshall, 2004; Flyvbjerg, 1998; Healey, 1992; Hillier, 2000). A central concern of this body of research is to highlight the destabilising effect particular interest groups can have upon equitable outcomes in planning and development decision-making, and to look for ways in which a fair balance between different stakeholder interests can be obtained to benefit the public interest (see Healey, 1997; Koch, 2013). The planning literature primarily addresses the question of stakeholder engagement from the perspective of equity and justice. Campbell and Marshall's (2004: 240) viewpoint is not an uncommon one:

'We regard planning as an activity which is concerned with making choices about good and bad, right and wrong, with and for others, in relation to particular places. It is about making ethical choices over issues which are often highly contested. Planning is therefore profoundly concerned with justice'.

As recognition of the ways in which power relations constitute (and potentially facilitate the manipulation of) planning outcomes has grown (see Flyvbjerg, 1998), planning academics, drawing upon the ideas of theorists such as Jürgen Habermas, have paid attention to the ways in which interest groups are engaged in planning processes. A Habermasian conception of justice is predicated upon an 'ideal speech situation' where 'rationally motivated argument' or 'consensus' can be attained (White, 1988: 55). In the planning context, this entails the creation of forums in which all stakeholders are (equally) able to participate and 'where uncoerced deliberation leading to consensus can occur' (Campbell and Marshall, 2004, p245). While epistemologically diverse, thinking on these matters has been brought together under the label of collaborative planning, a set of theoretical ideas and practical interventions designed to encourage more collaborative, inclusionary forms of planning practice, of which stakeholder participation is a key tenet (Healey, 1997).

The motivations for increased stakeholder engagement in the development of the type of (ostensibly) quantitative models such as those at the heart of DVA tend to be somewhat different. While questions of justice and equity are not unimportant, the focus here is on developing a 'broader and more balanced view of the management issue to be incorporated in the model', as well as, 'improving the

adoption of results from the assessment [and] increasing the likelihood of better outcomes' (Jakeman *et al*, 2006, p3). Engagement is seen as key in developing better models; offering an 'opportunity for stakeholders to learn about interactions in their system and likely consequences of their decisions' (Jakeman *et al*, 2006: 3). Much like in the planning literature, the extent and depth of stakeholder participation is deemed important in developing robust modelling techniques. As Jakeman *et al* (2006) note, in the past this has often been rather tokenistic. However, increasingly, stakeholders are being engaged in model development in the early stages through collaborative arrangements that sees their feedback integrated and adopted. Such good practice is particularly important where models are used to try and address "wicked" problems – so-called because they are 'difficult to define, multi-faceted and infinitely malleable' (Campbell and Marshall, 2006, p246). It is, of course, precisely these kinds of problems with which planners are routinely faced (see Beck, 2002; Koch, 2013; Wilson, 2013).

The last two sections have, together, drawn out a range of observations around (good) practice in stakeholder engagement. While the benefits associated with consulting different interest groups have been long been recognised in planning literature and practice, participation is increasingly seen as good practice in model development too. Consulting interested parties is, first and foremost, seen as way to produce more accurate and effective models by ensuring that accurate information and knowledge is incorporated into model design. This is particularly important in development appraisal as the availability of information is often patchy. As the client influence literature shows, stakeholder engagement in model-design and application also provides a way to reduce the opportunities for bias by increasing transparency around the assumptions that inform models, as well adding robustness to the decision-making practices based upon model outputs. The following section draws upon interview data to assess the evidence that such (good) practices are occurring in the DVA process.

Method and Data

The empirical data presented in this section is drawn from an in-depth interview survey of producers of DVAs, providing grounded insights into the process that underpins their production. A semi-structured interview technique was chosen for data collection, based around the questions in Appendix 1. 11 interviews were conducted during the period September-November 2012. Professionally, respondents formed a group consisting of chartered surveyors, town planners and economists, with a mix of backgrounds covering valuation, commercial and residential development, consultancy, housing, master/strategic planning and research/academia. All respondents bar one were senior practitioners (20+ years' experience) within their company or field and all were experienced in the production of DVAs for local planning authority clients. Three respondents in particular were involved with the early production and contribution to the formulation of approach for such studies,

particularly during the period 2001-2004, and several other respondents have actively contributed to professional and government committees that are involved with the provision of guidance in this area. The majority of respondents testified to a large influx of development viability work for local planning authorities during the period 2008-10. Geographically, whilst the majority of respondents were based in the South East of England, between them they had produced the majority of the DVAs for planning policy formation across all regions of the country.

In order to better understand who is involved in the DVA process, an industry analysis was carried out to identify the main groups of producers. From this industry analysis, seven groups were identified; property consultants, planning consultants, multi-disciplinary engineering consultants, specialist providers, software specialists and providers, District Valuer Services (Government's internal valuers) and academic institutions. It should be noted that some large firms informally sub-contract to specialist consultants. Large firms may also be quite fragmented with relatively small regional offices performing the appraisals. In addition, individuals within organisations had diverse experience and some units within large firms (the multi-disciplinary civil engineering consultancies for example) were formed from recent takeovers of smaller specialist firms.

Table 2 lists organisations offering DVA services as of July 2011. This list was compiled from a search of DVAs that had been commissioned by local authorities in support of their policies for planning obligations. The reports of these appraisals are publicly available on local authority websites. The property services sector focuses on private sector clients and use DVAs to (re)negotiate planning obligations. Planning consultancies offer DVAs to public and private sector clients. Consultancies vary in size and sector involvement with some being part of larger multi-disciplinary organisations such as RPS Group, while others concentrate on planning and economic development services. Some multi-disciplinary consultancies that historically have focused on services in the engineering sector have diversified across all built environment sectors and now offer planning and economic development services including DVAs. The specialist consultancies can be broadly divided between those stemming from services related to housing and affordable housing and those stemming from planning policy and economics, with obvious overlaps. Many of those offering DVA services use bespoke spreadsheet models. Others have developed software that has become marketed commercially such as the Three Dragons Toolkit developed by Three Dragons and the Development Appraisal Tool developed by GVA for the Homes & Communities Agency.

Table 2 – DVA service providers

Property services sector	Alder King
BNP Paribas	Carter Jonas
CBRE	Cushman Wakefield
DTZ	GVA
Jones Lang Lasalle	Knight Frank
Savills	Turner Morum
Planning consultancies	Acorous
Assetz Development	Baker Associates (now part of Peter Brett Associates)
Bespoke Property Group	CgMS Consulting
DHA Planning	Dixon Searle Partnership
Hunter Planning Consultants	Roger Tym & Partners (now part of Peter Brett Associates)
RPS Group	Turley Associates
LPP Developments (wholly owned subsidiary of The London Planning Practice)	
Multidisciplinary (engineering) consultancies	
Atkins Global	Entec
ERM	Jacobs Engineering
Specialist providers	
Arc4	Adams Integra
Fordham Research	Christopher Marsh & Co
Joliffe and Flint	Level
Tribal Consulting	Three Dragons
District Valuer Services	Providers of services to local authorities
City of London Corporation (the only example found of a local authority undertaking its own DVA)	University of the West of England

In addition to developing understanding of *who* is involved in the production of DVAs, we also wanted to build a picture of what their respective roles are, and how (or if) different actors' input into the DVA process is regulated or codified.

Findings

Table 1 summarised the process by which area-wide DVAs are produced. To recap, a local authority (usually the planning and/or housing department) draws up a brief for the work, an invitation to tender is issued, shortlisted bidders are interviewed and the successful bidder contracts to do the work. The nature of the work is such that specialist viability appraisers conduct the work on behalf of a client under contract. As mentioned above, these appraisers usually have a background in surveying. Following the completion of tendering, at the pre-contract stage there may be some negotiation over the scope of work such as the number and type of sites to be considered, the extent of any sensitivity analysis for policy variables such as affordable housing and other s106 costs for example. Typically, once a contract has been signed, an inception meeting takes place. It is worth noting here that the consultant oversees much of the DVA process with varying levels of input from the local authority client.

This raises questions about impartiality and, more specifically, the level of influence private consultants may exert over practices that now form a material part of planning decisions. For example, the consultant usually sets the agenda of the initial meeting, which is designed to establish the scope of the DVA in terms of stakeholder engagement, data gathering, modelling framework and assumptions. At that point, the consultant takes the lead on the study, which typically takes four to eight weeks. Towards the end of the process, the consultant issues a draft, and then final, report to the client. None of the interviewees knew of a local authority that had done a viability appraisal in-house. This reinforces perceptions of local authorities' lack of ownership of the process and supports a framing of DVA as a largely 'expert-led' practice that takes place with little of the governmental/regulatory oversight that might be expected given how contested the matter of establishing viability is.

In the context of the particular focus of this paper, three broad procedural themes emerged from the interview data. These are: client knowledge and involvement, client influence, and modes of stakeholder engagement. These themes are now discussed in turn and linked to the foregoing literature reviews to draw out a range of reflective critical observations about the operation of the DVA process.

Client (local authority) knowledge and involvement

As we have already noted in the paper, in a context whereby planning tasks are increasingly broken up into a range of tasks requiring specialist input, consultants are appointed for their expertise in and experience of area-wide DVA. This raises a number of questions, not least; how informed is the client with regard to, not only the process of delivering a DVA report, but its content, assumptions, evidence base and so on? Is the local authority, for example, expecting to take the report and be able to explain it to councillors, to defend it at an examination in public, or is the authority expecting the consultant to do this on its behalf? This relates back to a point made earlier in the paper; that financial viability has only become a consideration in development decision-making in planning relatively recently. This meant, as an interviewee observed, that local authorities need to put:

...policies in place which they can defend from a whole range of perspectives including the question of viability and they hadn't had to do that until early 2003/04.

Respondent 01

The same interviewee argued that having a robust viability appraisal system, capable of dealing with multiple interests in a transparent and fair way important since, "*planning policies are contestable, that's the nature of the planning system*" (Respondent 01). This does not mean that planning should only about establishing financial viability, indeed far from it, as an interviewee was keen to point out:

Viability appraisal shouldn't be a bottom-drawer approach to planning. It should be policy led, need led".

Respondent 01

Here the need to be transparent was considered crucial:

if you have read any of our reports, it is clear that there is a very large section that sets out in no uncertain terms what we do and what we don't do, and that's really very important.

Respondent 01

The interviewee is pointing here to a need to ensure that local authorities are aware of the uncertainty of DVA outputs, and, moreover, reach a level of knowledge about the process (and model outputs) that enables them to query, question and, possibly, challenge the results. He was of the view that local authorities should learn from DVA consultants and take on such work themselves in the future rather than repeatedly appoint consultants to provide updates, something that can be both costly, and potentially exacerbate existing knowledge gaps that undermines local authorities' ability to question model outputs. However, the interviewee noted this his was not a viewpoint shared by other consultants who are likely to be protective of their status as expert service providers in order to help secure future income streams.

Our data suggest that the message about needing to be better informed about DVA might be getting through to local authorities. As another interviewee commented, some clients had started to ask appraisers to:

...leave with them some sort of tool-kit and train them up on that tool-kit such that they might be able to use it in the future as an update".

Respondent 06

This served an important secondary function, namely that it provided a tool for local authorities to use to scrutinize viability data provided by developers. As he explained:

If a developer comes in with a viability issue on a site, then, in theory they would be able to use this tool-kit you have given them to do their own calculation as to whether or not there is a viability issue.

Respondent 06

This quote indicates that knowledge transfer is occurring, and exchange that may help to redress some of the gaps in client knowledge and ensure that the 'black-box' of DVA becomes more open to scrutiny, at least from some actors, in future. At *present*, however, when asked whether the client was

well informed on DVA matters, it was generally felt that local authorities were not particularly knowledgeable. A typical comment was:

Some clearly understand what they're looking for, others don't...They're not necessarily experts in viability and don't necessarily know what they need to ask. So very often it is a question of guiding them as well in terms of what they actually need
Respondent 10

For some, this lack of knowledge was worrying and meant that clients could be “*led by consultants far too much*”. A more disparaging, but not isolated, view of local authorities was that: “*they don't have a clue, local authorities are utterly clueless*” (Respondent 02).

When quizzed as to why local authorities were inexperienced, several interviewees highlighted the relatively recent focus on viability matters in planning, as well as the tendency for planners to be less confident when dealing with the type of calculations embedded within DVA models. As one interviewee explained:

Planners were being asked to do something that was actually very new to them therefore I can't really blame them going to people, 'you're a valuer, you can do it' ... Planners will be the first people to say they don't understand these things ...On the whole they have great awareness of issues but they are not particularly numerate and they will be the first to admit that.
Respondent 01

For another interviewee, it was less about planners being unable to bring DVAs in-house, and more that they were *unwilling* to, preferring instead to:

...pay the (consultant) for information they already have; pay the consultant for a lot of time to go out and find out things they knew anyway, they can't be (bothered) to collect it.
Respondent 07

This interviewee did not refer directly to the financial pressures being experienced by many planning authorities who, at the time of interview, were experiencing budget cuts as part of austerity policies. However, it seems plausible that, as well as being subject to heightened levels of scrutiny over spending decisions, planning authorities' capacity to retain (or indeed take on new) tasks in-house is becoming more limited as cutbacks are made.

On the more general question of awareness of DVA issues, participants reported variable levels. In some cases authorities were:

...quite savvy on what is required...They come at you with a specific requirement and they know exactly what they want.

Respondent 03

While in other instances:

...they are doing it because they have to do it but they don't really know why they are doing it or what the output is going to be. Respondent 03

In this situation, the interviewee felt that it was about “*educating the client*” about what the process entailed. The issue of geography came into play here, and some expressed the view that client awareness varied depending on location. Central London local authorities were perceived to be very well-informed while, in other parts of the country, and even in outer London, knowledge of DVA was not felt to be as strong.

In summary, client knowledge of the DVA process is best described as patchy. Several interviewees acknowledged that there *are* individuals within the local authorities with expertise in particular aspects of the process such as housing. The feeling was that, while gaps in knowledge remain an issue, over time local authorities have generally become both better informed about viability matters, as well as more realistic about their planning policy aspirations. As one interviewee put it:

“They are becoming more of an informed client whereas five years ago they didn't really know what they were asking for.”

Respondent 10

This is important since, in a context of fiscal austerity, underperformance in key economic sectors such as construction (see ONS, 2013), and pro (sustainable) development planning policy, viability is likely to become a more prominent feature of the planning process. As this interviewee commented - “*they are becoming more familiar because they're being bombarded with it all the time*” (Respondent 10). New policy directives such as the Community Infrastructure Levy, which have viability matters at their core, underline the need for planners to become more *au fait* with DVA if they are to retain a meaningful stake in the process. The planning literature suggests that this is important from a social justice perspective since, as those charged with balancing (conflicting) interests to reach decisions in the public interest, planners need to be informed about the issues at stake and how these might (dis)benefit certain stakeholders. From a modelling perspective, an informed client can provide valuable inputs to models such as local market knowledge, ultimately producing more accurate outcomes. This is an example of how client influence over DVA can be beneficial (see McAllister *et al*, 2004; RICS, 2012a). The issue of client influence is one to which we now turn our attention.

Client influence

Clients' general lack of expertise in DVA suggests that local authority clients would be unlikely to have the knowledge or possess the information needed to bias DVA outputs. At the instruction stage, interviewees suggested that it was almost universal practice for local authorities to put out such work to tender. In the literature on valuation for loan purposes, there is clear evidence that client influence can often occur at the appointment stage. For instance, Crosby (2004) found evidence of 'opinion shopping' – borrowers obtaining preliminary indications of value from a range of values before formal instruction to appraise. The client is consulted at various stages throughout the DVA process. It seems that this is centred on updating but also obtaining input from the client about which policy targets should be analysed; affordable housing target and tenure mix, infrastructure costs, etc. In the early part of the DVA process, one respondent felt that they were not being commissioned because it was anticipated by the client that they would not provide the 'desired' output:

There have been one or two authorities where we have pitched for the job and I think they have seen the work we have carried out where clearly that was not the output that they wanted and we haven't been successful in those commissions, because they kind of know what answer they are going to get.

Respondent 03

However, this was the only respondent to note this point and it was far more commonly stated that price was the key determinant of appointment. After agreeing terms of engagement, interviewees described a range of experiences in terms of the level of feedback from the client. Whilst some required regular updates and consultation, others tended to be less engaged:

So you get your commission and then some local authorities will let you plough on on your own and some will require fortnightly reports and God knows what monitoring. So we have had a variety of different types of models.

Respondent 11

We have the inception meeting, we then go away for a few weeks...we would probably then go back to the local authority, have a meeting, sit down with them and say 'look, at the early stages it's looking as if... Now, what do you want us to do?' ...So there is a bit of feedback at that point.

Respondent 06

While the format of feedback varied, providing the client with a draft of the final report for comment was the standard practice. This was the main opportunity for overt influence. However, there was also opportunity to incorporate client feedback before a draft was produced. Whilst not all appraisers had such discussions, this would typically involve some type of verbal presentation and discussion with planning officers and members of the planning committee. As a participant explained:

Yes, that's standard process. I prefer to make sure that we can have an opportunity to discuss the key results before we start drafting.

Interviewer: Because?

Because what you need to do is to have a dialogue about what the implications are of these results and also because if there's an issue that you've thrown up you want to discuss with them, you may need to go back and adjust your modelling, add modelling in, do something different, look at some different aspects. So I'm very reluctant to go straight in and write a draft report.

Respondent 04

What is interesting to note here is that the appraiser (consultant) is in control of the decision about whether or not to consult clients, as well as the form that this consultation should take. There is a pragmatic reasoning about the (dis)benefits of engagement that reflects their relatively high levels of autonomy over the DVA process, rather than being a result of (Kinnard *et al*, 1997; Worzala, 1998; Yu, 2002). This was borne out by other interview responses that described how consultants interacted with clients. For example:

Yeah, it will go to them and then we'll go and meet them to talk about it. We will often have several meetings with officers, senior officers, to talk them through and then often we go and see the members as well to explain to them what the results are and what they mean. So, on that exercise it's really distilling down what we've got into key headlines and just taking out small samples of data that represent the whole of the general picture to illustrate the points because you can't possibly expect people to go through reams of data.

Respondent 10

Whilst not made explicit here, it seems implicit that the appraisers are testing the acceptability of their findings before submitting a report. A similar motive is possible for submitting a draft report – albeit there is also a quality assurance function, reflecting McAllister *et al*'s (2004) findings:

We will then produce a draft report for them, that will be circulated within the local authority probably solely to officers at that point, but they will advise as to whether the recommendations, the reasoning, the methodology are sufficiently clear, for them to be able to present it to members. So coming out of the draft there might be some amendments to make, largely for clarification purposes, before we submit the final report to them, and the submission process of the final report will either be; just send it up to them, or take it to them and sit down with them, or some of the members just to be able to take them through it rather than dumping it on them.

Respondent 06

We report to the client initially and we will produce a draft report and then before we issue that as a final report we will circulate that to stakeholders, typically have a further workshop and say 'these are the findings, here is the report, you have a period of time in which to raise any comments'.

Respondent 03

Reports were amended at the draft stage. However, the evidence from the respondents suggests that changes tended to be relatively minor. Consistent with previous research on other types of appraisals, respondents suggested that clients would provide useful information to improve the quality of the

appraisal process. This could involve requests for further detail and clarification, identification of errors and provision of additional information:

Very often you find they are giving you anecdotal information after the draft report which really they could usefully have given you at the beginning, that kind of thing. Most often there's bit of information they wanted or analysis they wanted that you didn't put in that they want, fair enough that's what a drafts about. That's the way it works.

Respondent 07

They often have a panel of people and they go through it with a fine toothcomb and then we discuss the changes with them... I write to the person who is doing it 'I agree with this point, I don't agree with this, you have misunderstood what this point means'. So there is a discussion.

Respondent 01

Turning again here to the issue of client pressure, in previous survey-based research on client influence on appraisals, a number of studies found that appraisers believed that *other* appraisers would respond to client pressure. Whilst this was not a recurring theme in this study, one respondent stated:

I'm working for myself. I don't mind saying 'I don't want the money and walking away'. If you are running a big company like [deleted] or something and you are a partner there, you have mouths to feed. You have your staff to keep going. It is a more difficult ethical decision to walk away from a piece of work. Now I can do it because I'm solo. That's part of the reason I am solo. I know [deleted] certainly didn't mind changing reports because the client fancied a better-looking result. They've asked me to do it for them, but you know.

Respondent 07

However, other respondents did not confirm this. The interview results instead suggested that there was very little attempt to influence the appraisal outputs and conclusions at the draft report stage, reinforcing the sense that appraisers are relatively autonomous actors. While appraisers were aware that their findings did sometimes cause some problems, overall there was a consistent response that appraisers (personally) would resist pressure from clients to alter their findings:

I'm quite robust. There are two answers - my answer and the wrong one. They pay me for advice as far as I am concerned, and I don't change the advice because they find it inconvenient. That isn't universal practice in the business.

Respondent 01

Interviewer: Do you ever get the impression that you have given them the wrong answer? Yes it does happen, but if that is what the evidence shows, you just have to present it.

Respondent 06

We don't change everything just because they think... I say 'this is my report to you, if you don't like it you do something else with it. I am not prepared to change things we have actually found. If you don't like what we have found, that is a problem for you, not for us'.

Respondent 07

We are fiercely independent. We say 'we will tell you what the answer is, what the results of the analysis are and just because you don't like the answer doesn't mean we will change them. You can choose to ignore them in your policy making. That's your area not ours but we are not going to give you the answers that you want because those would suit you.'

Respondent 03

Here appraisers are acting in line with RICs guidance that stresses the importance of consultants maintaining an objective and unbiased approach. This is also likely to part of a wider process of self-regulation whereby consultants sought to protect their reputational capital as impartial experts, an important factor in securing future work.

Modes of stakeholder engagement

One way in which appraisers sought to balance the positive and negative effects of client influence, and demonstrate outwardly that they were acting in an objective and balanced way, was by overseeing levels and modes of stakeholder input. While the format that this took was varied, our research shows that consultation with 'stakeholders' was nonetheless a standard part of the process:

And the other key part of it once we get appointed is the consultation element of it, the stakeholder consultation element, sorry jumping ahead. We major on that as a key part of what we do.

Respondent 03

As discussed earlier in the paper, in recent decades the planning system has introduced a range of measures attempting to place stakeholders' knowledge, ideas and interests at the centre of policy formation. However, there remains a range of challenges associated with consultation, participation or engagement processes, and, relatedly, in reaching equitable and transparent development decisions. This is certainly the case in DVA, where stakeholders' views are rarely such that full consensus can be reached. Moreover, and perhaps more fundamentally, different stakeholders can have varying levels of engagement in any consultation processes related to DVA. These issues were noted by our interviewees, who described a relatively informal process of consultation that involved engaging in a number of ways with different interest groups, including clients (local authorities), developers and landowners.

Since the appraisal process is essentially an attempt to simulate the financial inflows and outflows in a development project, it is not surprising that local developers were almost universally consulted. Echoing Jakeman *et al's* (2006) comments, developer's input into the modelling process was seen as beneficial since their 'close-to-market' expertise could 'improve' the information inputs into the DVA. Other stakeholders consulted frequently included landowners and/or their representatives.

Typically, the representatives of the community gaining planning obligations – housing associations and infrastructure providers - were also present:

Developers, RSLs, landowners, sometimes estate agents, the more kind of knowledgeable local estate agents who know the whole area. Sometimes you can be completely swamped by local authority officers and sometimes we have also had members, portfolio heads of planning and housing to sit in there as well.

Respondent 11

House builders, housing associations, agents, consultants, major landowners...and the authority themselves. That's normally the point at which we say to the authority 'are there other teams who are involved in this sort of work? It's not just you in planning, you need to get their input at this stage as well'. You will find then that asset management and property teams will come.

Respondent 03

I would normally speak to local developers, I am much less interested in talking to local agents and planning consultants who bullshit for England, I get fed up with them. It's amazing how many planning consultants you get turning up to viability studies and making (comments) 'how can you say this land is only worth £500k, fella up the road sold his for £1.5m per ha' – well that's a different site, a different place, different characteristics and a different time – but they don't buy that.

Respondent 01

It is also important to note those who were not consulted. Perhaps most critically, given the central role that DVAs can play in determining developer contributions in relation to public 'goods' such as affordable housing, none of the interviewees consulted members of the local community beyond representative groups such as RSLs (as described above). While widening consultation processes to integrate formal consultation with residents as part of the gaining of planning consent has long been a goal embedded within the town planning system, as yet, this has not extended to the DVA process, despite recent media coverage suggesting that the appraisal process should be open to public scrutiny (see Mathiason *et al*, 2013).

The method of consultation described by interviewees varied, but was overseen and orchestrated by the consultant, reinforcing their relatively autonomous role. Most interviewees explained that they preferred to meet stakeholders collectively, although this was not uniformly the case. One interviewee felt that individual face-to-face meetings were more productive given how contested the appraisal process could become. In other cases, a single meeting with all stakeholders together would take place. Other appraisers preferred to meet different groups separately as they felt that this enhanced the likelihood of some kind of consensus being reached:

We interview individually because we have found that planners, housing people and developers in the same room just start to argue. They won't agree anything...the best way to get the best out of them was to separate them. We had half days with developers, half days with planning lawyers, half days with environmentalists, half days with

consumers. But we knew if you put them together, there would be no consensus in any shape or form.

Respondent 07

Overall, there was little consistency in the methods of engagement employed, and the approach could vary according to local authority, and their levels of knowledge of, and experience of commissioning, appraisals:

It varies. Also it depends on what the local authority already has as its network and how well it's tuned in because if it's very well tuned, it might have some standing forum that it uses. You go along and talk to them or you write to them and get feedback or you have to work with the authority to identify the right people to go to, try and help to boost numbers...They vary enormously in size as well as to whether you get a big turnout, small turnout but face to face contact through a workshop is very useful.

Respondent 04

While modes of engagement varied, two main motives for stakeholder consultation were identified. The first, reflecting the motivations cited in the modelling literature, was related to improving the appraisal. Stakeholders were perceived as important sources of local market information that provided key inputs into the appraisal process:

We agree density arrangements. We agree size of property to be built. So we talk to the developers about their assumptions, what they are trying to get in terms of profit, time period. We set assumptions about how quickly we can get on and off the site. We try to look at all the key variables that are going to affect that end result - the residual land value. We talk to the DV in the local areas, because obviously they are picking up data.

Respondent 07

Whilst we will have our own ideas about what we think are appropriate site sizes or property values or whatever, the important part of it is to engage all the stakeholders in agreeing those assumptions because they are a key part of the exercise.

Respondent 03

Yes, we tend to involve house builders in putting together the information. I have one at the moment where we literally did a questionnaire which was sent out to 20 house builders operating in the area and the purpose of that was to establish the sorts of inputs that would go into the appraisals. So I am talking about, typically, build costs for different types of project, fee levels, finance levels, profit levels that sort of thing...

Respondent 06

You will have discussions about unit size, unit size in the district, what are the typical sales values in different locations? What are the sales rates? How quickly are houses selling? What are average build costs in the area at the moment?

Respondent 11

The second motive was broadly related to legitimisation of the appraisal outputs. Here the links to the planning theory literature, which acknowledges the contested nature of development and the challenges involved in reaching consensus, are evident. The consultation was, however, less about

creating an *ideal speech situation* in which to broker consensus, and rather about conveying to stakeholders the *very contestability* of the inputs. Interviewees also spoke of creating a scenario in which to defuse opposition and generate support for the appraisal outputs by involving interested parties in their formulation:

So just trying to hedge off some of those adverse responses that might come in. At least we can say 'you all told us that your build costs were £110, your profit levels are this, your finance levels are that'. So we involve them typically to that extent.

Respondent 06

A commonly used phrase was that of 'buy-in' or as one interviewee put it:

It's the key part because what you are doing is getting buy-in from everybody so when you actually then produce the results you can say 'well it's based on the assumptions which we all agreed, isn't it?' So, if the methodology is agreed and the inputs are agreed, you can't really argue with the output.

Respondent 03

Another interviewee concurred, suggesting consultation was the:

...sensible thing to do because essentially you're getting buy-in from the development community and from the landowners, to a lesser extent I guess, in the variables that you're going to be using to test viability. So, to be able to say to an inspector at an EIP [Examination in Public] 'These developers came to a meeting where we discussed the variables, the inputs to the appraisal. They agreed them or they disagreed and we sought to use them for whatever reason it might be' has a great deal of value because you can use that exercise to neutralise opposition.

Respondent 10

...one of the tests of soundness when it goes in front of the Planning Inspector is if these sorts of views have been taken into account and how we have dealt with the views.

Respondent 04

The point made here about the EIP, refers to a widely held view; that consultation was important in demonstrating 'due process' had been followed. This is particularly pertinent since DVA is a relatively immature practice that has only been a formal focus of the town planning system for around 10 years. As such, DVA, and the techniques used to regulate and improve it (as described above), should be seen in this context. At present, the 'rules' of what 'due process' in DVA consist of have not been formally codified, beyond the guidance offered by organisations such as the RICs. They are, in essence 'up for grabs'. Our research shows that, in the absence of formalised procedure or rules, appraisers are defining what good practice consists of, as well as how it should be adhered to. Interviews were of the view that, in a maturing area of practice, consultation was a key part of doing DVAs 'well' for several reasons. First, engaging a range of stakeholders means that better information could be plugged into models, with the result that model outputs were likely to be more accurate. This relates to the second reason to engage; circumventing (or at least managing) issues of challengeability and contestability, essentially achieving 'buy-in'. Third, consultation could help by upholding

standards of acceptable professional conduct, and preserving (individual) reputations of ‘impartiality’, in particular. Finally, there was also a sense amongst participants that consultation was simply a ‘good thing’. This brings motivations for consultation more into line with the social justice/equity arguments put forward in the planning theory literature, although we note that those communities being affected by development decisions currently sit outside of stakeholder engagement in DVA.

Conclusions

In the English planning system, over the last decade financial appraisals of actual and potential development projects have become more central to policy formation. In particular, they have become critical to the distribution of the financial gains from permission to develop between the community and landowners. Typical of those practices defined as ‘calculative’, development viability modelling can appear to transform the varied and multifaceted processes associated with development decisions into relatively straightforward, objective, quantitative, technical and quasi-scientific procedures. Existing literature (see, for example, Crosby *et al*, 2013 and McAllister and Wyatt, 2013) argues that any implied objectivity may be largely illusory: choices of many model assumptions are critical, are not neutral and impartial, are subject to interpretation and bias and, ultimately can have major effects on outcomes in terms of the distribution of resources.

The focus of this paper has been on the extent to which participants – clients and other stakeholders – in the production of DVAs have the means, motives and opportunity to bias the outcomes of the modelling process. It is well established in the academic literature that clients can influence the outputs of information intermediaries such as auditors, equity analysts and real estate appraisers. However, there can be a complex range of incentives and counterincentives in either responding to or applying such pressure. Further, it is recognised that client influence can be beneficial by, in particular, providing a constructive quality assurance function.

Our empirical research reveals a broadly positive picture of the role of client influence in the formation of development viability appraisals. Where it occurs, the majority of client influence on development viability appraisals seems to be beneficial. Producers of development viability appraisers seem to be jealous of their independence. However, it is likely that this independence is rarely challenged by clients since they seldom possess the technical knowledge to contest the approaches to and assumptions of the viability modelling processes. In addition, there is infrequently any personal economic incentive for clients to attempt to bias the outputs of such models.

Stakeholder engagement is increasingly seen as a key element of an inclusive approach to planning. It can be interpreted as part of a long term shift within planning that is attempting to place stakeholders’

knowledge, ideas and interests rather than professionals at the centre of policy formation. However, there a wide range of challenges associated with consultation, participation or engagement processes. In particular, the outcome of consultation is rarely, if ever, a fully inclusive consensus (see Mouffe, 2005). This is, in part, because different stakeholders can have differing (or no) access to a consultation process; our research evidences this, showing a lack of local community input to DVA.

The interview study indicated that the participation of and consultation with local market actors and, to a far lesser extent, community stakeholders (represented through arms-length groups such as RSLs) was seen as an important element of the viability modelling process. Two key reasons for this emerged. Similar to clients, local stakeholders were able to contribute valuable local knowledge to the information intensive process of simulating the financial flows created by a proposed development. This was perceived to improve the robustness of the modelling process. In addition, the inclusion of a range of stakeholders with often conflicting interests e.g. affordable housing providers and land owners, often highlighted the intrinsic uncertainties associated with the assumptions of the modelling process. This, in turn, served a legitimisation function neutralising opposition and increasing stakeholder 'buy-in' to the process.

There is a disjuncture between the still emergent nature of DVA, characterised by an immature but far from dysfunctional set of (self) regulatory practices, and the importance being placed upon it as a (now) central component of the town planning system. Understanding of the workings of DVA – the things that work well and those that do not – is not keeping pace with the ascendance of viability up the policy agenda. While our research shows that appraisers are putting in place a range of steps, in line with soft industry-produced guidance, to ensure 'good practice' is adhered to, planners are often, in part because of the skills and knowledge gap issues described in the paper, outside of, or on the periphery of decision-making.

Whilst becoming increasingly established, the use of DVA in the English planning system can still be characterised as emergent and evolving. The limited research to date has focussed on the use of DVAs in the formation of broad, area-wide policy formation regarding planning obligations. Whilst resultant policies will create benchmarks or 'anchors' for individual projects, the use of DVA at the scale of individual development schemes can be much more controversial. For actual projects where the expected costs and revenues are much more defined and the gains and losses to the developer and/or landowner in the negotiation process can represent corresponding losses and gains to the local community, there is anecdotal evidence to suggest a much more contested and controversial approach to the formation of viability models. These project-specific models are more likely to be confidential, commercially sensitive, politically contentious and, consequently, likely to be challenged. Further

research should help determine whether, at the project scale, independence and consultation in the production of financial viability models tends to be compromised.

References

- Ahmed, K., Chung, K. and Eichenseher, J. (2003) Business Students' Perceptions of Ethical and Moral Judgement: A Cross Cultural Study, *Journal of Business Ethics*, **43**, 89-102
- Amidu, A. and Aluko, B. (2007) Client influence in residential property valuations: an empirical study, *Property Management*, **25**, 447-461
- Amidu, A., Aluko, B and Hansz, J. (2008) Client feedback pressure and the role of real surveyors and valuers, *Journal of Property Research*, **25**, 89-106
- Ashcraft, A., Goldsmith-Pinkham, P. and Vickery, J. (2010) MBS Ratings and the Mortgage Credit Boom, Federal Reserve Bank of New York, mimeo, Staff Report 449
- Bar-Isaac, H. and Shapiro, J. (2011) Credit Rating Accuracy and Analyst Incentives, *American Economic Review*, **101**, 120-124
- Baum, A., Crosby, N., Gallimore, P. Gray, A. and McAllister, P. (2000) *The influence of valuers and valuations on the workings on the commercial property market*, Report for the Education Trusts of IPF, RICS and Jones Lang Lasalle
- Beck B. (2002) Model evaluation and performance in El-Shaarawi, A. H. and W.W. Piegorsch (Eds.) *Encyclopedia of Environmetrics* (John Wiley & Sons: Chichester) Vol.3, p1275-1279
- Becker, B., and Milbourn, T. (2011) How Did Competition Affect Credit Ratings? *Journal of Financial Economics*, **101**, 493-514
- Benmelech, E. and Dlugosz, J. (2009a) The Alchemy of CDO Credit Ratings, *Journal of Monetary Economics*, **56**, 617-634
- Benmelech, E. and Dlugosz, J. (2009b) The Credit Rating Crisis, NBER Working Paper 15045
- Bolton, P., Freixas, X. and Shapiro, J. (2012) The Credit Rating Game, *Journal of Finance*, **67**, 85-112.
- Brindley, T., Rydin, Y., Stoker, G. (2005) *Remaking Planning: The Politics of Urban Change* (2nd Ed.) (Routledge: London and New York)
- Campbell H. and Henneberry, J. (2005) Planning obligations, the market orientation of planning and planning professionalism, *Journal of Property Research*, **21**, 37-59
- Campbell, H., and Marshall, H. (2006) Towards justice in planning: A reappraisal, *European Planning Studies*, **14**, 239-252
- Christophers, B. (2013) Wild Dragons in the City: Urban Political Economy, Affordable Housing Development and the Performative World-making of Economic Models. *International Journal of Urban and Regional Research*.
- Coleman, C., Crosby, N., McAllister, P. and Wyatt, P. (2012) Development appraisal in practice: some evidence from the planning system, *Journal of Property Research*, **29**, 1-22
- Crosby, N., Hughes, C. and Murdoch, J. (2004) *Influences on secured lending property valuations in the UK* Working Papers in Real Estate & Planning, University of Reading (www.rdg.ac.uk/LM/LM/fulltxt/1404.pdf)

- Crosby, N., Lizieri, C. and McAllister, P. (2010) Means, Motive and Opportunity: Disentangling the Effects of Client Influence of Periodic Performance Measurement Appraisals, *Journal of Property Research*, **27**, 181-201
- Crosby N., McAllister P., and Wyatt P. (2013) Fit for planning? An evaluation of the application of development viability appraisal models in the UK planning system, *Environment and Planning B: Planning and Design*, **40**, 3–22
- Damiano, E., Li, H. and Suen, W. (2008) Credible Ratings, *Theoretical Economics*, **3**, 325-365
- Department for Communities and Local Government (DCLG) National Planning Policy Framework (DCLG: London)
- Denis, J. L., Langley, A. and Rouleau, L. (2006) The power of numbers in strategizing, *Strategic Organization*, **4**(4), 349-377.
- Fligstein, N. (1998) The politics of quantification, *Accounting Organizations and Society*, **23**, 325–331
- Flyvbjerg, B. (1998) Habermas and Foucault: thinkers for civil society?, *British Journal of Sociology*, 210-233
- Gallimore, P. and Wolverton, M. (2000) The objective in valuation: a study of the influence of client feedback, *Journal of Property Research*, **17**, 47–58
- Gaver, J. and Paterson, J. (2007) The influence of large clients on office-level auditor oversight: Evidence from the property-casualty insurance industry, *Journal of Accounting and Economics*, **43**, 299-320
- Gubrium, J. and Holstein, J. (2001) *Handbook of interview research: context & method*, SAGE, London.
- Guest, G., Bunce, A. and Johnson, L. (2006) How Many Interviews Are Enough? An Experiment with Data Saturation and Variability, *Field Methods*, **18**, 59–82
- Gunn, S., and Vigar, G. (2012) Reform processes and discretionary acting space in English planning practice, 1997-2010, *Town Planning Review*, **83**, 533-552.
- Hansz, J. (2004) The use of a pending mortgage reference point in valuation judgement. *Journal of Property Investment and Finance*, **22**, 259–268.
- Healey, P. (1992) Planning through debate: The collaborative turn in planning theory, *Town Planning Review* **63** (2), 143-162
- Healey, P. (1997). *Collaborative planning: Shaping places in fragmented societies*, UBC Press
- Hillier, J. (2000), ‘Going round the back? Complex networks and informal action in local planning processes’, *Environment & Planning A* **32**, 33-54
- Jakeman, A. J., Letcher, R. A., and Norton, J. P. (2006). Ten iterative steps in development and evaluation of environmental models. *Environmental Modelling & Software*, **21**, 602-61
- Koch, P. (2013) Bringing Power Back In: Collective and Distributive Forms of Power in Public Participation *Urban Studies* [published online first May 16], 1-17

- Kinnard, W., Link, M. and Worzala, E. (1997) Client pressure in the commercial appraisal industry; how prevalent is it? *Journal of Property Valuation and Investment*, 15 (3); 233-244
- Lee, J. and Zhaoyang, G. (1998) Low balling, legal liability and auditor independence, *Accounting Review*, **73**, 533-556
- Levy, D. and Schuck, E. (2005) The influence of clients on valuations: the client's perspective, *Journal of Property Investment and Finance*, **23**, 182–201
- Lin, H. and McNichols, M. (1998) Underwriting Relationships, Analysts' Earnings Forecasts and Investment Recommendations, *Journal of Accounting and Economics*, **25**, 101-127
- Lindblom, C. and Cohen, D. (1979) *Usable knowledge: Social science and social problem solving* (Vol. 21). Yale University Press.
- Malmendier, U. and Shantikumar, L. (2005) Are Investors Naïve about Incentives? *Working Paper*, Stanford University
- Mathiason, N., Fitzgibbon, W. and Turner, G. (2013) Thousands of Affordable Homes Axed, *The Guardian* 18 September 2013
- McAllister, P. Baum, A., Crosby, N., Gallimore, P. and Gray, A. (2004) Appraiser behaviour and appraisal smoothing: some qualitative and quantitative evidence, *Journal of Property Research* **20**, 261-280
- McAllister, P., Wyatt, P., and Coleman, C. (2013). Fit for policy? Some evidence on the application of development viability models in the United Kingdom planning system. *Town Planning Review*, **84**, 517-543
- McAllister, P. and Wyatt, P. (2013) A Good Enough Approach to Setting Planning Obligations, Working Papers in Real Estate & Planning. 08/13. Working Paper. University of Reading, Reading. pp25
- Mennicken, A., Miller, P., and Samiolo, R. (2008). Accounting for economic sociology. *Economic Sociology. The European Electronic Newsletter*, **10**, 3-7
- Meyer, A. (1984). Mingling decision making metaphors. *Academy of Management Review*, **9**, 6-17
- Michaely, R. and Womack, K. (1999) Conflict of Interest and the Credibility of Underwriter Analyst Recommendations. *The Review of Financial Studies*, **12**, 653-686
- Office for National Statistics (2013) Output in the Construction Industry August 2013. Available at: <http://www.ons.gov.uk/ons/rel/construction/output-in-the-construction-industry/august-2013/index.html> [Accessed 01.11.13]
- Porter, T. (1996) *Trust in numbers: The pursuit of objectivity in science and public life*. Princeton University Press.
- Reynolds, J. and Francis, J. (2000) Does size matter? The influence of large clients on office-level auditor reporting decisions, *Journal of Accounting and Economics*, **30**, 375-400
- Royal Institution of Chartered Surveyors (RICS) (2002), *Property Valuation: The Carsberg Report*, Royal Institution of Chartered Surveyors, London

- Royal Institution of Chartered Surveyors (RICS) (2012a), *The Red Book*, Royal Institution of Chartered Surveyors, London
- Royal Institution of Chartered Surveyors (RICS) (2012b) *RICS draft guidance note - Financial viability in planning*, Royal Institution of Chartered Surveyors, London
- Sangolt, L. (2010) A Century of Quantification and "Cold Calculation" Trends in the Pursuit of Efficiency, Growth and Pre-eminence. *Between Enlightenment and Disaster: Dimensions of the Political Use of Knowledge*, **19**, 75
- Schein, E. (1984) Coming to a new awareness of organizational culture, *Sloan Management Review*, **23**, 3-16
- Simmel, G. 1997 The metropolis and mental life, in *Simmel on Culture*, eds Frisby, D. and Featherstone, M., 174-185.
- Smolen, G.E. and Hambleton, D.C. (1997) Is the real estate appraiser's role too much to expect?, *The Appraisal Journal*, **65**, 9-17.
- Raco, M., Street, E. and Freire Trigo, S. (2013) Privatising Democracy? The Transformation of Local State-Market Relations in Urban Governance, Paper presented at the RGS-IBG Annual Conference, London, August 28-30 2013.
- Swyngedouw, E. (2005) Governance innovation and the citizen: the Janus face of governance-beyond-the-state. *Urban Studies*, **42**, 1991-2006
- Trevino, L (1986) Ethical Decision Making in Organizations: A Person Situation Interactionist Model, *The Academy of Management Review*, **11**, 601-617
- White, S. K. (1988) *The Recent Work of Jürgen Habermas: Reason, Justice and Modernity* Cambridge University Press: Cambridge
- Wilson, A. G., (2013), Commentary, *Environment and Planning A*, **45**, 1262-1265
- Windsor, C. and Ashkansay, N. (1995) The effect of client management bargaining power, moral reasoning development and belief in audit, *Accounting, Organizations and Society*, **20**, 701-21
- Wolverton, M.L. and Gallimore, P. (1999) Client feedback and the role of the appraiser, *Journal of Real Estate Research*, **18**, 415-432
- Worzala, E.M., Lenk, M.M. and Kinnard, W.N. (1998) How client pressure affects the appraisal of residential property, *The Appraisal Journal*, **66**, 416-427
- Yu, Shi-Ming (2002) Client pressure in residential valuations – evidence from Singapore, *mimeo*, Department of Real Estate, National University of Singapore
- Zhang, P. (1999) A Bargaining Model of Auditor Reporting, *Contemporary Accounting Research*, **16**, 167-185
- Zimbelman, M and Waller, W. (1999) An experimental investigation of auditor-auditee interaction under ambiguity *Journal of Accounting Research*, **37**, 135-156

Appendix 1

<p>Development viability appraisals appear to vary in appearance, purpose and scope. Would you be able to tell us more about the ‘standard’ commissioning/instruction process in relation to DVA studies?</p>	<p>Would you be able to briefly describe your current role/background and the nature of the development appraisal work you are involved with?</p>	<p>Would you be able to tell us a little more about how you are briefed by your client in relation to a DVA study?</p>	<p>What are your key data/information sources?</p>	<p>Do you produce DVA appraisals based on third party software or bespoke self-built models?</p>
<p>In terms of the inputs and assumptions that go into a DVA, for each of the following inputs we would be interested in how you determine them and how you decide on the level of detail to go into the various assumptions? (key inputs listed)</p>	<p>What is the output of the development viability appraisal method you use?</p>	<p>If the output was RLV, was an assumption made about the Threshold Land Value? If so, was it MV assuming current use, MV assuming likely planning permission or something else?</p>	<p>Do you undertake any risk analysis?</p>	<p>What benchmarks do you use?</p>
<p>How are results reported to clients? And how are these validated?</p>	<p>Do you feel that clients appreciate the ‘snapshot’ nature of a DVA? And likewise appreciate the uncertainties in a DVA?</p>	<p>Do you feel DVA is fit for purpose? Do you have any suggestions for improving DVAs?</p>	<p>Is there anyone else currently operating in this field that you feel we should interview? We are also looking for ‘pairs’ of DVAs – for example from public inquiries – do you have any we would be able to access at a later stage?</p>	<p>Are there any final comments you would like to make in relation to DVA?</p>