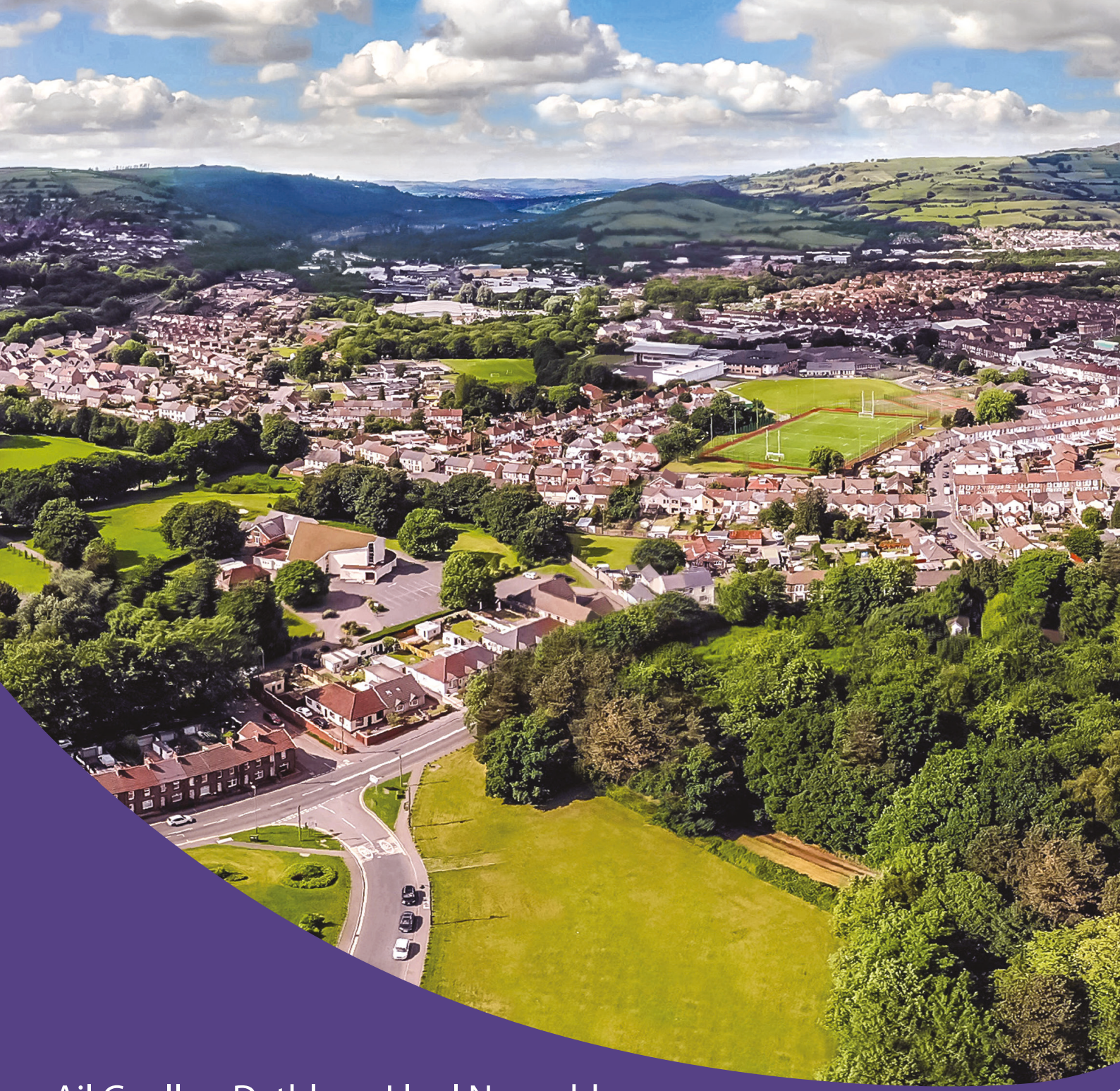

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FINANCIAL VIABILITY in PLANNING

GUIDANCE for WALES

Author : Andrew Burrows MA FRICS

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Foreword by the Planning Officers Society Wales

The Planning Officers Society Wales (POSW) provides the collective voice of local planning authorities across Wales, working collaboratively across sectors and with all partners involved in the development process to ensure we deliver great places in Wales.

POSW commissioned and endorses this Guidance Note as an important means of ensuring there is a clear and consistent approach to the way financial viability is factored into decision making in the planning process in Wales, including how Financial Viability Assessments are used and applied in the context of Welsh planning policy.

The purpose of this Guidance Note is to supplement existing policy and guidance from the Welsh Government on financial viability in planning. Its contents can be adopted by a Local Planning Authority by means of Development Plan policy and/or as Supplementary Planning Guidance to form a material consideration in determining planning applications.

However, the focus remains on ensuring that Financial Viability Assessments undertaken at the plan-making stage are sufficiently robust; so that only in exceptional circumstances will a further viability assessment be undertaken at the planning application stage.

Contents

Foreword by the Planning Officers Society Wales

1. Introduction and Context 1
2. Planning Policy Wales 2
3. Key Principles 3
4. Reporting Standards 6
5. Benchmark Land Value 7
6. Development Profit 9
7. Transparency and Confidentiality 10

Appendix A : Glossary of Terms

Appendix B : Requirements for Written Reports and FVA Commentaries

Appendix C : Proforma for Candidate Site FVA's

Appendix D : Proforma for Site-Specific FVA's

1. Introduction and Context

1.1 The primary objective of national planning policy in Wales (Planning Policy Wales 2024 (PPW), para 1.2)[1] is to ensure that the planning system contributes towards the delivery of sustainable development and improves the social, economic, environmental and cultural well-being of Wales. A crucial element of this is facilitating deliverable and financially viable developments which contribute to the creation and enhancement of sustainable places.

1.2 This Guidance is based around the policy and guidance in PPW and the Development Plans Manual[2] produced by the Welsh Government. It does not replace any part of those documents; but is intended to add some practical interpretation to them when addressing specific instances where financial viability is a material consideration, principally in a plan-making context, but also in the context of other decision-taking (e.g. in determining planning applications).

1.3 Where appropriate and relevant, this Guidance Note has also drawn on principles and advice contained in the following publications:

- Viability Testing Local Plans (June 2012) – also known as the Harman Report[3];
- A Longitudinal Viability Study of the Planning Process in Wales (February 2017)[4];
- English Planning Practice Guidance on Viability (March 2014, last updated December 2024);
- Financial Viability in Planning: conduct and reporting (May 2019)[5];
- RICS Guidance Note GN-94/2012 Financial Viability in Planning 1st edition[6];
- Updated RICS Guidance (March 2021) on Assessing Viability in Planning[7].

1.4 The use of Financial Viability Assessments (FVAs) in a Planning context came to the fore in the wake of the 2008/9 Financial Crisis, when many residential developments in the UK faced significant financial difficulties. Initial guidance was issued by the Advisory Team for Large Applications (ATLAS) to help "unlock" developments that had stalled. This was followed by the Growth & Infrastructure Act 2013 and specific guidance[8] relating to a fast-tracked appeals process under that Act, which came to an end in 2016.

1.5 Since then, the use of FVAs and the guidance on Viability in Planning has evolved; placing greater emphasis on viability testing at the plan-making stage (before sites are allocated

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[1] https://www.gov.wales/sites/default/files/publications/2024-07/planning-policy-wales-edition-12.pdf
[2] https://www.gov.wales/development-plans-manual-edition-3-march-2020
[3] https://www.local.gov.uk/sites/default/files/documents/viability-testing-local-p-42b.pdf
[4] https://www.gov.wales/sites/default/files/publications/2018-10/viability-study-of-the-planning-process.pdf
[5] First published as a RICS Professional Statement; and re-issued as a Professional Standard in April 2023 https://www.rics.org/profession-standards/rics-standards-and-guidance/sector-standards/land-standards/financial-viability-in-planning-conduct-and-reporting
[6] https://www.local.gov.uk/sites/default/files/documents/document-fdc.pdf
[7] This Guidance specifically relates to Viability in the context of the National Planning Policy Framework for England and is therefore not directly applicable to Planning Policy or Practice in Wales. However, it clarifies, updates and expands earlier guidance in GN-94/2012; and is applicable here in that context. https://www.rics.org/content/dam/ricsglobal/documents/standards/Assessing%20viability%20in%20planning%20under%20the%20National%20Planning%20Policy%20Framework%202019.pdf
[8] Section 106 affordable housing requirements – review and appeal (DCLG April 2013)

in a Local Development Plan); and on minimising the number of cases where policies in a Plan may be challenged on viability grounds at the Development Management stage[9].

1.6 Viability therefore has a purpose at the plan-making stage, not only in helping to ensure that sites allocated for development in a Local Development Plan are capable of being delivered[10]; but also in informing communities where new development is planned on the nature and extent of the infrastructure, affordable housing, local facilities and/or any other measures that such development is able to provide, including by means of 'Section 106' Agreements. These objectives are a critical part of an overall assessment of the sustainability credentials of any new development.

1.7 A development plan that is founded on agreed FVA's for all sites that are allocated in the plan will be more robust and less open to question than a plan which relies more heavily on high-level plan-wide viability studies.

1.8 Both in plan-making and decision-taking, viability helps to strike a balance between the aspirations of landowners and developers, in terms of returns against risk, and the aims of the Planning system to secure the maximum appropriate benefits in the public interest through the granting of planning permission.

2. Planning Policy Wales

2.1 Paragraphs 4.2.20 to 4.2.22 of PPW12 are of particular relevance to Viability in Planning in Wales. Paragraph 4.2.20 makes the following key points:

a) Financial viability must be assessed prior to the allocation of housing sites in a development plan;

b) When putting forward a 'candidate site', landowners/developers must carry out an initial viability assessment and provide evidence to demonstrate that it is financially viable to deliver the proposed development;

c) The local planning authority (LPA) must have undertaken a high-level plan-wide viability appraisal prior to placing a development plan "on deposit", to give certainty that the plan and its policies can be delivered in principle;

d) A more detailed, site specific viability appraisal must be undertaken for any site that is considered key to the delivery of a plan's strategy.

2.2 Although the requirement at (c) above is only triggered at the 'Deposit' stage of a plan's preparation, good practice will often dictate that an initial high-level viability appraisal is carried out at an earlier stage in the plan-making process. This particularly applies where an LPA is considering changes to policies in an adopted plan. The Development Plans Manual is clear that consideration of "viability and deliverability starts at the candidate site stage" in the plan-making process[11].

2.3 Viability appraisals submitted by site promoters at the 'candidate site' stage can be a useful source of evidence on development costs and values (including land values) to inform high-level plan-wide viability appraisals; alongside data assembled from and by

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[9] "**Only in exceptional circumstances should further viability appraisals be undertaken at the planning application stage**" (para. 5.90 in the Development Plans Manual).

[10] "One of the key tests of 'soundness' of a plan is to demonstrate it is deliverable and viable" (para. 5.86 in the Development Plans Manual).

[11] See also paragraph 3.55 in the Development Plans Manual

Viability Study Groups [12]. Viability appraisals from Development Management cases are also a source of evidence; and can lend consistency to the assessment process.

2.4 Viability appraisals undertaken during the plan-making process are therefore "a tool that can assist with the development of plan policies"; and will often be "iterative" in nature[13], as both policies and site-specific development proposals are worked up. PPW paragraph 4.2.21 makes it clear that policies in a development plan should "take account of the economic viability of sites and ensure that the provision of community benefits would not be unrealistic or unreasonably impact on a site's delivery".

2.5 This is in contrast to any site-specific viability appraisals carried out in a Development Management context, where the onus is on the planning applicant to demonstrate why it may not be viable to meet the full policy requirements in an adopted plan.[14]

2.6 PPW paragraph 4.2.22 identifies two examples of the 'exceptional circumstances' where a review of the policy requirements in an adopted development plan, on viability grounds, might be justified when considering a planning application.

2.7 The first example is where further information on infrastructure or site costs is required (or has come to light). Additional costs of this nature should normally first have an impact on the price to be paid for land; or, if the site in question has already been purchased at a fixed price, the additional costs could be offset against the developer's anticipated profit margin. It is not a function of the Planning system to insure any landowner or developer against the risks typically associated with real estate development. The realisation of risk does not in itself necessitate further viability assessment. Nor should viability be used as an excuse to avoid a landowner's responsibilities under Environmental Protection law or any other legislation.

2.8 Only in a situation where there is clearly no incentive for a developer to proceed with development of a site that is important to the overall delivery of a local development plan should consideration potentially be given to some relaxation in the policy requirements of an up to date and adopted plan. In those circumstances, an LPA can consider whether a possible use of compulsory powers would achieve a better solution.

2.9 The second example concerns circumstances where significant (adverse) economic changes have occurred since the plan was adopted. In such circumstances it may be incumbent on local planning authorities to review the viability of policies in an adopted plan in a more general way; particularly if there is evidence that developments across a significant part of the plan area have stalled or are in danger of stalling. There have been examples, particularly in the wake of the 2008/9 Financial Crisis, where local planning authorities have temporarily reduced or suspended policy requirements in an adopted plan, based on revised viability assessments, pending a return to stronger market and economic conditions.

3. Key Principles

3.1 Key principles of good practice for Viability in a Planning context are as follows:

a) Judgements and assumptions should be evidence-based; and should be informed by <u>all</u> the relevant available facts. Assessing viability requires a realistic understanding of the costs and the value of development in the local area; and an understanding of the operation of the market. This includes recognition that markets are not static; and that

[12] See paragraphs 5.87 and 5.93 to 5.97 in the Development Plans Manual.
[13] From "key principles" in the Executive Summary to the Harman Report
[14] See too the guidance in sections 5 and 6 below

this is one of the risks associated with real estate development[15] (see further guidance in section 6 below). Understanding past performance, in relation to build and delivery rates (for example), is also important.

b) Inputs and assumptions in an appraisal should be based on collaborative effort and discussion, using an "open book" approach. In the plan-making process, an important part of that collaboration is the setting up of Viability Study Groups; and ensuring that information relating to viability is kept up-to-date throughout the plan-making process.

c) Inputs and assumptions in an appraisal should also be based on market- rather than client-specific information[16]. They should reflect industry benchmarks; and disregard either benefits or disbenefits that are unique to a planning applicant or site promoter, whether landowner, developer or both[17].

d) The process and content of viability assessments should be as transparent as possible – so as to give a reader confidence in the conclusions reached – whilst respecting (in an appropriate way) the confidentiality of data that may be commercially sensitive[18].

e) Appraisals should be based on a consistent approach, whilst recognising (and striking a sensible balance with) the heterogenous nature of development sites/proposals.

3.2 The physical delivery of sustainable development is a defining objective of development plans. At the Deposit stage in the plan-making process (if not before) candidate site FVA's should include a realistic forecast of the timescale within which the development of that site could be delivered. Wherever possible, that trajectory should be agreed with the LPA. For sites where the development may take 6 or more years to complete, thought should be given to whether possible changes in market demand are more or less likely to affect build out rates in a particular case; rather than assuming a "best case" scenario in every situation. Site promoters should avoid promising to over-deliver on what is a reasonable and realistic timeframe for the proposed development.

3.3 The Building Cost Information Service (BCIS) is generally cited as an appropriate source of data on build costs. However, there has been relatively little input to that database in recent years from projects in Wales. It is noticeable too from the BCIS Locational Factors that in some, more rural, locations the database relies on a very small sample of reported development projects; sometimes in single figures over a timeframe of approximately 40 years.

3.4 It is also the case that volume housebuilders do not generally contribute to the database. This underlines the importance of:

a) gathering as much information as possible on local construction costs from other sources, such as Viability Study Groups[19], candidate site FVA's in the plan-making

[15] The updated RICS Guidance (March 2021) on Assessing Viability in Planning points out at para. 4.1.5. that "simply using current costs and values and ignoring changes over the life of a development can distort the analysis of all but the simplest of cases." Para. 4.1.6 recommends that "where assessors consider that the impacts of value and cost change are a significant factor in the market, these changes are identified and taken into account in an FVA"; but that "any assumptions made concerning projections of costs and values in FVA's must be stated; and the evidence used to underpin projections explained."

[16] Section 2.4 in the RICS Professional Standard (April 2023)

[17] Paragraph 2.5.2 in RICS Guidance Note GN-94/2012.

[18] See further comments on the issue of confidentiality in section 7 below

[19] Paragraphs 5.93 to 5.97 in the Development Plans Manua

process and detailed site-specific viability assessments whenever those occur in a development management context;

b) interpreting data drawn from BCIS in a way that not only recognises the limited input to the database from companies that are best placed to achieve economies of scale; but also reflects the fact that the BCIS data is presented as a range of costs. Whilst it may have been customary to adopt either the mean or the median BCIS rate as a starting point, the way in which build costs vary according to the complexity and scale of each development, in addition to construction specification and underlying characteristics of a site, must be reflected in any site-specific FVA.

c) recognising that, in the absence of input from volume housebuilders, BCIS data is not a complete and fully-balanced industry dataset; and that the median, upper and lower quartile cost rates would present a different picture, if cost information from those larger companies were included; and

d) accepting that data is often submitted to BCIS in differing degrees of detail. Examining the more detailed cost analyses for individual sites on the database reveals a degree of inconsistency in the way that costs are set out/recorded on the database.

3.5 The BCIS database records historic builds costs. At a time when new Building Regulations are being introduced to meet the challenges of climate change, there is and will be a time lag before the cost implications of those Regulations are fully reflected in the cost rates drawn from the database. Where viability is being considered in a plan-making context, allowances will need to be made for the likely cost implications of regulatory changes that are expected to be introduced during the plan period, as well as the likely effect of those changes on the end values in a development.

3.6 A lack of financial viability should not be an excuse for permitting development that fails to meet other criteria that are necessary for a development to be "sustainable". If viability constraints prevent a development from meeting the appropriate sustainability criteria, planning permission should not be granted unless other funding mechanisms can be identified to overcome the viability issues.

3.7 In National Parks and other areas of special landscape value, where development would normally be subject to more stringent constraints, all viability assessments in the plan-making process should be sufficiently thorough to avoid planning policies being qualified with phrases such as "subject to viability". There would then be a strong presumption against the grant of planning consent for development proposals on windfall sites that do not fully comply with relevant policies in an adopted plan.

3.8 In viability assessments for larger sites, where it may be the best part of a decade or more before development is expected to be completed, allowance may need to be made for a review of the FVA that was agreed prior to allocation of the site in a development plan, at a later stage or stages in the course of the overall development. In cases where a review (or a series of reviews) is considered appropriate, the process and terms of engagement for each review should be clearly set out in a site-specific policy in the plan. Such cases could include (*inter alia*):

a) a site where risks associated with initial remediation works, the provision of off-site infrastructure or abnormal groundworks are such that the developer reasonably requests some deferral in the full provision of affordable housing or other community benefits; and/or

b) where the gross development value of a scheme in a lower value location is expected to be enhanced as a result of place-making measures.

An appropriate use of a review mechanism is to provide flexibility in the early stages of a development; and to enable a developer to manage risk. Review mechanisms are not a tool to protect or guarantee a particular level of return to a developer; but may be used to strengthen an LPA's ability to seek compliance with relevant policies over the lifetime of a project and to secure maximum benefits in the public interest from the grant of planning permission. Review mechanisms should never be a means for a landowner or developer to escape the consequences of their commercial decisions or to burden an LPA or a local community with the risk(s) normally associated with development.

3.9 With the exception of any liability to Land Transaction Tax, other potential tax liabilities are normally excluded from an FVA. However, where tax incentives are available (such as Land Remediation Relief) to a developer, it may be appropriate to take account of their supplementary benefit in an FVA (over and above the tax relief more normally available on relevant expenditure).

4. Reporting Standards

4.1 An objective and impartial assessment of financial viability is key to establishing an appropriate balance between the aspirations of landowners and developers on the one hand; and the aims of the Planning system to secure maximum benefits in the public interest through the release of land for development.

4.2 All viability appraisals will normally be accompanied by a commentary or report that explains key assumptions made in the financial appraisal; and which sets out the evidence upon which the appraisal has been based. Collectively, the appraisal and supporting documents are described in this Guidance Note as a Financial Viability Assessment or FVA.

4.3 The RICS Professional Standard (April 2023) sets reporting (and conduct) standards for RICS Members when undertaking and reporting on financial viability appraisals. Certain key elements from these standards, as set out in Appendix B, should be mandatory for all financial viability appraisals and reports in Wales, whether undertaken by a Member of the RICS or any other person. This does not exempt RICS Members from fully complying with the requirements of the Professional Standard.

4.4 A commentary accompanying an FVA should be clear about the evidence and/or the assumptions upon which it is based; including, where abnormal development or site costs are involved, whether cost estimates are based largely on desktop studies or more detailed investigations, for example. Even at the plan-making stage, it may be appropriate for cost estimates to be supported by correspondence with statutory undertakers, where a site is potentially "key"[20] to the delivery of a development plan.

4.5 Nevertheless, it is recognised that, in the plan-making process, the nature of the evidence required to support an FVA must be proportionate[21] to the stage reached in that process; and the significance of the site to the prospects of delivering development policies in the plan in a timely manner.

4.6 Topographical surveys, and studies that are essential to an understanding of the impact of a development on highway and utility networks, may be considered necessary for sites of any significant size; whilst commissioning more expensive ground investigation works and/or detailed hydrological assessments will often take place at a later planning stage (e.g. in tandem with an outline planning application).

[20] See paragraph 5.89 (et al) in the Development Plans Manual
[21] Paragraph 5.97 in the Development Plans Manual

4.7 A higher bar will normally be set for the evidence required wherever viability is cited as a ground for relaxing the policies in an up to date development plan. In those exceptional cases, the onus is on the applicant, adopting an "open book" approach, to provide the LPA with all sufficient verifiable evidence as may be necessary to demonstrate the case for a relaxation of the full policy requirements in the development plan. It should include reference back to any previous FVA, with a full explanation of what has changed since. It should also be assumed in these circumstances that the FVA and supporting evidence will be made publicly available, as may be required under the Environmental Information Regulations.[22]

4.8 The results from all viability assessments should be subject to sensitivity testing, to show the impact of incremental variations in the primary inputs to a financial appraisal; and thus enable a sound judgement to be made on viability issues. The assessor will decide in each case on the appropriate range of variations; but the following range is the one most commonly used:

- plus/minus 10% in gross development value
- plus/minus 10% in build (plot + external) costs
- plus/minus 15% in land value

4.9 In cases where the Development Viability Model (DVM)[23] has been used in producing an FVA, anyone promoting a candidate site in the plan-making process, or (in the exceptional circumstances described in section 2 above) submitting a viability appraisal during the Development Management process, can expect to receive an initial, high-level response from the LPA; by means of the proforma documents at Appendix C and Appendix D[24], which have been specifically designed for an LPA's use in this context.

5. Benchmark Land Value

5.1 For a development to be considered viable it should yield "a land value sufficient to encourage a landowner to sell for the proposed use".[25] This means a value that offers a reasonable incentive for a landowner to bring forward land for development, while fully complying with planning policy requirements. In a situation where these twin criteria may appear to be at odds, professional judgment supported by market evidence must be applied in striking an appropriate balance[26].

5.2 An FVA should include evidence that is clear as to what financial return (or benchmark land value) would realistically entice a landowner to sell land for the proposed use in a particular location or sub-market area. Before allocating a site for development at the plan-making stage, an LPA may seek a written statement to confirm that the land value used in an FVA offers the landowner a sufficient incentive to sell the land for the proposed use. Such a statement will be considered to be binding on the landowner concerned.

5.3 Landowner expectations are an important element in the voluntary release of land for development; but they may include individual criteria. Viability assessments have to be undertaken on a more objective level.

5.4 Evidence of prices paid for comparable land will be a starting point for determining an appropriate benchmark land value for a site or sites in a sub-market area, but must be

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[22] See further guidance in section 7 below

[23] The DVM, endorsed by POSW, is now commonly used by developers and local planning authorities throughout Wales and was initially developed using grant funding from Welsh Government.

[24] These appendices are available to each LPA in Wales, with its own individual title and logo.

[25] From the paragraph entitled "What is Viability?" on page 138 of the Development Plans Manual

[26] See paragraph 1.7 above.

adjusted (where necessary) to take account of any differences between past, current and proposed planning policy and/or infrastructure requirements; as well as differences in the scale, form, density, location and other characteristics of the development site(s) under consideration. In the plan-making process, evidence of the minimum land values that are often written into option or promotion agreements between landowners and developers may also be relevant.

5.5 Benchmark land values are usually expressed in terms of values per net developable acre or hectare (rather than gross site area) in order to aid comparison between development sites. But reference to values per gross land area and/or per unit of accommodation may provide a secondary means of comparing market evidence. Any likelihood of abnormal site costs (including "opening up" costs) should also be taken into account when defining benchmark land values.

5.6 Land values are sensitive to the forecast gross development value for a development; and are likely to vary across an LPA's administrative area. The market value of new homes, for example, or the rental and capital values of new commercial development, are generally influenced by their location; while build costs in a popular or higher value location may be very similar to those in a lower value area. This not only means that a developer will expect to pay less for land in a lower value area; but also that the proportion of affordable housing that it will be viable for a market-led residential development to provide in a lower value location, is likely to be less than in a higher value area.

5.7 Consequently, when conducting a plan-wide viability assessment for a range of site typologies, it may be appropriate to test a range of benchmark land values associated with a range of house prices (for example), in order to differentiate the viability of policy requirements across all sub-market areas within an LPA's administrative area.

5.8 Reference may also be made to the existing use value of land when considering whether the benchmark land value used in an FVA is "sufficient to encourage a landowner to sell for the proposed use". However, the prices that are typically paid for development land reveal such a wide range of "premium" over and above land values for agricultural use, that a methodology based on applying a multiplier to values for an existing agricultural use, in order to arrive at a benchmark value for development land, is considered less reliable than the methodology described in paragraphs 5.1 to 5.5 above. Any comparison with existing use value is more likely to be relevant where the existing use value is greater than the value of agricultural land; or where the land value for the proposed use is adversely affected by abnormal development costs associated with that proposed use.

5.9 If a site has potential for an alternative use, which is more valuable than its existing use, this may also be taken into consideration, subject to the following:

a) any alternative use must be one that would fully comply with up to date development plan policies, including any policy requirements for the provision of affordable housing and/or other community infrastructure and facilities; and

b) it must be demonstrated that the alternative use could be implemented on the site and that there is market demand for that use; together with a robust explanation as to why the alternative use has not been pursued.

The costs and timescales associated with implementing the proposed use on the one hand and any valid alternative use on the other, could also be a material consideration.

5.10 No prudent developer makes a contractual commitment with a landowner to promote land in the plan-making process without first undertaking at least a preliminary or outline financial assessment of the development they intend to promote.

5.11 The form used by a local planning authority[27] for obtaining information from candidate site promoters will usually request details pertinent to an assessment of infrastructure and/or other "abnormal" development costs. Unless the site is being promoted as a potential "key site", it is unlikely that the promoter will have undertaken more than a desktop study of possible "abnormal" site costs at this stage in the plan-making process.

5.12 When, following initial filtering, a 'candidate site' is being considered for allocation in the Deposit Plan, it is reasonable to expect the site promoter to provide further information, if it is considered that abnormal site costs may adversely affect the deliverability of the site, proportionate to the degree of importance of that site allocation to delivery of the overall plan. As mentioned in section 4 above, more detailed (and more costly) investigations on-site would often not be undertaken until a later stage in the planning process.

5.13 Nevertheless, from the point at which a plan has been submitted for examination, the risks arising from the later discovery of higher than forecast abnormal site costs lie with the landowner (or the developer). It is not reasonable for a landowner to expect the same price to be paid for land on which development will require significant remediation work or "opening up" costs (in the form of off-site infrastructure or topographical groundworks, for example), compared with a site that is free of such constraints.

5.14 It is the responsibility of landowners and developers who are promoting candidate sites to engage with LPA's and other stakeholders in the plan-making process. This includes full and meaningful participation in Viability Study Group meetings.[28]

5.15 Developers and other parties buying (or interested in buying) land must pay due regard to the total cumulative cost of all relevant policies in a development plan, when agreeing a price for land. Under no circumstances will the price paid for land be a justification for failing to accord with relevant policies in the plan. LPA's may ask for evidence of the price paid for land (or the price expected to be paid under the terms of an option or promotion agreement). If a landowner or developer is seeking a relaxation of any policy requirements in an adopted plan, in the development management process, it will be obligatory for the landowner or developer to provide full disclosure of that information.

6. Development Profit

6.1 The term "competitive return" has been used to describe developers' profit margins; reflecting the nature of the marketplace as well as its inherent risks.

6.2 The level of developer profit that is applied to a viability assessment should reflect the assessor's view on the level of risk that is attached to the development typology (in the case of high-level plan-wide viability assessments) or a specific development proposal; as seen in the context of the likely market demand for that development site or typology. The expected profit margin in each case should represent a "market risk adjusted return to the developer"[29]; recognising (for example) that it is not uncommon for there to be stronger competition between developers for smaller sites than for some larger sites.

6.3 Potential risk is accounted for in the assumed or target return for developers at the plan-making stage. It is the role of developers, not plan-makers or decision-takers, to mitigate these risks. Market cyclicality is one element of development risk and is accounted for in the risk-adjusted return referred to in paragraph 6.2 above. For example, the developer's target return in an FVA will not only be based on a variety of assumptions on revenues and

[27] See Table 4 on page 40 of the Development Plans Manual
[28] See paragraphs 5.93 to 5.97 in the Development Plans Manual
[29] See RICS Guidance Note 94/2012 on Financial Viability in Planning

costs, but also on a forecast development cashflow. The developer's target return in an FVA takes account of the risk of all unexpected variation(s) from these assumptions.

6.4 Consequently, there is generally a higher level of risk associated with developments that will take several years to complete; and which may therefore be subject to fluctuations in economic and market conditions during the overall development period. Another relevant factor when assessing risk is the extent to which the development involves significant upfront expenditure on infrastructure or other abnormal works, particularly where there may be some uncertainty over the amount of those costs.

6.5 As set out in the Development Plans Manual[30] and other published guidance, the profit margins expected by developers, and necessary to meet a typical lender's requirements on residential developments, will normally range between 15% and 20% of the forecast gross income from open market sales. A lower margin, based on 6% on cost, is normally applied to the provision of affordable housing within a mixed tenure development. The appropriate level of margin for self-build or other single unit developments may typically be taken at 10% on GDV[31].

6.6 The level of market demand for new homes in a particular location or sub-market area is also a material consideration, along with the speed at which houses are likely to sell, in determining an appropriate profit margin for each viability assessment.

6.7 The developer's profit margin on commercial development schemes may alternatively be expressed as a percentage of Net Development Value; that being the price an investor is expected to pay for the completed development after making allowance for the costs in professional fees and LTT that will be incurred in acquiring it. The assumed or target profit margin for the developer should again represent a "market risk-adjusted return"; and will be influenced by the extent to which the development may have been pre-let, rather than being largely or wholly speculative.

6.8 The development or extension of industrial estates, in situations that may appear not to be "viable" or to deliver any significant development profit, is a reminder that investors' criteria and preferences vary; and should be taken into account. Where there is demand from occupiers for commercial space at rents that show a sufficiently attractive annual return on the capital cost of developing that floorspace, by comparison with the return available from other forms of investment, development may be seen to take place with a relatively small margin over the development cost. Where this occurs, it is a reflection, not only of the level of risk associated with such development, but of a broader investor's perspective too.

7. Transparency and Confidentiality

7.1 The Environmental Information Regulations contain rules governing the potential public disclosure of either the whole or part of a Financial Viability Assessment. The way that the Regulations should be applied in individual cases is set out in those Regulations; and is beyond the scope of this Guidance Note.

7.2 However, the main reason that is commonly cited to avoid full or partial disclosure of an FVA is based on the commercial sensitivity or confidentiality of information within that FVA. There is likely to be a stronger case for non-disclosure of information that may be commercially sensitive within an FVA, during the plan-making stage of a development plan; as compared with the situation where viability is being cited as a ground for relaxing

[30] Within Table 24 in the Development Plans Manual, at the top of page 145

[31] Note that BCIS Average Prices already include an allowance for a contractor's overheads and profit

the full policy requirements of a development plan at the development management stage of a project.

7.3 Inputs that could be commercially sensitive typically relate to:

a) current or future negotiations on land assembly (including obtaining vacant possession), option arrangements, third-party rights (e.g. rights of way, visibility, ransom, light, oversailing, etc.), disturbance, relocation, compulsory purchase and land compensation, etc;

b) specific business information, such as funding details and marketing agreements; and

c) intellectual copyright, such as a development toolkit and build-cost modelling.

7.4 It is important that candidate site promoters feel able to share information with those involved in creating or updating a development plan, in an "open book" manner; at the same time having confidence that any commercially sensitive information will not be available to any third party, who might (for example) be promoting a competing candidate site, or be a business competitor in a more general way.

7.5 Particularly in the case of larger development sites, it should be recognised that

a) significant sums may have to be expended (at risk) on transport and environmental impact assessments and/or other similar studies, before a site allocation is secured in the development plan; and

b) unless the site promoter is the landowner, much, if not all, of this expenditure will be incurred before a developer has acquired a full legal title to the land in question. If the promotion of the site is being undertaken by a developer, under the terms of an option, conditional contract or other form of promotional agreement, there is the added risk that, if the developer is unable to conclude a successful purchase of the site, others could benefit from information that has been released into the public domain.

7.6 The Development Plans Manual acknowledges these issues. It suggests, for example, that aggregated figures, rather than a more detailed cost breakdown, could be used when presenting viability evidence in support of a development plan[32]. The purpose of such evidence is to demonstrate convincingly that the approach to the viability assessments on key sites (for example) has been consistent and sufficiently thorough. This can be achieved by presenting the main inputs and outputs from each assessment in a table; which also enables comparisons to be drawn between those inputs and outputs for each site.

7.7 In any case where viability is cited as a ground for relaxing the full policy requirements in an adopted plan at the development management stage of a project, a higher level of disclosure can be expected; and is justifiable. It should be the norm, at this stage in the planning process, that an FVA is prepared on the basis that it will be made publicly available; and that (for example) this may include publication of a detailed breakdown of any costs that the planning applicant is relying on in the case for some relaxation of the full policy requirements in the plan. It will also be incumbent on the planning applicant to demonstrate that the price paid (or being paid) for the site took (or takes) full and proper account of the guidance set out in paragraph 5.15 above.

[32] See paragraph 5.96 in the Development Plans Manual

Appendix A : Glossary of Terms

Abnormal Costs	Costs that are associated with abnormal site conditions such as contamination, flood risk, substructures, listed buildings etc
Affordable Housing	Housing, either for sale or to rent, where there are secure mechanisms in place to ensure that it is accessible to those who cannot afford market housing, both on first occupation and for subsequent occupiers. Affordable housing includes social rented housing owned by local authorities and RSLs; and intermediate housing where prices or rents are above those of social rent but below market housing prices or rents.
Alternative Use Value	The value of land for any lawful use other than its existing use.
Existing Use Value	The value of land for its existing or most recent lawful use, with no expectation of that use changing in the foreseeable future. Existing use value should therefore exclude any "hope value" in connection with an alternative and possibly more valuable use.
Hope Value	An element of market value in excess of existing use value that reflects the prospect of some more valuable future use.
Market Value	The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing; and where the parties have each acted knowledgably, prudently and without compulsion.
Decision-taker	The local planning authority, planning inspector or any other body required to make decisions in response to an outline or full planning application; or an application for approval of reserved matters following an outline planning permission.
Development Management	The stage in the planning process that is associated with the determination of a planning application; and which may include pre-application consultation(s).
Plan-making	The stage in the planning process that is associated with the preparation of a development plan, including the process of updating or replacing an existing development plan.
Opening-up Costs	Expenditure incurred to make a site accessible and deliverable for an intended development. The term is most commonly applied to costs associated with the improvement of off-site infrastructure (e.g. roads, drainage or other service networks) to facilitate development; but may also include certain on-site works, such as land remediation or a spine road to serve the new development.

Appendix B : Requirements for Written Reports and FVA Commentaries

1) Objectivity, impartiality and reasonableness

A collaborative approach involving the LPA, business community, developers, landowners and other interested parties will improve understanding of the viability and deliverability for everyone involved in the process.

The written report or commentary in support of a Financial Viability Assessment must include a statement that the FVA has been carried out:

- with objectivity,
- impartially,
- without interference, and
- with reference to all appropriate available sources of information.

This applies both to those acting on behalf of planning applicants and candidate site promoters as well as those acting on behalf of the plan-makers and decision-takers.

A similar statement must appear in plan-wide studies and submissions.

Objective means not being influenced by personal feelings, sentiment or by other parties in considering and representing facts. Impartiality means that any person or body involved, either in creating or reviewing an FVA, should not be influenced by whether their role is to originate or to review that FVA. Neither should they bow to commercial or political pressures.

All those involved with an FVA, due diligence review or plan-wide viability assessment have a duty of care to ensure that the information provided is balanced, is reasonable and reflects an appropriate level of judgement. This is especially pertinent given the public interest and reliance that third parties may have on the content of viability assessments and the conclusions drawn from them. This duty of care applies to all those inputting to a viability assessment, whether in the primary or a subsidiary and supporting capacity. In practice this requires all those making a contribution to a viability assessment to confirm that they have met these requirements, in much the same way as if they were providing expert evidence.

All inputs to a viability assessment should be reasonably justified by evidence in a supporting statement or commentary. If the person reviewing an FVA disagrees with any element of an FVA or with the conclusions drawn from it, those differences should be cleared explained. Similarly, if the reviewer considers that additional information is needed before a conclusion can be reached, the nature of the further information required should be clearly stated. Where inputs are agreed, that too should be made clear.

Where the originator of a viability assessment and the reviewer have different views, both should supply appropriate evidence or explanations as to why they interpreted the evidence differently and reached an alternative opinion.

LPAs and third party interests need to be confident that an FVA fully reflects the way that the development would actually be carried out. If that is not the case, this should be stated and explained. All those contributing to or reviewing an FVA must consider whether the advice they are giving represents an effective and efficient way to deliver a reasonable development performance proportionate to the scheme being assessed; or whether that performance might be improved by what is commonly referred to as “value engineering”.

2) No Contingency Fees and Conflicts of Interest

The written report or commentary in support of a Financial Viability Assessment must also include a statement confirming that no performance-related or contingent fees have been

agreed in relation to the FVA. Any circumstances where a contributor to an FVA stands to gain from their appointment beyond a normal fee or commission must also be disclosed.

Each report or commentary should also contain a statement confirming that no individual or body involved with the FVA has any conflict or risk of conflict of interest in contributing to the FVA. Thereafter, all those who have contributed should take all reasonable steps to avoid any conflict of interest arising.

Before accepting instructions, if any person or body advising either the applicant or the LPA on a planning application has previously provided advice, or is still providing advice through plan-wide viability assessments to help formulate policy, this must be declared.

In circumstances where an individual or body is providing advice in connection with policy while also carrying out or reviewing the financial viability of a specific scheme, this must be declared. They must also declare whether they have previously provided advice in connection with policy before accepting instructions to undertake or to participate in an FVA relating to a specific scheme. This applies to individuals as well as the firm/company advising either the applicant or LPA, and includes sub-practitioners. It applies both before accepting instructions and also to the content of a subsequent report or commentary,

3) Sensitivity Analysis

All viability assessments and subsequent reviews must provide a sensitivity analysis of the results and an accompanying explanation and interpretation of respective calculations on viability, having regard to risks and an appropriate return(s). This is

a) to allow the applicant, plan-maker and decision-taker to consider how changes in inputs to a financial appraisal affect viability; and

b) to understand how these results arrive at an appropriate conclusion on the viability of the application scheme or of a plan-wide viability assessment.

This analysis also forms part of an exercise to 'stand back' and apply a viability judgement to the outcome of the viability assessment.

4) Non-technical summaries

Both in plan-making and development management, FVAs must be accompanied by non-technical summaries, so that non-specialists can better understand them. The summary must include key figures and issues that support the conclusions drawn from the assessment.

5) FVA origination, reviews and negotiations

During the viability process there should be a clear distinction between preparing and reviewing an FVA and any subsequent negotiations. Negotiations, which take place later and separately, commonly relate to section 106 agreements. This distinction is to retain the objectivity and impartiality of the origination and review of an FVA; and to clarify where respective parties, or their professional advisers, are seeking to resolve differences of opinion by comparison with subsequent negotiations.

6) Author(s) sign-off (all reports)

Viability assessments on behalf of candidate site promoters, planning applicants and an LPA must be formally signed off and dated by the individuals who have carried out the assessments. Their respective qualifications should also be included.

The authors of FVAs and subsequent reviews must come to a reasonable judgement on viability on the basis of objectivity, impartiality and without interference, taking into account all inputs, including those supplied by other contributors.

Appendix C : Proforma for Candidate Site FVA's

City & County of Swansea

Cyngor Abertawe
Swansea Council

REPLACEMENT LOCAL DEVELOPMENT PLAN 2023 – 2038

High-Level Review of Candidate Site FVA's

This document has been prepared in response to the Financial Viability Assessment ("FVA") submitted for the site named below.

Site Details:

Site Name	
Site Area (acres/hectares)	
Candidate Site Reference	
FVA submitted by	
Date FVA submitted	
Spatial Area / Location	
Proposed Use	
Reviewer (for internal use)	
Date reviewed	

Thank you for your Financial Viability Assessment (FVA) in support of your Candidate Site submission. The comments in this proforma offer a high-level review of the appropriateness of the information submitted; and a check that cells on each relevant worksheet in the DVM have been appropriately completed. The review also considers whether:

a) the evidence supplied to support costs and values in the FVA is proportionate/sufficient at this stage in the plan-making process;
b) the assumptions made in the FVA are reasonably appropriate to the scale, location and form of the proposed development;
c) the suggested timescale for the development is realistic; and
d) the FVA accords with the broad policy requirements set out by the Council in its call for Candidate Sites and/or in other guidance and/or policy statements that are pertinent to the assessment of Viability in the context of the plan-making process.

Important note: The comments and findings set out in this proforma are the views of an officer, on behalf of the Planning Authority. This high-level viability review forms only part of the evidence gathering required in the preparation of the RLDP; it is not a commitment from the LPA that this site will be allocated in the Plan. The evidence of viability for sites that are allocated in the Plan may be tested at Examination of the Plan. If it is necessary or appropriate for information from an FVA to be released as evidence, e.g. to support a specific site allocation, the Council will discuss with the site promoter the extent to which such information may be released. Ultimately, however, a decision on what information the Council is obliged to disclose must rest with the Council.

Summary of LPA's Response:

Viability Appraisal Summary	Comments
Has the FVA been submitted using the Development Viability Model for Wales?	Yes/No [*if "No", describe the nature of the information submitted*]
Are the assumptions made in the FVA consistent with general market evidence of which the Council is aware and/or assumptions contained in a relevant Guidance Note or Statement of Common Ground? If not, has evidence been provided to justify why different assumptions have been used? Does the Council consider that the FVA, including assumptions, submitted is reasonable and appropriate?	
If the FVA suggests that the proposed development is financially viable, has the site promoter confirmed that the land/site value sufficient to encourage the landowner to sell the site for the proposed use?	
If not, does the site promoter intend to rely on Social Housing Grant or other funding mechanisms to make the site financially viable; and are such funds likely to be available?	
Is the Council satisfied that the site is "viable", in a plan-making context?	

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Further Comments relating to Various Elements of the Site Promoter's FVA:

Proposed Development	Officer Comments
Is the proposed **number of homes** (together with any commercial elements in the development) appropriate in the context of (a) planning policies and (b) the site's location, its size and any other relevant factors/constraints? Is the difference between the site's **gross and net developable area** appropriate; and has it been clearly stated and explained?	
Have dwelling types and sizes been specified; and is the **mix of dwellings** broadly appropriate in the context of the LHMA or other guidelines?	
Is the amount of affordable housing and is the proposed tenure mix in line with policy requirements or other relevant guidelines? Do all the affordable dwelling types conform to Welsh DQR's?	
Are the delivery timescales realistic in the context of normal planning practice/process, the likely lead-in time(s), and both build and sales rates generally?	

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GROSS DEVELOPMENT VALUE: a) Are the estimated open market sales values appropriate and has sufficient/proportionate evidence been supplied to support them? b) Has the appropriate method of calculating transfer values for the affordable dwellings been used? c) Are the forecast rents, yields and/or capital values relating to commercial/investment elements in the development appropriate: has sufficient/proportionate evidence been supplied to support them?	
DEVELOPMENT COSTS:	
Is the suggested **land/ site value** appropriate in the context of any agreed "benchmark" values? Has sufficient information been supplied to support it?	
Are the **Build (i.e. "plot") costs** appropriate and has sufficient and proportionate information been supplied to evidence those costs?	
Are all the **Normal Site Costs** appropriate; including costs for site clearance/preparation; "external" plot costs; costs of complying with building regulations; internal site roads; and SuDS, etc.? Has sufficient and proportionate information been supplied to evidence the cost rates used in the FVA; and/or has the basis for those rates been adequately explained?	

Has sufficient provision been made for **Community Infrastructure;** including education, highway measures, public open space, biodiversity, etc. – in line with policy requirements and/or other relevant guidelines?	
Has allowance been made for any **Abnormal Costs** (including land remediation, former mine workings, service diversions, archaeology, groundworks relating to topography and/or other on- or off-site matters) and has sufficient/proportionate information/evidence been supplied to support those costs?	
Are the allowances made for professional/other fees, and any contingency sums appropriate?	
Are the allowances made for sales, lettings fees and marketing costs appropriate?	
Are the estimated finance costs (including the interest rates used in the FVA) appropriate?	

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DEVELOPMENT PROFIT	
Are the **target profit levels** used in the FVA sufficient to provide an adequate margin for the developer in the context of national planning guidance on viability? Does the proposed development achieve those target profit levels?	
Does sensitivity testing of the primary appraisal outcome show sufficient **head room/contingency** to cope with changing markets?	
If not, are there considered to be funding mechanisms that could be secured to make the site viable?	

Conclusions	Officer Comments
Has sufficient/appropriate evidence been provided to indicate that the Candidate Site should be able to accord with emerging policy requirements and be viable for development within the RLDP?	
Is further information/evidence required?	

Appendix D : Proforma for Site-Specific FVA's

City & County of Swansea

Cyngor Abertawe
Swansea Council

REPLACEMENT LOCAL DEVELOPMENT PLAN 2023 – 2038

High-Level Review of Submitted FVA's

This document has been prepared in response to the Financial Viability Assessment ("FVA") submitted for the site named below.

Site Details:

Site Name	
Site Area (acres/hectares)	
Candidate Site Reference	
FVA submitted by	
Date FVA submitted	
Spatial Area / Location	
Proposed Use	
Reviewer (for internal use)	
Date reviewed	

Your Financial Viability Assessment (FVA) for this site has been received. The comments in this proforma offer a high-level review of the appropriateness of the information submitted; and a check that cells on each relevant worksheet in the DVM have been appropriately completed. The review also considers whether:

a) the evidence supplied to support costs and values in the FVA is proportionate/sufficient to enable your case to be determined;

b) the assumptions made in the FVA are reasonably appropriate to the scale, location and form of the proposed development;

c) the suggested timescale for the development is realistic.

Important note: The comments and findings set out in this proforma are the views of an officer, on behalf of the Planning Authority. This high-level viability review forms only part of the evidence gathering required for full consideration of this case.
Any commercially sensitive information you have supplied will be treated in confidence; but it will normally be necessary for Planning Officers to provide a financial summary of the case to Members of the Planning Committee – and potentially to third parties who have declared an interest – before a formal decision is made.
If it is necessary or appropriate for information from an FVA to be released in response to a request under the Freedom of Information Act, or under the Environmental Information Regulations, the Council will initially discuss with the applicant the extent to which such information should be released; but the final decision as to what is released will rest with the Council.

Summary of LPA's Response:

Viability Appraisal Summary	Comments
Has the FVA been submitted using the Development Viability Model for Wales?	Yes/No [*if "No", describe the nature of the information submitted*]
Are the assumptions made in the FVA consistent with general market evidence of which the Council is aware and/or assumptions contained in a relevant Guidance Note or Statement of Common Ground? If not, has evidence been provided to justify why different assumptions have been used? Does the Council consider that the FVA, including assumptions, submitted is reasonable and appropriate?	
If the FVA suggests that the proposed development is not financially viable, is the proposed land/site value no more than is reasonable sufficient to encourage the landowner to sell the site for the proposed use?	
Does the proposed development rely on Social Housing Grant or other funding mechanisms to make the site financially viable; and are such funds likely to be available?	
Is the Council satisfied that there are no reasonable alterations to the proposed development that would enable a viable scheme to be delivered?	

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Further Comments relating to Various Elements of the Site Promoter's FVA:

Proposed Development	Officer Comments
Is the proposed **number of homes** (together with any commercial elements in the development) appropriate in the context of (a) planning policies and (b) the site's location, its size and any other relevant factors/constraints? Is the difference between the site's **gross and net developable area** appropriate; and has it been clearly stated and explained?	
Have dwelling types and sizes been specified; and is the **mix of dwellings** broadly appropriate in the context of the LHMA or other guidelines?	
Is the amount of affordable housing and is the proposed tenure mix in line with policy requirements or other relevant guidelines? Do all the affordable dwelling types conform to Welsh DQR's?	
Are the delivery timescales realistic in the context of normal planning practice/process, the likely lead-in time(s), and both build and sales rates generally?	

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<u>GROSS DEVELOPMENT VALUE</u>: d) Are the estimated open market sales values appropriate and has sufficient/proportionate evidence been supplied to support them? e) Has the appropriate method of calculating transfer values for the affordable dwellings been used? f) Are the forecast rents, yields and/or capital values relating to commercial/investment elements in the development appropriate: has sufficient/proportionate evidence been supplied to support them?	
<u>DEVELOPMENT COSTS</u>:	
Is the suggested **land/ site value** appropriate in the context of any agreed "benchmark" values? Has sufficient information been supplied to support it?	
Are the **Build (i.e. "plot") costs** appropriate and has sufficient and proportionate information been supplied to evidence those costs?	
Are all the **Normal Site Costs** appropriate; including costs for site clearance/preparation; "external" plot costs; costs of complying with building regulations; internal site roads; and SuDS, etc.? Has sufficient and proportionate information been supplied to evidence the cost rates used in the FVA; and/or has the basis for those rates been adequately explained?	

Has sufficient provision been made for **Community Infrastructure;** including education, highway measures, public open space, biodiversity, etc. – in line with policy requirements and/or other relevant guidelines?	
Has allowance been made for any **Abnormal Costs** (including land remediation, former mine workings, service diversions, archaeology, groundworks relating to topography and/or other on- or off-site matters) and has sufficient/proportionate information/evidence been supplied to support those costs?	
Are the allowances made for professional/other fees, and any contingency sums appropriate?	
Are the allowances made for sales, lettings fees and marketing costs appropriate?	
Are the estimated finance costs (including the interest rates used in the FVA) appropriate?	

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DEVELOPMENT PROFIT	
Are the **target profit levels** used in the FVA sufficient to provide an adequate margin for the developer in the context of national planning guidance on viability? Does the proposed development achieve those target profit levels?	
Does sensitivity testing of the primary appraisal outcome show sufficient **head room/contingency** to cope with changing markets?	
If not, are there considered to be funding mechanisms that could be secured to make the site viable?	

Conclusions	Officer Comments
Has sufficient/appropriate evidence been provided to indicate that the site should be able to accord with current policy requirements? If not, explain why.	
Is further information/evidence required?	