



DEVELOPMENT VIABILITY

SUPPLEMENTARY PLANNING DOCUMENT

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1. Introduction

- 1 This Supplementary Planning Document (SPD) sets out the process for assessing the financial viability of a development proposal and our requirements for financial viability appraisals to be made public. It will ensure the assessment of the viability of planning applications is efficient, consistent and transparent. The guidance supports the Development Plan by providing further detail on how we will implement our planning policies where viability is an issue. This SPD is not planning policy.
- 2 We expect all development proposals that trigger a planning policy requirement to provide affordable housing to provide the homes at social rent and not affordable rent. Where a proposed development is not viable we may apply our planning policy requirements flexibly to ensure that the development can take place. For example, we may accept less affordable housing than the minimum required through policy.
- 3 A financial viability appraisal is a statement that shows:
 - the existing value of a site, excluding hope value (its current use value);
 - the value of a site assuming planning permission has been granted for a new development (the market value);
 - whether a competitive return for the landowner and developer can be achieved, relative to the risk of development; and
 - the costs of building the proposed development that includes meeting planning policy requirements, and whether these requirements can be met, such as securing affordable housing.
- 4 Appendix 1 provides non-technical examples of how the viability of a theoretical scheme of development to build 50 homes would be assessed.

2. Policy context

- 6 The National Planning Policy Framework (NPPF), Planning Practice Guidance (PPG), the London Plan (2015), the saved policies of the Southwark Plan (2007) and our Core Strategy (2011) establish that the key purpose of planning is the delivery of sustainable development. Sustainable development requires new housing, including affordable housing, to meet our housing needs, competitive economies, thriving town centres, efficient transport and effective infrastructure.
- 7 The NPPF states in Paragraph 173 that careful attention to viability should take place to ensure that the burden of required or necessary planning obligations, such as affordable housing, do not threaten the viability of development, and provide a competitive return to willing land owners and developers when taking the normal costs of development into account.
- 8 Assessing viability demonstrates the scale of planning obligations which are appropriate. However, the National Planning Policy Framework (NPPF) is clear that where safeguards are necessary to make a particular development acceptable in planning terms, and these safeguards cannot be secured, planning permission should not be granted for unacceptable development.
- 9 Paragraph 23 of the Planning Practice Guidance (PPG) states that the assessment of land or site value is a key consideration and an important input into a financial viability assessment. It states there are a range of acceptable approaches to assess the value of land, but there are common principles which should be reflected in all cases. Land valuations should:
 - reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;
 - provide a competitive return to willing developers and land owners (including equity resulting from those wanting to build their own homes); and

- be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.

The approach to assessing land value set out in this SPD reflects these common principles.

- 10 There are many important planning documents that are used to make planning decisions and provide further information on financial viability appraisals. The most important document for Southwark is our Development Plan which consists of the saved Southwark Plan (2007), the Core Strategy (2011) and the London Plan (2015). The London Plan is the Mayor of London's planning document for London. The saved Southwark Plan and Core Strategy define how regeneration and planning should take place in Southwark. Canada Water, Peckham and Nunhead and Aylesbury are also the subject of adopted Area Action Plans which are part of our Development Plan. We are currently preparing the New Southwark Plan which contains our emerging planning policies.

- 11 The Development Plan policies for which this SPD provides guidance are:

[Saved policies of the Southwark Plan \(2007\)](#)

- Policy 2.5 Planning obligations
- Policy 4.4 Affordable housing
- Policy 4.5 Wheelchair affordable housing

[Core Strategy \(2011\):](#)

- SP5 Providing new homes
- SP6 Providing homes for people on different incomes
- SP8 Student homes
- SP14 Implementation and delivery

[London Plan \(2015\)](#)

- Policy 3.8 Housing choice
- Policy 3.9 Mixed and balanced communities

- Policy 3.10 Definition of affordable housing
- Policy 3.11 Affordable housing targets
- Policy 3.12 Negotiating affordable housing on individual private residential and mixed use schemes

12 The Mayor's Housing SPG (2016) is also an important document. Paragraph 4.1.4 states that the market value, alternative use value or current use value plus¹ a premium approach to identifying the benchmark land value can satisfy the NPPF's requirement to ensure a competitive return to a willing landowner. The Mayor supports the current use value plus a premium approach is generally most appropriate for planning purposes because it can be used to address the need to ensure that development is sustainable in terms of the NPPF and Local Plan requirements. This SPD is consistent with the favoured methodology in the Mayor's Housing SPG (2016). This SPD should also be read alongside:

- Southwark's Affordable Housing SPD (2008)
- Southwark's (draft) Affordable Housing SPD (2011)
- Southwark's Section 106 Planning Obligations and Community Infrastructure Levy SPD (2015)
- the Mayor of London's draft Interim Housing SPG (2015)
- the Mayor of London's Use of Planning Obligations in the Funding of Crossrail
- the Mayoral Community Infrastructure Levy (2013) The SPG uses

13 We have fully considered the cumulative impact of our planning policy requirements on development viability as part of the examination of our Core Strategy (2011) and CIL Charging Schedule (2015). The New Southwark Plan Evidence Report Housing Policy Viability Study (2015) confirmed our housing planning policy requirements were set at a level that would be sustainable for most developments. This evidence-based approach is supported and required by the NPPF and PPG.

1 - The SPG uses the term 'existing use value' in place of 'current use value'. In this context they are equivalent terms.

- 14 Our Development Plan documents are available on our website:

www.southwark.gov.uk/planningpolicy

The London Plan (2015) and the draft Interim Housing SPG (2015) are available on the GLA's website:

www.london.gov.uk/priorities/planning/london-plan

[www.london.gov.uk/what-we-do/planning/implementing-london-plan supplementary-planning-guidance/draft-interim-housing](http://www.london.gov.uk/what-we-do/planning/implementing-london-plan-supplementary-planning-guidance/draft-interim-housing)

3. When do we require a financial appraisal?

3.1 Pre-applications

DVG1 Applicants are strongly encouraged to submit a draft financial viability appraisal when seeking pre-application advice where a proposal is likely to trigger a requirement to provide affordable housing or where viability is likely to be a relevant consideration in respect of achieving planning policy compliance.

- 15 In accordance with the Planning Practice Guidance (PPG paragraph 001), we encourage potential applicants to seek pre-application advice prior to the submission of a full planning application. This is to ensure emerging development proposals comply with our adopted planning policies.
- 16 We strongly encourage the submission of a draft financial viability appraisal at the pre-application stage where a proposal is likely to trigger a requirement to provide affordable housing or where any subsequent full application is likely to rely on a financial viability appraisal to justify a departure from planning policy requirements. Failure to present a financial viability appraisal which has been prepared in accordance with the principles set out in this SPD will limit the quality of advice council officers are able to provide.

- 17 We acknowledge the level of detail that can be provided at the pre-application stage will vary from scheme to scheme and will depend largely on scale of the proposed development and how advanced the emerging proposal is. The draft financial viability appraisal will act as a useful tool in refining emerging proposals prior to submission of a full application.

3.2 Applications

- DVG2** A financial viability appraisal should be provided for a planning application to be validated where there is a planning policy requirement to provide affordable housing or where the proposed development departs from other planning policy requirements due to viability.
- DVG3** Applicants should meet the cost of reviewing financial viability appraisals or provide a solicitor's undertaking to pay for an application requiring a financial viability appraisal to be validated.
- DVG4** Financial viability appraisals should be accompanied by an executive summary which outlines the key conclusions being drawn from the appraisal.
- DVG5** A revised executive summary should be submitted to the council prior to determination where the financial viability appraisal changes throughout the planning application process.
- DVG6** Financial viability appraisals should be accompanied by a fully testable and editable electronic/software model which explicitly shows the calculations and assumptions used in the planning application.

- 18 All planning applications which trigger a planning policy requirement to provide affordable housing or where viability is relied on as a material consideration are required to provide a financial viability appraisal. Failure to submit a financial viability appraisal will prevent officers having sufficient information to determine the application. The financial viability appraisal should be prepared and presented in accordance with the guidance in this SPD.
- 19 The requirement to submit a standardised financial viability appraisal will reduce delays in processing and determining planning applications. It will ensure that we have the information we need to review effectively financial viability appraisals at the outset, thereby reducing the likelihood that further evidence will be required during the application process.
- 20 Financial viability appraisals should be accompanied by sufficient details to enable us to understand the scheme value and valuation assumptions relied upon by the applicant. Following a detailed review of a financial viability appraisal, we may identify a need for further justification to support the chosen inputs in the financial viability appraisal. Failure to provide further information may result in delays to the application or may affect an officer's recommendation.
- 21 A revised financial viability appraisal should be submitted where material changes are made to a proposal prior to determination that could affect the viability of the proposal.
- 22 All financial viability appraisals should be accompanied by a fully working Argus Developer ² software model that can be tested. We recognise that for larger and more complex schemes, bespoke financial models are often produced using alternative software. We will accept alternative models provided they explicitly show the calculations and can be fully interrogated and the inputs varied.

² - Argus Developer is an industry standard software package widely used to assess the viability of development proposals.

- 23 An executive summary of the financial viability appraisal which summarises the key findings and conclusions of the financial viability appraisal for the lay reader should be submitted alongside the financial viability appraisal in order for the council to validate an application. The executive summary should provide a full supporting narrative to substantiate the inputs and assumptions made in the appraisal. This is to be a simplified version of the assessment that may aggregate costs and sales information. Table 1 details the key viability information that should be presented and explained in a financial viability appraisal executive summary.

Table 1. Financial viability appraisal executive summary key viability assumptions

Assumption	Amount
Gross Development Value	£
Acquisition Costs	£
Construction Costs	£
Professional Fees	£
Marketing and Letting	£
Disposal Fees	£
Finance	£
Developer Profit	£
Contingencies	£
Residual Land Value	£
Benchmark Land Value	£

- 24 Financial viability appraisals will be reviewed by the council or may be referred to appointed assessors. Applicants will be expected to meet the costs, as specified by the council, associated with reviewing financial viability appraisals in advance, including legal costs if appropriate. In the absence of a solicitor's undertaking to pay, fees should be paid upon validation of an application.

4. Transparency

DVG7	Financial viability appraisals which support pre-application discussions will be treated as confidential.
DVG8	Financial viability appraisal executive summaries will be published upon the validation of planning applications.
DVG9	Financial viability appraisals supporting applications for full planning permission, outline planning permission and hybrid applications will be published in full one week prior to determination.
DVG10	Any revised financial viability appraisal executive summaries will be published prior to determination of the planning application.
DVG11	The council will publish its assessment of financial viability appraisals one week prior to the determination of the planning application.

- 25 There is a public interest in financial viability appraisals being available for scrutiny when relied upon to secure planning permission for development proposals that depart from the planning policy requirements of our Development Plan or where they have triggered a requirement to provide affordable housing. Public scrutiny strengthens public confidence in the evidence used to influence the decision of a planning application.
- 26 We will publish financial viability appraisal executive summaries upon the validation of planning applications. Where the viability of a development proposal changes during the application process revised viability appraisal executive summaries will be published prior to determination. Financial viability appraisals will be published in full one week prior to determination for all applications that require a financial viability appraisal. The financial viability appraisal will be published as a PDF document. We will publish our assessment of the financial viability appraisal one week prior to the determination of the planning application and the case officer report will address the weight that should be given to the financial viability appraisal.