

Ceredigion County Council Affordable Housing Viability Assessment

Draft Report



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April 2017

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1 INTRODUCTION

Overview and objectives

1.1 Ceredigion County Council have appointed Andrew Golland Associates (AGA) to carry out an updated Affordable Housing Viability Study (AHVS). The study will help to build a robust evidence base as the Council reviews and updates its Local Development Plan.

1.2 The study's main objectives are to:

- Conclude on whether evidenced based targets can deliver the required Affordable Housing in Ceredigion;
- Consider the current Plan allocations and the extent to which these might need re-consideration on possible viability grounds;
- Ensure that the analysis (and hence conclusions) reflect the least? wider policy implications; most notably sprinklers and energy efficiency measures;
- Take on board the justifiable concerns of the local development industry;

1.3 The objectives of this AHVS are to produce findings that will allow the Council to have a robust evidence base for setting targets and thresholds. The study should reflect local market conditions and the report should show how sub market differences (for example by settlement or wider rural areas) lead to a sensitive and focused approach to local Affordable Housing policies.

Policy position

Nationally

1.4 Viability is an important consideration at both a national and local level. Nationally, The TAN 2 states that: 'When setting site-capacity thresholds and site specific targets local planning authorities should balance the need for affordable housing against site viability..... Local planning authorities should also take into account the impact on the delivery of the affordable housing target and the objective of creating sustainable communities across the plan area and in the individual parts of the plan area.'

1.5 Planning Policy Wales states that ‘Development plans must include an authority-wide target for affordable housing (expressed as numbers of homes) based on the LHMA and identify the expected contributions that the policy approaches identified in the development plan (for example, site thresholds, site specific targets, commuted sums and affordable housing exception sites) will make to meeting this target. The target should take account of the anticipated levels of finance available for affordable housing, including public subsidy, and the level of developer contribution that can be realistically sought.

Locally: policy and markets

1.6 Ceredigion is a predominantly rural authority with certain key towns, mainly on the coast. It is not a well accessed authority, although benefits from the tourist trade as well as from the growing University at Aberystwyth.

1.7 The County has an aging population and its housing stock remains unaffordable to many. These factors, linked with a relatively small economic base, means that larger and volume house builders don’t see their ‘model’ working there.

1.8 The housing market in Wales has seen a steady improvement although in some areas values are still close to those pre (2008) ‘crash’.

1.9 The Council has a significant target (of 70 homes per annum) which should be Affordable. This target is being met although to a significant extent via RSL completions. The performance of the local economy is otherwise holding back mixed tenure (Section 106) schemes.

1.10 The Council has received a number of challenges to its Affordable Housing policy, notably on small sites and in particular, conversions. These are generally recognized to be difficult, since existing use value is invariably high and without a significant number of units to balance this scheme do not come forward, unless conversion costs happen to be particularly low.

1.11 The Council's policy position on Affordable Housing is set out in Policy S05. This states:

'The LDP policies and allocations aim to secure in the region of 1100 affordable homes by:

1. Seeking to negotiate a proportion of 20% affordable housing on all housing development in accordance with the Local Housing Needs Assessment distribution of need for;

i. 9% Discount For Sale @ 70% Market Value:

ii. 32% @ 50% Market Value (both for direct Sale to occupants and to be made available to landlords for letting at Intermediate Rent); and

iii. 59% Social Rented @ 35% Market Value; or

iv. A scheme of equivalent value to Criterion 1(i)-1(iii) to meet a mix of current needs in the locality (as determined at pre-application stage to the satisfaction of the Local Planning Authority in consultation with the Local Housing Authority and Registered Social Landlords on local need and deliverability)

2. Requiring that where, as a result of Criterion 1, proposals yield an affordable housing requirement which is not a whole unit or where the mix cannot be provided as whole units then:

i. a scheme of equivalent value shall be determined to the satisfaction of the Local Planning Authority in consultation with the Local Housing Authority and Registered Social Landlords on local need and deliverability; or

ii. at the discretion of the Local Planning Authority, a commuted sum at the 'equivalent value' of 10% of Open Market Value (OMV) of the development as valued at the time of application.

3. Permitting 100% affordable housing sites where justified by evidence of unmet affordable local need provided the location of the

development is in line with Policies S02, S03 and S04. Rural housing exception sites will only be permitted in relation to RSCs, 'Linked Settlements' and 'Other Locations'.

The occupancy of all affordable housing will be controlled in perpetuity in accordance with Appendix 4 of the Plan.

Developments which include affordable housing or propose 100% affordable housing must provide adequate information to indicate the plot location, plot size, build standard and property type of the affordable units. If there is insufficient information to determine the value of the unit at completion, the application will be refused.

Developers seeking to negotiate a reduction in affordable housing provision will need to submit details to show lack of viability for the specific site.

Research undertaken for this study

1.12 There were four main strands to the research undertaken to complete this study:

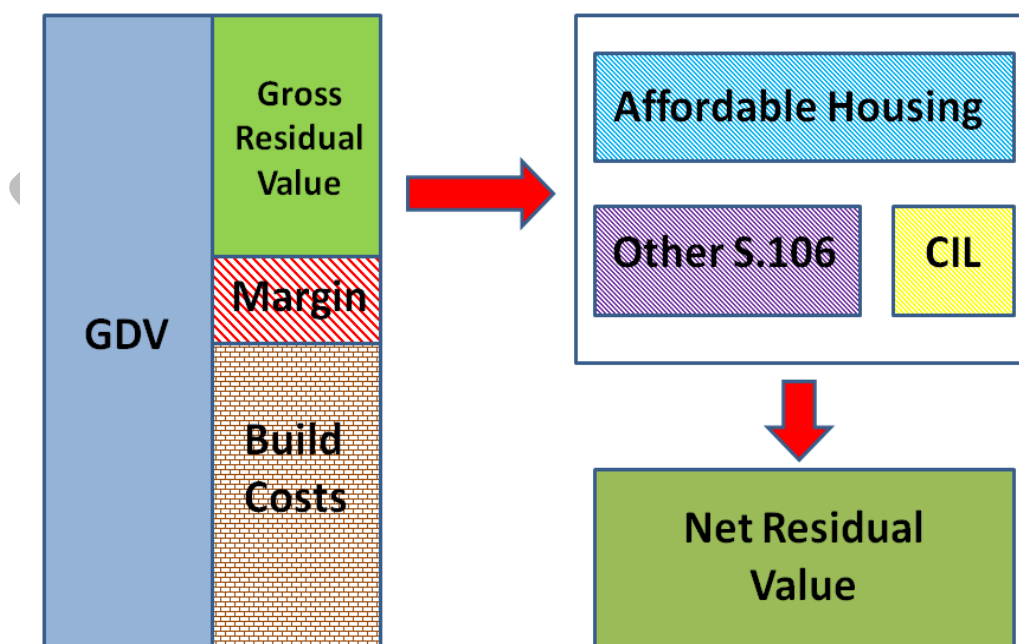
- Discussions with a project group of officers from the Council to help inform the structure of the research approach;
- Analysis of information held by the authority, including that which described the types of sites coming forward;
- Use of the Wales Development Appraisal Toolkit (DAT) to carry out High Level Testing and to analyse scheme viability;
- A Workshop held with developers, land owners, their agents and representatives active in the District. The feedback notes from the Workshop are shown at Appendix 1 of this report.

2 METHODOLOGY

Viability – starting points

- 2.1 A residual development appraisal model to assess development viability has been used. This mimics the approach of virtually all developers when purchasing land. This model assumes that the value of the site will be the difference between what the scheme generates (scheme revenue) and what it costs to develop (build costs and developer margin). The model can take into account the impact on scheme residual value of affordable housing and other Section 106 contributions or CIL where this is being tested.
- 2.2 Figure 2.1 below shows diagrammatically the underlying principles of the approach. Scheme costs are deducted from scheme revenue to arrive at a gross residual value. Scheme costs assume a profit margin to the developer and the 'build costs' as shown in the diagram include such items as professional fees, finance costs, marketing fees and any overheads borne by the development company.

Figure 2.1 Viability, CIL and Affordable Housing

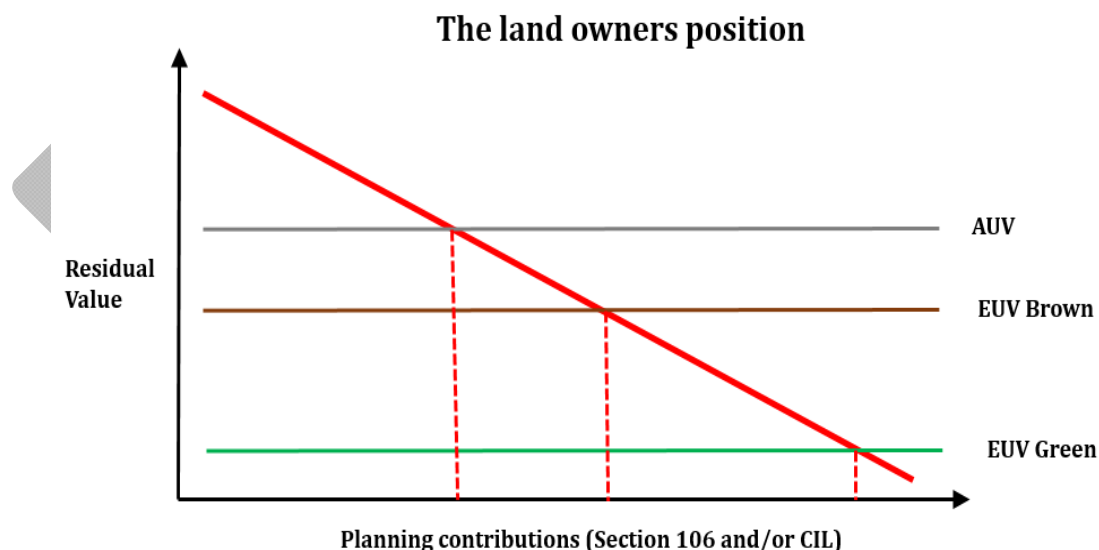


- 2.3 The gross residual value is the starting point for negotiations about the level and scope of Section 106 or CIL contribution. The contribution will normally be greatest in the form of affordable housing but other Section 106 items or CIL will also reduce the gross

residual value of the site. Once the Section 106 contributions/CIL have been deducted, this leaves a net residual value.

- 2.4 Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.
- 2.5 A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The Existing Use Value (EUV) of the site, or indeed a realistic alternative use value for a site will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.
- 2.6 Figure 2.2 shows how this operates in theory. Residual value (RV) falls as planning contributions increase. The issue for the land owner will be the point at which RV is less than or equal to the land value benchmark.

Figure 2.2 Residual Value (RV) and the land owner's position



- 2.7 Above this point there will be a land owner return. The extent of this return depends on the existing use value of the site (EUV). Some sites will be green field and some brown field. Normally brown field sites will have a higher EUV than green field but this does not always follow; for example where brown field land is heavily contaminated.

- 2.8 In some instances, an Alternative Use Value (AUV) will be appropriate to use. The conditions where this is the case are discussed in the Harman Review (2012) which looks at how local authorities may take viability on board when making plans.
- 2.9 The quantum of land owner return has been the subject of much discussion over the past few years. The NPPF, governing planning and viability in England requires local authorities to allow land owners a 'competitive' return, but it does not state what this is. Planning Policy Wales states that 'the target should take account of the anticipated levels of finance available for affordable housing, including public subsidy, and the level of developer contribution that can be realistically sought'.
- 2.10 How affordable housing targets or CIL charges are set will be a function of a number of factors including the nature of land supply, residual value, comparable authority policies and the broader land supply situation. There is no specific 'equation' which specifies how a particular policy should be derived.

3 VIABILITY ANALYSIS: HIGH LEVEL TESTING

Introduction

- 3.1 This chapter considers viability for residential schemes including affordable housing. It provides an understanding of how residual value varies under different housing market circumstances, different policy impacts and different development densities and mixes.
- 3.2 The chapter is important in calculating residual values against which land value benchmarks are set.

Sub Market areas

- 3.3 Location plays a key role in determining viability and residual value is very sensitive to changes or differences in house prices.
- 3.4 Sub markets have been determined on the basis of house prices as these are the key driver of viability. This applies in the County Council as elsewhere in England and Wales. These sub markets are not necessarily the same as those devised elsewhere for, for example, Strategic Housing Market analysis. The sub markets are based on five years' worth of price paid HM Land Registry data which has been sifted, calibrated and indexed to current values.
- 3.5 The sub markets are based on postcode sectors. These are seen to be an ideal geographical unit of assessment since they are fine grain as well as normally having a significant number of transactions that can identify locational differences. Table 3.1 shows the relationship of the postcode areas to the submarket areas and settlements in Ceredigion
- 3.6 Map 3.1 below sets out the sub markets in map form.

Table 3.1 Sub Markets in the Ceredigion area

PCS	Sub Market Area Name	Urban / Rural Service Centres	Linked Settlements
SA46 0	Aberaeron	Aberaeron/Llwynycelyn	Aberarth, Ffosyffin
SY23 2	Aberystwyth	Aberystwyth	
SY23 1	Aberystwyth	Aberystwyth (Includes Penparcau)	
SY23 3	Aberystwyth Hinterland	Aberystwyth (Includes Llanbadarn, Waunfawr); Pen	Capel Bangor; Goginan, Llangorwen, Ponterwyd
SY24 5	Aberystwyth Hinterland	Y Borth; Tal-y-Bont	Llandre, Dolybont, Ynyslas
SY23 4	Aberystwyth Hinterland	Devil's Bridge/ Pontarfynach; Llanilar,	Llanfarian; Cnwch Coch; Llanafan; Lledrod, Llanfiangel y Creuddyn, Rhydyfelin, Capel Seion, Bronnant, Llangwyrfon,
SY20 8	Aberystwyth Hinterland		Eglwysfach, Tre'r Ddol, Tre Taliesin
SA43 3	Cardigan and Aberporth	Cardigan	
SA43 1	Cardigan and Aberporth	Cardigan	Y Ferwig; Gwbert, Penparc
SA43 2	Cardigan and Aberporth	Aberporth	Blaenporth; Llangoedmor, Llechryd, Llanygwydd, Blaenporth, Blaennanerch, Tanygroes, Tresaith
SA48 7	Lampeter and Mid Rural	Lampeter; Felinfach	Dihewyd; Cribyn, Ciliau Aeron, Mydroilyn, Llanwnnen
SY23 5	Lampeter and Mid Rural	Llanhystud; Llanon	Nebo; Cross Inn, Bethania, Pennant
SA48 8	Lampeter and Mid Rural		Cilcennin; Llanybi; Talsarn, Betws Beldrws, Silian, Cellan/ Fishers Arms
SY25 6	Lampeter and Mid Rural	Tregaron; Poryrhydyfendigaid	Ysbyty Ystwyth; Llangeitho; Llandewi Brefi, Ystrad Meurig, Ponrhydygroes, Llwynygroes
SA44 6	New Quay and South West Coast		Llangranog; Sarnau, Pontgarreg, Plwmp, Brynhoffnant, Caerwedros, Pentre'r Bryn
SA45 9	New Quay and South West Coast	New Quay	Cross Inn, Maenygroes, Gilfachreda
SA47 0	New Quay and South West Coast	Llanarth	Oakford
SA44 5	Newcastle Emyln & South West Rural		Henllan; Rhydlewis, Coedybryn, Penrhiflan, Aberbanc
SA38 9	Newcastle Emyln & South West Rural	Newcastle Emyln (Adpar); Cenarth	Beulah; Brongest; Cwm Cou, Llanyfriog, Betws Ifan, Bryngwyn
SA44 4	Newcastle Emyln & South West Rural	Llandysul	Rhydownen; Talgarreg; Capel Dewi, Ffostrasol, Maesymeillion, croeslan, Horeb, Pentrellwyn,
SA40 9	Newcastle Emyln & South West Rural	Llanybydder	Alltyblacca, Highmead, Cwrtnewydd, Drefach, Gorsgoch

Map 3.1 Postcode sectors in the Ceredigion CC area



Testing assumptions

- 3.7 The analysis is based on a range of policy tests. Specifically, affordable housing targets of 0% through to 40%, including 5%, 10%, 15%, 20%, 25%, 30%, 35% and 40%.
- 3.8 Residual values have been generated that reflect the Affordable Housing targets and the full set of results are shown in Table 3.2 on the following page.
- 3.9 There is no requirement in this study to develop a CIL strategy. However, where there is a surplus generated by the residuals over and above the Land Value Benchmark (LVB) (discussed further in Chapter 5) then this could contribute either to other Section 106 contributions, or to CIL.

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Table 3.2 High Level Testing Results

20 Dph	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£1.30	£1.24	£1.18	£1.11	£1.05	£0.99	£0.93	£0.87	£0.81
Aberaeron	£1.13	£1.07	£1.01	£0.96	£0.89	£0.84	£0.78	£0.72	£0.66
Aberystwyth Hinterland	£0.53	£0.47	£0.43	£0.38	£0.33	£0.28	£0.24	£0.19	£0.14
Newquay & South West Coast	£0.51	£0.46	£0.41	£0.36	£0.32	£0.27	£0.23	£0.18	£0.13
Cardigan & Aberporth	£0.41	£0.36	£0.32	£0.28	£0.23	£0.18	£0.14	£0.09	£0.05
Lampeter & Mid Rural	£0.35	£0.31	£0.26	£0.22	£0.17	£0.13	£0.08	£0.04	-£0.01
Newcastle Emlyn & South West Rural	£0.33	£0.28	£0.24	£0.22	£0.15	£0.11	£0.06	£0.02	-£0.03
25 Dph	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£1.56	£1.48	£1.41	£1.33	£1.25	£1.18	£1.10	£1.02	£0.95
Aberaeron	£1.37	£1.29	£1.22	£1.15	£1.07	£1.00	£0.93	£0.85	£0.78
Aberystwyth Hinterland	£0.64	£0.57	£0.51	£0.45	£0.39	£0.33	£0.27	£0.21	£0.15
Newquay & South West Coast	£0.62	£0.55	£0.49	£0.43	£0.38	£0.32	£0.26	£0.20	£0.14
Cardigan & Aberporth	£0.50	£0.44	£0.38	£0.33	£0.27	£0.21	£0.15	£0.09	£0.07
Lampeter & Mid Rural	£0.43	£0.37	£0.32	£0.26	£0.20	£0.15	£0.09	£0.04	-£0.02
Newcastle Emlyn & South West Rural	£0.40	£0.34	£0.29	£0.23	£0.18	£0.12	£0.06	£0.01	-£0.05
30 Dph	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£1.67	£1.58	£1.50	£1.41	£1.33	£1.24	£1.15	£1.07	£0.98
Aberaeron	£1.46	£1.38	£1.29	£1.21	£1.13	£1.05	£0.96	£0.88	£0.79
Aberystwyth Hinterland	£0.67	£0.60	£0.53	£0.46	£0.39	£0.32	£0.25	£0.18	£0.11
Newquay & South West Coast	£0.65	£0.58	£0.51	£0.44	£0.37	£0.30	£0.23	£0.16	£0.09
Cardigan & Aberporth	£0.53	£0.46	£0.39	£0.32	£0.26	£0.19	£0.12	£0.06	-£0.01
Lampeter & Mid Rural	£0.45	£0.39	£0.32	£0.25	£0.19	£0.12	£0.06	-£0.01	£0.08
Newcastle Emlyn & South West Rural	£0.41	£0.35	£0.28	£0.22	£0.15	£0.09	£0.02	-£0.04	-£0.11
35 Dph	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£1.88	£1.77	£1.67	£1.56	£1.45	£1.35	£1.24	£1.14	£1.03
Aberaeron	£1.64	£1.54	£1.43	£1.33	£1.23	£1.13	£1.03	£0.93	£0.82
Aberystwyth Hinterland	£0.73	£0.65	£0.56	£0.48	£0.39	£0.31	£0.22	£0.13	£0.05
Newquay & South West Coast	£0.71	£0.62	£0.54	£0.45	£0.36	£0.28	£0.19	£0.11	£0.03
Cardigan & Aberporth	£0.56	£0.48	£0.40	£0.32	£0.23	£0.15	£0.07	-£0.01	-£0.10
Lampeter & Mid Rural	£0.48	£0.40	£0.32	£0.24	£0.16	£0.08	-£0.01	-£0.08	-£0.17
Newcastle Emlyn & South West Rural	£0.46	£0.38	£0.30	£0.23	£0.15	£0.08	-£0.01	-£0.08	-£0.16
40 Dph	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£2.02	£1.91	£1.79	£1.66	£1.55	£1.43	£1.31	£1.21	£1.08
Aberaeron	£1.76	£1.65	£1.53	£1.42	£1.31	£1.19	£1.08	£0.97	£0.85
Aberystwyth Hinterland	£0.79	£0.69	£0.60	£0.50	£0.40	£0.31	£0.21	£0.12	£0.02
Newquay & South West Coast	£0.76	£0.66	£0.56	£0.47	£0.38	£0.28	£0.19	£0.10	£0.00
Cardigan & Aberporth	£0.61	£0.51	£0.42	£0.33	£0.23	£0.14	£0.05	-£0.04	-£0.14
Lampeter & Mid Rural	£0.52	£0.43	£0.34	£0.24	£0.15	£0.06	-£0.03	-£0.14	-£0.21
Newcastle Emlyn & South West Rural	£0.47	£0.36	£0.26	£0.15	£0.05	-£0.06	-£0.16	-£0.27	-£0.37
50 Dph	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£2.13	£1.98	£1.84	£1.70	£1.55	£1.42	£1.27	£1.13	£0.99
Aberaeron	£1.83	£1.69	£1.55	£1.42	£1.28	£1.14	£1.01	£0.87	£0.73
Aberystwyth Hinterland	£0.73	£0.61	£0.49	£0.38	£0.26	£0.14	£0.03	-£0.09	-£0.21
Newquay & South West Coast	£0.69	£0.57	£0.45	£0.34	£0.22	£0.11	-£0.01	-£0.12	-£0.24
Cardigan & Aberporth	£0.51	£0.40	£0.29	£0.18	£0.06	-£0.05	-£0.16	-£0.27	-£0.39
Lampeter & Mid Rural	£0.42	£0.31	£0.20	£0.09	-£0.02	-£0.13	-£0.24	-£0.36	-£0.47
Newcastle Emlyn & South West Rural	£0.37	£0.26	£0.15	£0.04	-£0.07	-£0.18	-£0.29	-£0.40	-£0.51

- 3.10 As ever, and as set out in Chapter 2, whether a scheme is viable will depend on the relationship between residual and the adopted land value benchmark (LVB).
- 3.11 A full range of schemes are tested here. Densities of 20, 25, 30 dwellings per hectare (dph), 35 dph, 40 dph and 50 dph have been tested for all (eight) sub markets. These are assumed to be net densities.
- 3.12 The results reflect the following assumptions:
- Profit margin 17% on GDV (Gross Development Value) as well as a 5% overhead allowance. This is to cover non site specific (general company costs). Together this makes a 20% developer return on gross development value.
 - 5% return on the Affordable element of the scheme;
 - 3% marketing fees;
 - Other Section 106 contributions at £750 per unit.

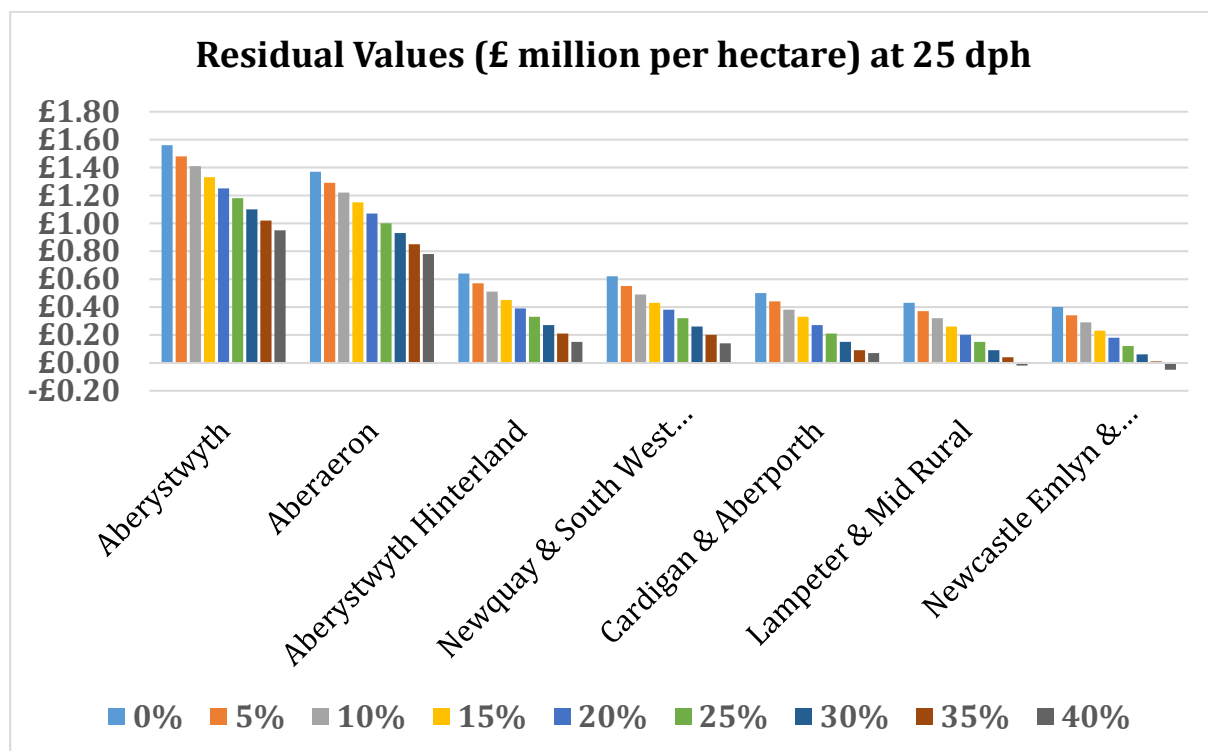
Residual values at 25dph

- 3.13 Figure 3.1 shows residual values at 30 dph in graph form. Showing the residual values in graph form demonstrates very clearly the variances between the sub markets.
- 3.14 The range of residual values is wide. This is not unusual to find when a district wide analysis is undertaken. Residual values at 40% Affordable Housing are around £1million per Ha (£0.95) in the Aberystwyth sub market (30 dph) whilst negative in the lowest (two) sub market areas. This provides an evidenced basis to support a split target approach rather than the single target approach which policy currently promotes.
- 3.15 There is a broad split between higher value coastal locations such as Aberystwyth, Aberaeron and New Quay, and lower value coastal locations such as Cardigan and Aberporth. Residual values in inland settlements such as Lampeter and Newcastle Emyln are significantly lower.
- 3.16 In a middle market location such as Aberystwyth Hinterland, residual values (at 25 dph) are around £270,000 per hectare at 30% Affordable Housing. This is a robust value, manifold the agricultural land value that is likely to be the appropriate land value benchmark for sites in the County.

3.17 In the lower value sub markets the picture is not so strong. If the AH target is set too high here, then it looks likely that schemes will not come forward. Several scenarios show negative RVs and this is particularly the case for Lampeter and Newcastle Emlyn.

3.18 The chart (Figure 3.1) shows the RVs for the range of sub markets.

Figure 3.1 Residual values at 25 dph



Residual values at 40 dph

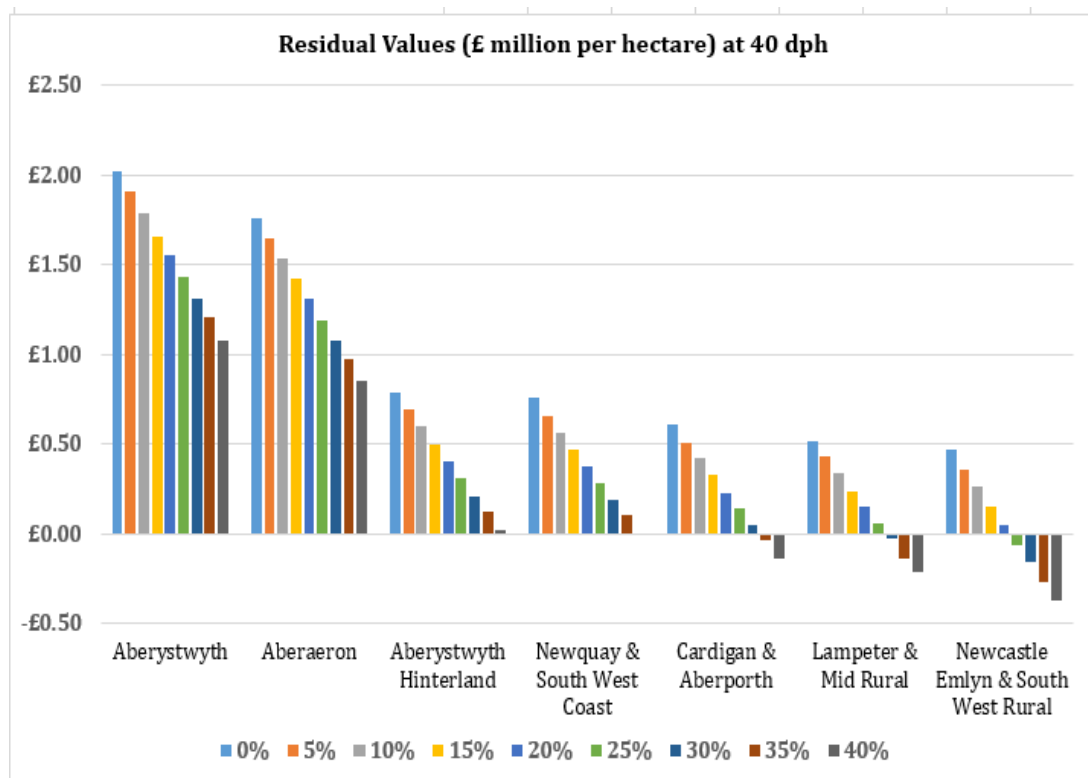
3.19 For the higher value sub markets an increase in density from 30 dph to 40 dph increases residual value. This applies to the Aberystwyth and Aberaeron sub markets as well to the Aberystwyth Hinterland and Newquay & SW Coast sub markets (up to 15% Affordable Housing); in addition in the other three lower value sub markets – to 5% Affordable Housing.

3.20 In the mid and lower value sub markets however the increase in density generates lower residual value at 40 dph than at 30 dph when Affordable Housing is applied at higher percentages. This is because at higher density a higher percentage of smaller units are included in the mix, and which generally generate a poorer return.

3.21 Figure 3.2 shows the data in graph form. This emphasises the broad split between coastal settlements and those inland and in particular, those settlements in the Teifi Valley.

3.22 In moving from 30 dph to 40 dph (with a higher percentage of smaller units in the development mix) the range of residual values becomes 'stretched' giving higher residuals in the higher value areas and lower residuals in the lower value areas.

Figure 3.2 Residual value at 40 dph



3.23 Assuming a green field existing use value of say £,000 per hectare (agricultural value; Valuation Office Property Market Report) then the following (Table 3.2) multiples of increase would be achieved where planning permission is given:

Table 3.3 Multiples of RV (from EUV – Green Field)

	20%	Agric Value	Multiple
Aberystwyth	£1.55	£0.015	103
Aberaeron	£1.31	£0.015	87
Aberystwyth Hinterland	£0.40	£0.015	27
Newquay & South West Coast	£0.38	£0.015	25
Cardigan & Aberporth	£0.23	£0.015	15

Lampeter & Mid Rural	£0.15	£0.015	10
Newcastle Emlyn & South West Rural	£0.05	£0.015	3

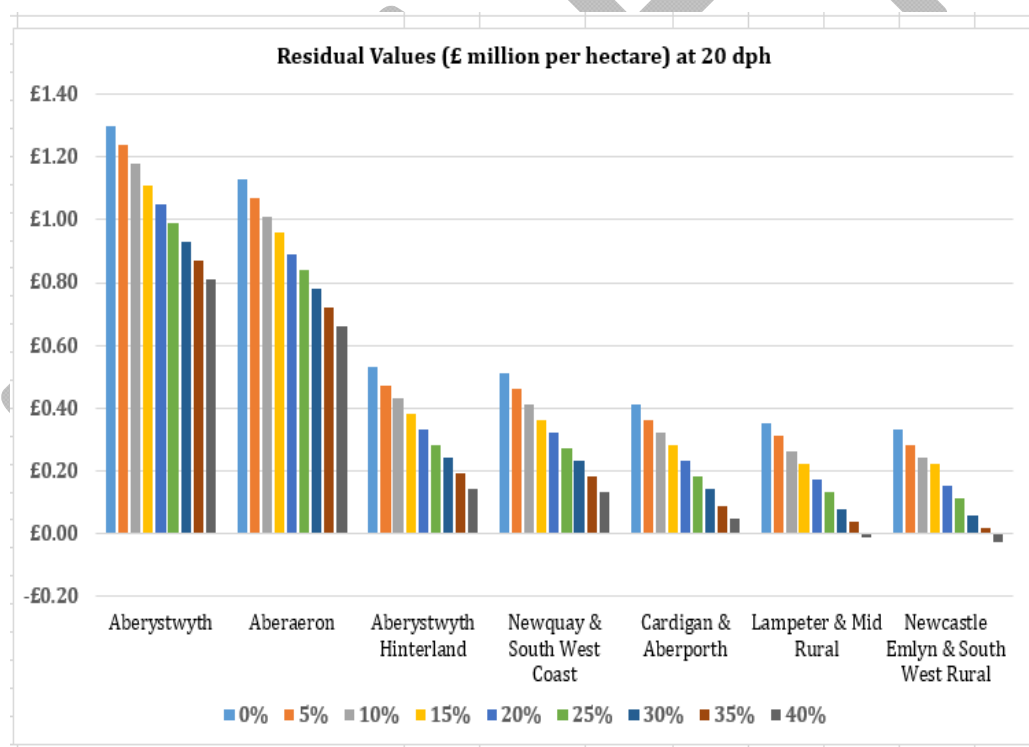
Other densities – higher and lower

Residual values at 20 dph

3.24 Figure 3.3 shows residual values at 20 dph. Generally it is anticipated that schemes will come in at the range 25 to 40 dph although a lower density may sometimes be the case. In general this will be the same type of housing as at 30 dph, although usually with a higher percentage of larger units.

Figure 3.3 Residual value at 20 dph

3.25 Figure 3.3 (as well as Table 3.2) shows that residual values at 20 dph are universally lower than at 30 dph. This does not mean that this will always be the case but that normally it will be expected to be the case.



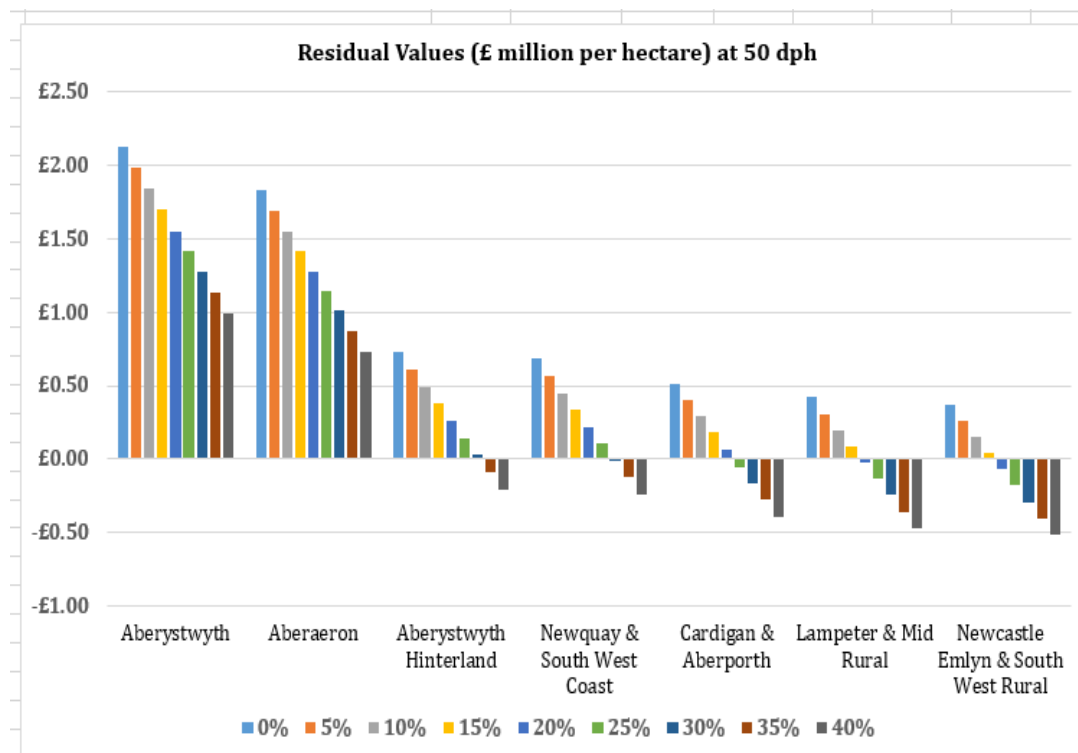
Residual values at 50 dph

3.26 Figure 3.4 shows residual values per hectare for all sub markets at 50 dph.

3.27 As previously, the pattern or spread of values remains as for other density analyses. And as previously, in the lower value sub markets,

the higher density does not necessarily benefit the RVs, which fall (from 30 dph to 40 dph) at higher percentages of Affordable Housing.

Figure 3.4 Residual values per hectare at 50 dph



3.28 RVs are now very high in the highest value locations – ranging between £1.5 million and £2 million per hectare at lower percentages of Affordable Housing. There is scope here to require significantly higher percentages of Affordable Housing.

3.29 The findings of this chapter suggest:

- A broad split in terms of residual values between the higher value coastal areas and those inland. This has implications for a potential split Affordable Housing target;
- The values in the inland areas, and in the Teifi Valley in particular are low. Development in these areas is viable at lower percentages of Affordable Housing however and hence the Council should look for contributions in those instances.
- Density and development mix are key. The analysis suggests that increasing density only has partial benefits for residual value, and these are mainly for higher value sub markets. This being stated, each scheme is different by degree and this will mean that

bespoke developments will have to be judged for their ability to deliver Affordable Housing and other Section 106 contributions on a site by site basis.

- 3.30 It is important to note that the analysis in this chapter has not considered land value benchmarks (other than a brief commentary on green field values). This analysis is key for target setting and the results here are considered again in Chapter 6 which looks specifically at benchmarks.

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4 SMALLER SITES AND THE AFFORDABLE HOUSING THRESHOLD

- 4.1 The High Level Testing (HLT) (Chapter 3) is a good indicator of the viability of sites in the local authority area. Viability is largely determined by location and hence the HLT provides the basis of policy setting for both Affordable Housing targets and thresholds.
- 4.2 To test specifically for thresholds it is important to look at the types of site coming forward particularly those smaller developments. There is no evidenced scale of development at which schemes become viable or non-viable. Hence the idea of Affordable Housing policies driven by a 'sliding scale' threshold is flawed in most instances.
- 4.3 More important is the location of the scheme and variety of existing uses from which smaller schemes emanate. Whilst there is a degree of commonality between local authorities in small site opportunities and windfalls, it is important to look at the specifics of the locality; here, in Ceredigion.
- 4.4 The nature of smaller sites coming forward is shown in Table 4.1 below. This shows both the absolute number of dwellings being brought forward within smaller schemes (less than 10 dwellings) as well as the incidence of each type of small scheme; this ('incidence') means the amount of consents as well as the number applications of each type (irrespective of the number of dwellings included in each application).
- 4.5 Table 4.1 shows that the most significant source of supply is single dwellings developed on green field (the categorisation here from the local authority states that these are not 'brown field' schemes).
- 4.6 Most smaller sites are being developed from green field as the table shows. As may be expected, agricultural land and building provide a significant amount of smaller scale housing development.

Table 4.1 Smaller schemes 2013 to 2016

Schemes of less than 10 dwellings - Outline Applications and Full Approved (1st April 2016 to 31st March 2016)					
Sources of Smaller Site Supply	Number	Number (%)	Incidence	Incidence (%)	Area (Average Hectares)
Single Dwelling Green Field	64	18.88	64	34.41	0.1
Single Dwelling Brown Field	3	0.88	3	1.61	0.03
One Rural Enterprise/Agricultural Dw	19	5.60	19	10.22	0.24
Change of Use Chapels & Educational Buildings to Single Dwelling	9	2.65	9	4.84	0.16
Change of Use from Commercial to Conversions to Single Dwelling	10	2.95	10	5.38	0.02
Barn/Agricultural Conversion to One Dwelling	7	2.06	7	3.76	0.04
Build 2, Green Field	18	5.31	9	4.84	0.07
Build 3, Green Field	24	7.08	8	4.30	0.12
Build 4, Green Field	20	5.90	5	2.69	0.09
Build 5, Green Field	50	14.75	10	5.38	0.12
Build 6, Green Field	24	7.08	4	2.15	0.19
Build 7 to 9, Green Field	26	7.67	10	5.38	0.19
Mixed Use Development	8	2.36	1	0.54	0.03
Residential to Residential Conversions	23	6.78	8	4.30	0.01
Schemes involving Demolition	8	2.36	6	3.23	0.8
Miscellaneous	26	7.67	13	6.99	0.08

- 4.7 Figures 4.1 (% by number) and 4.2 (% by incidence) on the following pages sets out the figures in Table 4.1 in graph form. The following conclusions are set out here.
- 4.8 Single dwelling schemes on green field land made up around 19% of all dwellings applied for and consented and accounted for 34% of all planning applications and consents for the period.
- 4.9 Schemes on green field land involving the construction of two to five dwellings made up around 33% of dwellings and accounted for around 17% of all planning applications and consents.
- 4.10 The conversion of residential dwellings to other forms of residential are significant, and made up almost 7% of all dwellings (4% of all applications and consents). These included dwellings being sub divided or made into a larger dwelling, as well as via the conversion of houses in multiple occupation into flats.
- 4.11 There is a relatively small percentage (around 3% of dwellings over the period) of scheme involving the conversion of commercial buildings to single dwelling scheme; the same applies (around 3%) to the conversion of chapels and educational buildings to residential.
- 4.12 Other sources of supply include barn conversions (around 2% over the period), and schemes involving demolition (around 2% of all dwellings).
- 4.13 There are a number of schemes (around 8% of all dwellings) which do not fall easily into any of the categories shown in Table 4.1.

Figure 4.1 Smaller sites: percentage of supply by numbers

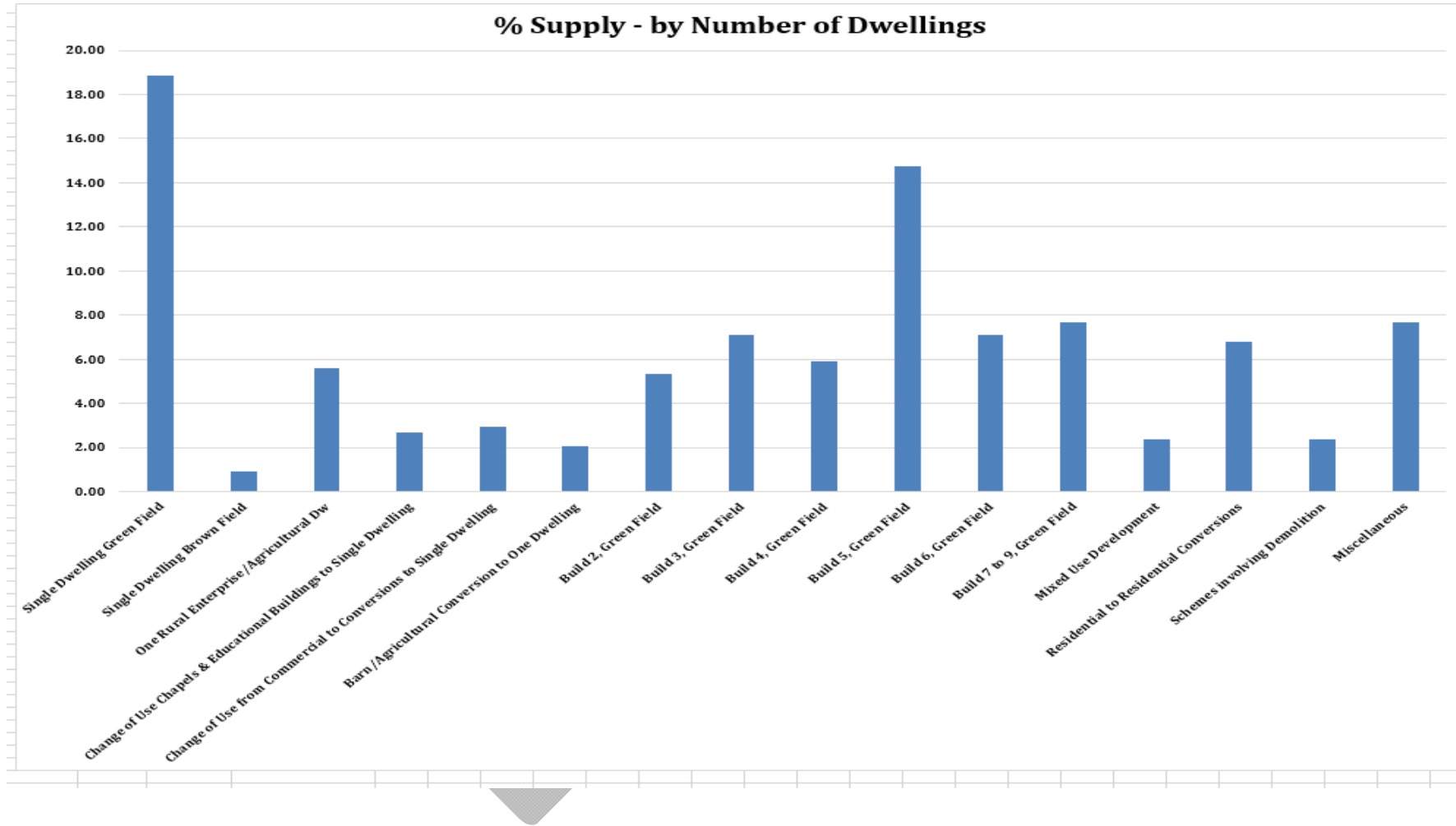
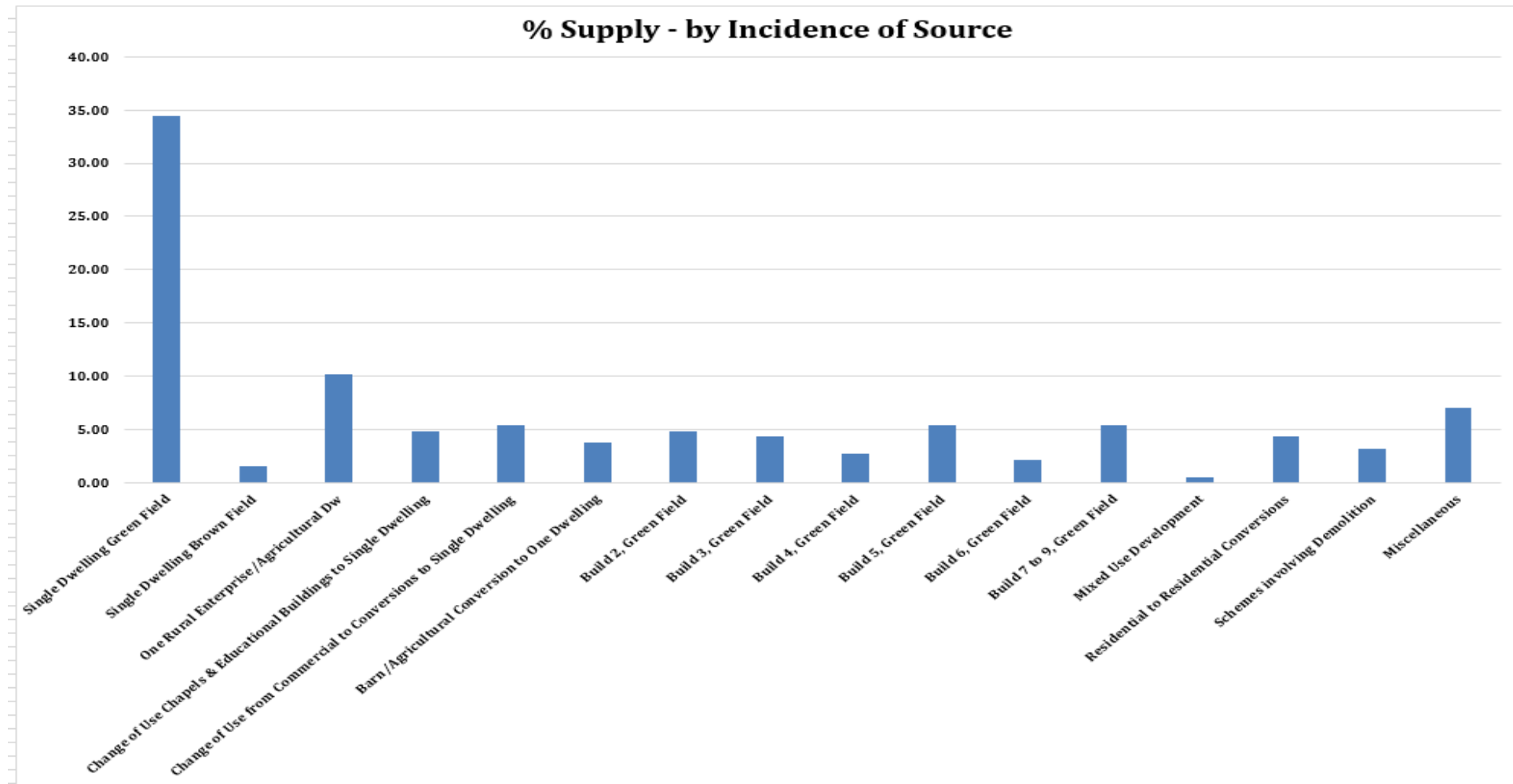


Figure 4.2 Smaller sites: percentage by incidence of source



- 4.14 Setting thresholds is a difficult exercise when looking at viability considerations across a range of schemes. Viability is determined by both the residual values generated by the new schemes proposed as well as by the existing use values of the sites as they stand. In this latter respect, some of the smaller sites are likely to have relatively high EUVs. These are notably, schemes involving replacement dwellings, 'two for one' schemes and residential schemes involving a commercial property or land. Experience from elsewhere suggests that these types of schemes are difficult to deliver with Section 106 contributions although it should be added that there will be exceptions where high value end housing is realised.
- 4.15 That being stated, a significant volume of smaller site development should not be problematic to deliver from a viability perspective. These include developments with lower existing use values such as garden or back land.
- 4.16 The above statement should be qualified however by reference to Chapter 3 which showed that development in the lower two sub markets looks currently marginal. This means that although a single threshold might be in place, in most instances development would be unlikely to come forward on viability grounds.
- 4.17 The most significantly types of smaller sites in the County are now looked at.

Single dwelling development on green field or garden land

- 4.18 The lower table in 4.2 (on the following page) sets out the residual values (taken from the higher level testing on a pro rata basis) and shows where these exceed (green cells) the LVBs and where they do not (red cells). Because many of these single dwelling developments take place on back land or land adjacent to existing houses it may be assumed that there will be devaluation to the retained dwelling or dwellings. This will not always be the case since some of these developments will be on rural or village fringe land. Under these circumstances land owner expectations should not be so high, particularly where the Council makes its policy implications clear to land owners.

- 4.19 For the purposes however of drawing cautious conclusions, the devaluation to an existing dwelling approach has been adopted. A 20% discount has been applied. This will of course vary from scheme to scheme, but a 20% figure is thought to be a reasonable figure.
- 4.20 The figures in the lower table of 4.2 show viable positions (where residual value exceeds the devaluation to the retained dwelling). This is not the case in any instances suggesting that this type of development will normally not be viable.

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Table 4.2 One dwelling built on garden or back land

LVBs - House retained - build in garden/back land										
LVBs - House Demolished - replacement										
	4 Bed Detached (New Build)	Less 10% (Second Hand)	Devaluation to retained Say 20%							
Aberystwyth	£317,000	£285,300	£57,060							
Aberaeron	£289,000	£260,100	£52,020							
Aberystwyth Hinterland	£248,000	£223,200	£44,640							
Newquay & SW Coast	£247,000	£222,300	£44,460							
Cardigan & SW Coast	£230,000	£207,000	£41,400							
Lampeter & Mid Rural	£215,000	£193,500	£38,700							
Newcastle Emlyn & SW Rural	£204,000	£183,600	£36,720							
One Dwelling	0%	5%	10%	15%	20%	25%	30%	35%	40%	
Aberystwyth	£55,667	£52,667	£50,000	£47,000	£44,333	£41,333	£38,333	£35,667	£32,667	
Aberaeron	£48,667	£46,000	£43,000	£40,333	£37,667	£35,000	£32,000	£29,333	£26,333	
Aberystwyth Hinterland	£22,333	£20,000	£17,667	£15,333	£13,000	£10,667	£8,333	£6,000	£3,667	
Newquay & SW Coast	£21,667	£19,333	£17,000	£14,667	£12,333	£10,000	£7,667	£5,333	£3,000	
Cardigan & SW Coast	£17,667	£15,333	£13,000	£10,667	£8,667	£6,333	£4,000	£2,000	-£333	
Lampeter & Mid Rural	£15,000	£13,000	£10,667	£8,333	£6,333	£4,000	£2,000	-£333	£2,667	
Newcastle Emlyn & SW Rural	£13,667	£11,667	£9,333	£7,333	£5,000	£3,000	£667	-£1,333	-£3,667	



- 4.21 Table 4.3 sets out the same type of development (i.e. sourced from garden or back land) but with a greater number of new dwellings built (from two to five).
- 4.22 As previously, it is important to stress that the (devaluation to retained dwelling) benchmark is perhaps too cautious in many instances, although as previously this has been applied.
- 4.23 Generally, improved viability is shown where the number of dwellings is increased. Table 4.3 shows strong viability in the highest two sub markets, up to 40% Affordable Housing.
- 4.24 In the middle sub markets including Aberystwyth Hinterland and Newquay and South West Coast, 20% to 25% Affordable Housing would appear to be viable.
- 4.25 The results show that viability is largely determined by location and not scale of scheme, and hence the Council may decide to require Affordable Housing contributions on single plots. However, the viability of these schemes is difficult to predict as in some instances the devaluation to the retained dwelling will vary significantly.
- 4.26 There is evidence however to suggest that a threshold of two dwellings would be viable in the mid to higher value sub markets. This could, if it could be practically applied by the local authority given its resources, yield Affordable Housing contributions, albeit in the form of payments-in-lieu in most instances.
- 4.27 Some caution is also needed, as with larger plots (with a capacity of say two or more dwellings) it is possible that the devaluation to the retained property would be higher – and hence the LVB also higher. This would be relatively more challenging.

Table 4.3 Two to five dwellings built on garden, back land or green field land

Two Dwellings	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£111,333	£105,333	£100,000	£94,000	£88,667	£82,667	£76,667	£71,333	£65,333
Aberaeron	£97,333	£92,000	£86,000	£80,667	£75,333	£70,000	£64,000	£58,667	£52,667
Aberystwyth Hinterland	£44,667	£40,000	£35,333	£30,667	£26,000	£21,333	£16,667	£12,000	£7,333
Newquay & SW Coast	£43,333	£38,667	£34,000	£29,333	£24,667	£20,000	£15,333	£10,667	£6,000
Cardigan & SW Coast	£35,333	£30,667	£26,000	£21,333	£17,333	£12,667	£8,000	£4,000	£-667
Lampeter & Mid Rural	£30,000	£26,000	£21,333	£16,667	£12,667	£8,000	£4,000	£-667	£5,333
Newcastle Emlyn & SW Rural	£27,333	£23,333	£18,667	£14,667	£10,000	£6,000	£1,333	£-2,667	£-7,333
Three Dwellings	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£167,000	£158,000	£150,000	£141,000	£133,000	£124,000	£115,000	£107,000	£98,000
Aberaeron	£146,000	£138,000	£129,000	£121,000	£113,000	£105,000	£96,000	£88,000	£79,000
Aberystwyth Hinterland	£67,000	£60,000	£53,000	£46,000	£39,000	£32,000	£25,000	£18,000	£11,000
Newquay & SW Coast	£65,000	£58,000	£51,000	£44,000	£37,000	£30,000	£23,000	£16,000	£9,000
Cardigan & SW Coast	£53,000	£46,000	£39,000	£32,000	£26,000	£19,000	£12,000	£6,000	£-1,000
Lampeter & Mid Rural	£45,000	£39,000	£32,000	£25,000	£19,000	£12,000	£6,000	£-1,000	£8,000
Newcastle Emlyn & SW Rural	£41,000	£35,000	£28,000	£22,000	£15,000	£9,000	£2,000	£-4,000	£-11,000
Four Dwellings	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£222,667	£210,667	£200,000	£188,000	£177,333	£165,333	£153,333	£142,667	£130,667
Aberaeron	£194,667	£184,000	£172,000	£161,333	£150,667	£140,000	£128,000	£117,333	£105,333
Aberystwyth Hinterland	£89,333	£80,000	£70,667	£61,333	£52,000	£42,667	£33,333	£24,000	£14,667
Newquay & SW Coast	£86,667	£77,333	£68,000	£58,667	£49,333	£40,000	£30,667	£21,333	£12,000
Cardigan & SW Coast	£70,667	£61,333	£52,000	£42,667	£34,667	£25,333	£16,000	£8,000	£-1,333
Lampeter & Mid Rural	£60,000	£52,000	£42,667	£33,333	£25,333	£16,000	£8,000	£-1,333	£10,667
Newcastle Emlyn & SW Rural	£54,667	£46,667	£37,333	£29,333	£20,000	£12,000	£2,667	£-5,333	£-14,667
Five Dwellings	0%	5%	10%	15%	20%	25%	30%	35%	40%
Aberystwyth	£278,333	£263,333	£250,000	£235,000	£221,667	£206,667	£191,667	£178,333	£163,333
Aberaeron	£243,333	£230,000	£215,000	£201,667	£188,333	£175,000	£160,000	£146,667	£131,667
Aberystwyth Hinterland	£111,667	£100,000	£88,333	£76,667	£65,000	£53,333	£41,667	£30,000	£18,333
Newquay & SW Coast	£108,333	£96,667	£85,000	£73,333	£61,667	£50,000	£38,333	£26,667	£15,000
Cardigan & SW Coast	£88,333	£76,667	£65,000	£53,333	£43,333	£31,667	£20,000	£10,000	£-1,667
Lampeter & Mid Rural	£75,000	£65,000	£53,333	£41,667	£31,667	£20,000	£10,000	£-1,667	£13,333
Newcastle Emlyn & SW Rural	£68,333	£58,333	£46,667	£36,667	£25,000	£15,000	£3,333	£-6,667	£-18,333

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'One for ones' and other schemes involving demolition

- 4.28 There are a small number of schemes (2% of permissions and applications 2013 to 2016) involving demolition.
- 4.29 Generally, 'one for one' schemes – where an existing dwelling is replaced by a new one will fail to deliver any Section 106 contributions. This is because the residual value from a new single dwelling will be less than the value of an existing one to be demolished, even where the value of the latter is diminished by, for example, poor quality. This can be appreciated by looking at the residual value for a single dwelling in Table 4.2 and comparing these with the values of houses in the market (see for example the house price table in Appendix 2).
- 4.30 However, the evidence from this type of site suggests that several opportunities arise from sites with relatively low existing use values: for example garages and outbuildings. Under these circumstances, Affordable Housing contributions would be viable in the higher value locations. Schemes where there is a significant net gain over and above the demolished building/s may also generate Affordable Housing contributions in the higher value locations.

Residential to residential schemes

- 4.31 Generally this type of scheme is likely to prove challenging for the delivery of Section 106 contributions. Larger scale developments are likely to prove a better bet, although a 'tipping point' between viability and non-viability is difficult to define.
- 4.32 The largest example (schemes less than 10 dwellings) is a conversion in Aberystwyth for six dwellings. Set out below is a broad appraisal:

Table 4.4 Residential to residential - example

Price & No Units	£100,000	6	£600,000
Conversion Costs (Sq M & Cost per Sq M)	225	£800	£180,000
Fees at 12%			£21,600
Finance at 6%			£12,096

Marketing at 3% GDV			£18,000
Profit Margin (15% GDV)			£90,000
Total Development Costs			£321,696
Residual Value			£278,304

4.33 This suggests a residual value of circa £280,000, which is likely to be close to an open market existing use value for a four storey dwelling in this location. This means that even with the creation of six new dwellings, viability is likely to be marginal.

Other sources of smaller site supply

4.34 There are a range of other smaller sites which currently contribute to housing supply in the County. These include Rural Enterprise dwellings, conversions from commercial buildings and barn conversions. Commentaries on these are included below.

Rural Enterprise dwellings

4.35 The viability of these schemes will depend on location in large measure, although the foregoing analysis suggests that development in deep rural locations for the County may prove challenging.

4.36 Rural Enterprise schemes, promoted by the Welsh Assembly Government are also developed to a significant extent with a view to supporting the rural economy and rural communities. They thus already provide a social benefit and hence requiring these schemes to provide additional benefit may prove questionable.

Conversions from commercial buildings

4.37 Current data suggest that these are mainly schemes creating two and three new dwellings from high street shops and offices. These schemes are mainly in Aberystwth as well as in the market towns.

4.38 In terms of the economics, it is unlikely that these smaller schemes will generate Section 106 contributions. The sales values for the shops across the county are between £2,000 and £3,000 per square

metre and the sales values of residential are between £1,500 and £2,500 per square metre.

- 4.39 Schemes would therefore have to be developed at nil or marginal cost to be worth contemplating even without Section 106 requirements.
- 4.40 Some office conversions may prove more viable (as the existing use value is low) but they are few in number and would require an individual appraisal for each to decide whether a scheme could deliver Section 106 contributions.

Barn conversions

- 4.41 The author has undertaken significant viability work on small sites across England and Wales and has looked at the viability of barn conversions. Whilst this form of smaller site scheme often generates high capital values the schemes are usually associated with high construction costs and hence generate only marginal, if any, residual values.
- 4.42 It is therefore suggested that these schemes are excluded from Section 106 contributions.

Conclusions

- 4.43 Smaller sites in Ceredigion make up a significant amount of housing supply. Pitching policy at a level which will generate maximum returns to the community as well as ensuring that these schemes continue to come forward is not an easy task.
- 4.44 It is suggested that in all respects, the findings of the High Level Testing play a strong role in both the framing of Affordable Housing targets as well as in the framing of threshold or trigger points.
- 4.45 On this basis, the analysis in both Chapters 3 and 4 suggest that schemes falling within the lower (two) sub markets should not require Affordable Housing contributions, but that schemes at the higher end should require substantial contributions.
- 4.46 The analysis in this chapter suggests that there is scope to generate Affordable Housing contributions in these higher value areas on

smaller sites. These opportunities will however be mainly restricted to schemes which are essentially green field or associated with development in an around existing residential areas (garden or back land schemes for example). Here the uplift will be significant from existing use value, and which will make it worthwhile to bring schemes forward even with contributions.

- 4.47 There will on the other hand be several instances where the requirement for Affordable Housing contributions is likely to make smaller schemes unviable and this will normally apply to schemes requiring demolition, residential to residential conversions, barn conversions and to schemes involving the conversion of commercial premises to residential.
- 4.48 There may be instances where these types of scheme could generate a contribution and hence the Council would need to look close at the issue, or indeed monitor these particular development – and hence the threshold. However if the Council wishes to take a more development friendly approach it would exempt these schemes from contributions. This is addressed in the conclusions.

Commutated sums

- 4.49 The Council's current policy on commuted sums is set out in the Draft Supplementary Planning Guidance on Affordable Housing (January 2014). This states under the heading 'Can a Commuted Sum be Payable in Lieu of Affordable Homes?':

'In respect of one residential unit, in 'Other Locations' only affordable dwellings or TAN 6 compliant dwellings can be permitted. A 10% sum is therefore not also applicable as the dwelling will already be required to be an affordable unit or TAN 6 in line with Policy S04.

In respect of one residential unit in a Service Centre or a Linked Settlement, a Commuted Sum of 10% of the sale price of the completed residence estimated at the time of application will be payable at first sale or transfer of the property (disposal). As the affordable homes policy (S05) sets out, in some cases a Commuted Sum may be required to be paid where the provision of affordable homes on a site does not equate to an exact number of units. In those situations, for example where the required provision is 3.2 units, a

provision of 3 units would be sought on site and the 0.2 units would be provided for through a Commuted Sum. In essence a Commuted Sum in this case is a balancing payment to make up the value of the contribution to the equivalent of 10% of the sale price of the completed development; it is not paid instead of providing affordable homes. The monies paid to the Council as Commuted Sums will be used to assist in the provision of affordable homes. Most of the Commuted Sums collected will be pooled to provide top ups to developers to create full units on other sites depending on the monies available. Therefore where the number of affordable units does not equate to a whole number on a site the Council will firstly look to topping up that difference rather than taking a commuted sum, provided there are monies available in the Commuted Sum fund’.

4.50 The current approach would indicate the following commuted sums:

Table 4.5 Indicative commuted sums currently sought by the local authority based on average property values

	3 Bed Semi	10% of value
Aberystwyth	£213,000	£21,300
Aberaeron	£195,000	£19,500
Aberystwyth Hinterland	£167,000	£16,700
Newquay & SW Coast	£166,000	£16,600
Cardigan & SW Coast	£154,000	£15,400
Lampeter & Mid Rural	£145,000	£14,500
Newcastle Emlyn & SW Rural	£137,000	£13,700

4.51 The sums range from around £20,000 in Aberystwyth to around £14,000 in Lampeter. These figures are believed to relate to the amount required from every dwelling included within a planning application.

4.52 As an example therefore, for a scheme of say 3 dwellings in Newquay, the contribution will be £16,700 x 3 = £50,100

4.53 It is understood that the Council are concerned to check the current approach against best practice in calculating commuted sums. The approaches are discussed below.

Circumstances where a commuted sum is sought

- 4.54 In most cases, Affordable Housing contributions will be required on site. In some exceptional cases a commuted sum, or payment in lieu will be appropriate.
- 4.55 These exceptional circumstances include:
- Where the site is in an unsustainable location for Affordable Housing;
 - Where it is unlikely that a Registered Provider can be found to acquire and manage the Affordable Housing units;
 - Where it is mathematically impossible to have an on site contribution.
- 4.56 In practice the third situation (mathematically impossible) is less likely on larger sites although it may be necessary to split the contribution between on site provision and off site contribution.
- 4.57 Under no circumstances should the Council seek a commuted sum in lieu of Affordable Housing on viability grounds; in other words, a commuted sum should not be used to make otherwise unviable schemes, viable.

Overarching approach to commuted sums

- 4.58 There are two broad generic ways in which commuted sums can be calculated:
- 4.59 Site by site, reflecting the very particular circumstances of schemes, and by reference to existing use value or some other relevant benchmark value.
- 4.60 By formula: this approach sets out a calculation which is intended to give an indication of what should be paid by the applicant. This is the approach currently adopted by Ceredigion.
- 4.61 Under both circumstances, the sum sought is subject to a test of viability. This is in line with the NPPF (England) and forerunning guidance on viability.

Site by site analysis

- 4.62 If it is agreed between an applicant and the local authority that a commuted sum is the appropriate way of making an Affordable Housing contribution and there is no formula for calculating that commuted sum, then the most appropriate way is likely to be by way of a site specific assessment and potentially, negotiation.
- 4.63 The most practical way of determining a figure, and one that is consistent with best practice is to calculate the difference in residual value between a scheme at policy (Affordable Housing) and a scheme at 100% Market Housing. This approach is described in more detail below.
- 4.64 However, it should be borne in mind that the differential will be subject to an overall viability test, and in particular the financial relationship between the residual value and the land value benchmark. Where the Land Value Benchmark (LVB) is higher than the Residual Value (RV) at the Affordable Housing policy target, then a full policy compliant contribution will not be viable.

Formulaic approaches to commuted sums

- 4.65 A number of approaches to assessing commuted sums are identified below based on past experience and a recent review of current practice elsewhere.
- 4.66 In considering different approaches, Paragraph 50 of the NPPF provides a broad framework for commuted sums. This states that:
- ‘Where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time’.

4.67 Local authorities generally adopt two main approaches to the calculation of commuted sums:

Value driven calculations;
Cost driven calculations;

4.68 These can be further broken down to into five main models. These are:

- i) 'Residual Value'
- ii) 'Affordable Housing Land Value'
- iii) 'Market Value' (the approach used currently in Ceredigion)
- iv) 'Gap Funding'
- v) 'Affordable Housing Cost Replacement'

4.69 These broad approaches are set out in the table which follows, which includes an assessment of the relative merits of each approach by criteria.

4.70 It is important to stress that ultimately, all approaches are subject to the test of Existing Use Value.

Residual Value Approach

4.71 The Residual Value approach is one which upholds the principle of equivalence; i.e. it puts the land owner in exactly the same financial position whether there is an on-site affordable housing contribution, or an off-site one. The mechanics of the calculation are set out in the recommended approach below.

The commuted sum is calculated as follows:

- Step 1 Calculate scheme Residual Value assuming no Affordable Housing;
- Step 2 Calculate scheme Residual Value assuming an Affordable Housing contribution is made;
- Step 3 Calculate the difference between the figures produced at Step 1 and Step 2.

Example:

RV with affordable housing	£2.0 million
RV with no affordable housing	£2.5 million
Commuted sum (difference between the two)	£500,000

4.72 The RV approach is entirely consistent with the ethos of the Section 106 process and is therefore transparent and easy to understand. Normally, financial contributions are to be of broadly equivalent value (to the impact of on-site affordable housing). It does not (unless some form of discounting is employed), incentivise payments in lieu. The monitoring burden is relatively light, since a formula can be set and updated by reference to headline indices; most obviously the HM Land Registry House Price Index and the RICS BCIS (Building Cost Information Service) indices.

Affordable Housing Land Value approach

4.73 The 'Affordable Housing Land Value' approach is adopted by some authorities where commuted sums are agreed. This works broadly as follows:

- Step 1 Open market value (OMV) of the relevant or comparative market property divided by the size of that property and multiplied by the affordable housing property size equivalent (to assess the imputed market value of a suitably sized affordable home);
- Step 2 Multiply by the residual land value percentage (e.g. 30%) – to get to the base plot value for that home;
- Step 3 Add (e.g.) 15% to the step 2 figure, to reflect site acquisition and servicing costs (this gives the per unit sum – approximate value of the serviced plot for that property type – free serviced land basis).
- Step 4 Apply the resulting per unit sum(s) to the relevant site number and proportion (i.e. Step 3 per unit sum x number of dwellings x e.g. 20% affordable housing).

Example:

Open market of market property	£300,000
Size adjustment based on market property at 120 sq m and affordable at say 80 sq m	£200,000
Calculation to get land value at 30% of adjusted value (£200,000 x 0.3)	£60,000
Add 15%	£69,000
Apply at policy (at say 20%)	£13,800

- 4.74 There are several weaknesses of this approach. The main one is that it provides a significant incentive to the land owner to achieve a payment in lieu since the liability to pay a commuted sum is based on a figure which reflects broadly only the cost of an affordable housing land plot, and not the actual advantage to the land owner created by the uplift in residual value generated by not having an affordable housing requirement.
- 4.75 The formula is therefore non compliant in terms of what the Section 106 process is set up to achieve. One further problem is that the formula may not be sensitive enough to local market circumstances. The GDV (Total gross value): LV (land value) ratio needs to be carefully set to fit sub markets. It will vary significantly from one place to the next.
- 4.76 The monitoring burden is also high due to the lack of data on land market transactions.

The market value approach

- 4.77 The market value approach is one which has tended to be adopted by local authorities in the north of England where discount market housing has been the preferred tenure.

The formula is usually very simple and takes a commuted sum as a percentage of open market value selling prices.

Example:

Open market value of unit say	£250,000
At say 70% open market value	£175,000
Difference = commuted sum	£75,000

This approach is generally satisfactory in terms of transparency where the loss in RV equates with the discount to market value.

- 4.78 The approach does have to be considered (as indeed do most approaches to commuted sums) in light of housing affordability. That is to say, the 70% of open market value has to be affordable in principle; it may not be so to all households.

Gap funding approach

- 4.79 Gap funding approaches are another approach. This usually tries to get the land owner/developer to plug the gap or shortfall between, on the one hand, the actual cost of the construction, and the capital sum which can be raised by a housing association. As follows:

- 4.80 Commuted sum requirement = Total cost of construction less capital sum raised by a housing association for the affordable unit.

Example:

Total cost of build say	£120,000
Amount capable of being raised by a housing association (Based on a mortgage) say	£60,000
Commuted sum	£60,000

- 4.81 There is some logic in this approach, although frequently the test of equivalence is failed as land value is not taken into account. In other words, the amount of money shortfall between build costs and what a

RP can pay is met via the commuted sum, but the land value is not covered.

- 4.82 To some extent, this problem was overcome in formulae that were linked to standard cost indices (e.g. the current Welsh ACGs – Acceptable Cost Guidance) as these indices had (have) an implicit land value incorporated. That is to say, instead of just construction costs being the basis of the calculation, both construction costs and land value are included. Where this happens, the gap between total costs (land and build) and what the RP can raise is greater.
- 4.83 Another ‘gap funding’ approach is to look at the difference between the revenue generated for a scheme of 100% Market Housing and a scheme including Affordable Housing.
- 4.84 This approach may provide a simple approach but has the danger that it is not equivalent in the sense that development costs (which are not the same for different tenures) are not reflected. The revenue based approach may thus overstate the viability of the scheme since margins on Market Housing for example are higher than for Affordable Housing. This means that the substitution of Market Housing by Affordable Housing is not as viable as a purely revenue driven equation may suggest.
- 4.85 When considering the extent to which a commuted sum provides funds to meet Affordable Housing needs, the tenure of the Affordable Housing is critical within the calculation. This is because Social Rent for example generates significantly lower revenue than Intermediate Affordable tenures

Affordable Housing Cost Replacement

- 4.86 Some commuted sums have been based on a type of replacement cost approach. This approach has the advantage of being adequate in terms of achieving affordable housing as needed. However generally, the approach may put the land owner in a more advantageous position with a commuted sum than it does with on site provision of the affordable housing:

Example: Cost of providing an affordable dwelling in the local market

£100,000

Policy at say 30%

£30,000

4.87 The issue is thus that the amount required is usually lower than the devaluation in the site according to the affordable housing policy.

4.88 The table below summarises the relative merits of the five approaches outlined above.

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Table 4.6 Differing approaches – an assessment

Approach		Equivalence	Transparency	Monitoring Requirement	Negotiation may be required
Residual Value	RV compares 100% HM with AH policy target	Yes	Fair	Light	Yes
AH Land Value	OMV driven x Size Conversion & GDV Ratio	No	Complex	Heavy	Yes
Market Value	% of Market Value - Nil Affordable	No	Good	Light	Yes
Gap Funding	Cost Indicative or % Market Value	No	Fair to Good	Moderate	Yes
AH Cost Replacement	Comparative - Cost of Replacement	No	Fair	Light	Yes



- 4.89 The table shows that, as against a range of criteria, there are a number of considerations to be taken into account. These include the extent to which formulae are in line with Welsh Government policy, the extent to which the approach is transparent and easy to understand, and the extent to which there is a requirement to monitor and update the base data in the formula adopted.
- 4.90 It is important to note that in all instances the commuted sum which results from the calculation is always subject to the test of viability, and hence negotiation from the initial figure may be needed in some instances.
- 4.91 Of the range of approaches, the residual value approach is seen to be the most robust and best example of good practice. Set out in Table 4.7 is an application of the approach to the Ceredigion situation.

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Table 4.7 Application to Ceredigion – residual value commuted sum approach

	a	b	c	d	e	f	g	h
30 Dph	0%	5%	5% Affordable	100% Affordable	1 Affordable Unit	At 10% AH	At 20% AH	At 30% AH
Aberystwyth	£1.56	£1.48	£80,000	£1,600,000	£64,000	£6,400	£12,800	£19,200
Aberaeron	£1.37	£1.29	£80,000	£1,600,000	£64,000	£6,400	£12,800	£19,200
Aberystwyth Hinterland	£0.64	£0.57	£70,000	£1,400,000	£56,000	£5,600	£11,200	£16,800
Newquay & SW Coast	£0.62	£0.55	£70,000	£1,400,000	£56,000	£5,600	£11,200	£16,800
Cardigan & SW Coast	£0.50	£0.44	£60,000	£1,200,000	£48,000	£4,800	£9,600	£14,400
Lampeter & Mid Rural	£0.43	£0.37	£60,000	£1,200,000	£48,000	£4,800	£9,600	£14,400
Newcastle Emlyn & SW Rural	£0.40	£0.34	£60,000	£1,200,000	£48,000	£4,800	£9,600	£14,400

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- 4.92 This takes the difference between residual values at a given percentage (5% Affordable Housing is employed here as an example – although any percentage could be employed). Taking one instance (Aberaeron for example) the difference in residual value is £80,000. This relates to 1.5 dwellings (5% of a 30 dph scheme). Column d shows the difference in residual if the entire scheme (100%) is Affordable. Then, in column e the difference to cover one Affordable unit.
- 4.93 The following columns, to the right hand side of the table, provide indicative commuted sums at a range of Affordable Housing percentages. As an example, the requirement for a one dwelling scheme in Newquay and South West Coast at 20% Affordable Housing is £9,333.
- 4.94 These figures are not significantly out of line with the current approach being pursued by the local authority, although with one important ‘rider’. That is to say that the lower value sub markets do not appear viable for Affordable Housing contributions, and hence, the Council’s current approach to commuted sums is unlikely to be realistic for those locations.

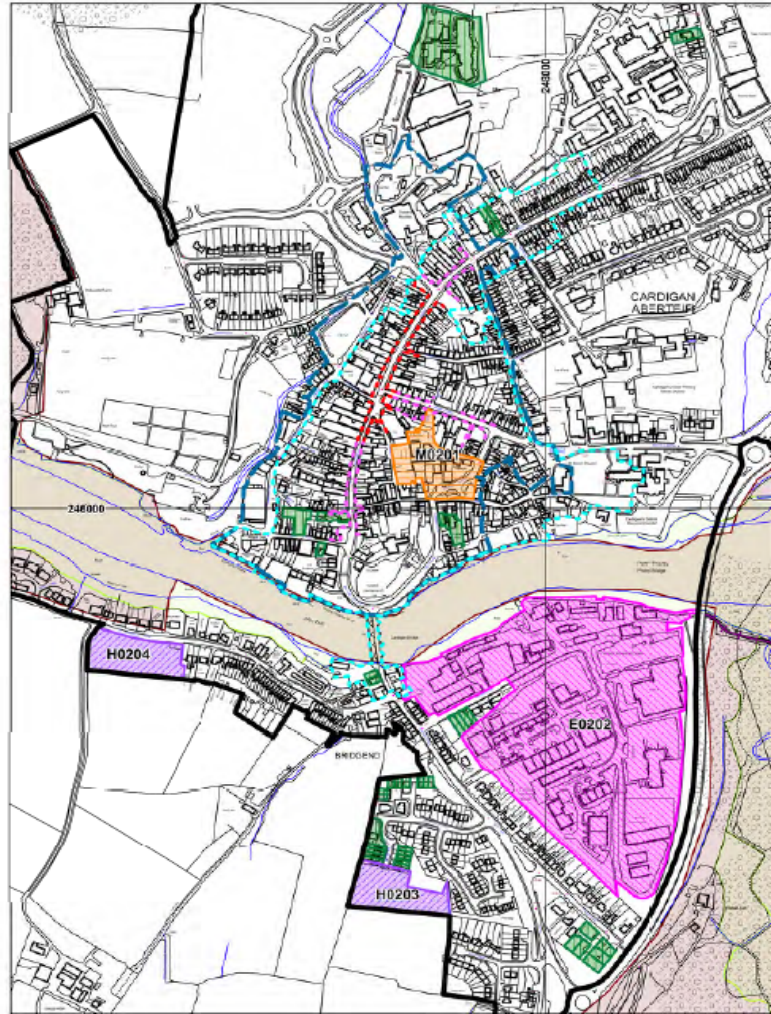
CHAPTER 5 – LARGER SITE ALLOCATIONS

Introduction

- 5.1 This chapter looks at larger site allocations in more marginal areas as they have the potential to provide significant additional Affordable Housing.
- 5.2 The larger sites in higher value areas will have similar, if not improved viability to that shown in the Higher Level Testing. Improved viability is possible since with larger sites (and in particular that for 266 dwellings at Aberystwyth) there will be economies of scale with development costs as well as the potential for schemes to create their 'own market' over and above sales values in the local market. With very large sites such as the one at Aberystwth schemes should be assessed on a phased basis, taking into account changes in prices and costs over the longer term.
- 5.3 The analysis gives an opportunity to utilise more 'fine grain' house price data. It will be recalled that the High Level Testing was based on sub markets which grouped together several postcode sectors and hence some generalisation was used which may not always apply to each and every site coming forward.
- 5.4 Six sites are reviewed here across the settlements of Cardigan, Adpar, Lampeter x 2, Aberporth and Felinfach. These are key areas for development highlighted in the emerging Plan.

Site HO204 – Cardigan

- 5.5 This is a smaller site with potential for 16 dwellings. The location is highlighted in the location plan below:



Source: LDP Proposals

- 5.6 The site (hatched in purple) is located to the south of St Dogmaels Road which runs east-west on the south bank of the river. The site is green field and slopes southwards. It is around 0.5 hectare and sited at the end of a row of houses and opposite more houses to the north.
- 5.7 The site is located in postcode sector SA43 3, which has house prices around 5% higher than the wider (Cardigan and Aberporth sub market).
- 5.8 Assuming the construction cost of a dwelling is circa £100,000 (in line with the high level testing) then there would be no discount to be applied to the contract sum in line with the (BCIS) table below which discounts construction costs for scale of development

Contract value	Index	90% confidence interval	90% prediction interval
£130,000	110	109 - 111	93 - 130
£170,000	109	109 - 109	92 - 129
£220,000	108	108 - 108	91 - 128
£280,000	107	107 - 107	90 - 127
£360,000	106	106 - 106	90 - 125
£460,000	105	105 - 105	89 - 124
£600,000	104	104 - 104	88 - 123
£790,000	103	103 - 103	87 - 122
£1,000,000	102	102 - 102	86 - 121
£1,300,000	101	101 - 101	85 - 120
£1,800,000	100	100 - 100	84 - 118
£2,300,000	99	99 - 99	84 - 117
£3,100,000	98	98 - 98	83 - 116
£4,000,000	97	97 - 97	82 - 115
£5,400,000	96	96 - 96	81 - 114
£7,200,000	95	95 - 95	80 - 112
£9,500,000	94	94 - 94	79 - 111
£13,000,000	93	93 - 93	79 - 110
£17,000,000	92	92 - 92	78 - 109
£23,000,000	91	91 - 91	77 - 108
£31,000,000	90	90 - 90	76 - 107
£43,000,000	89	88 - 90	75 - 105

Results

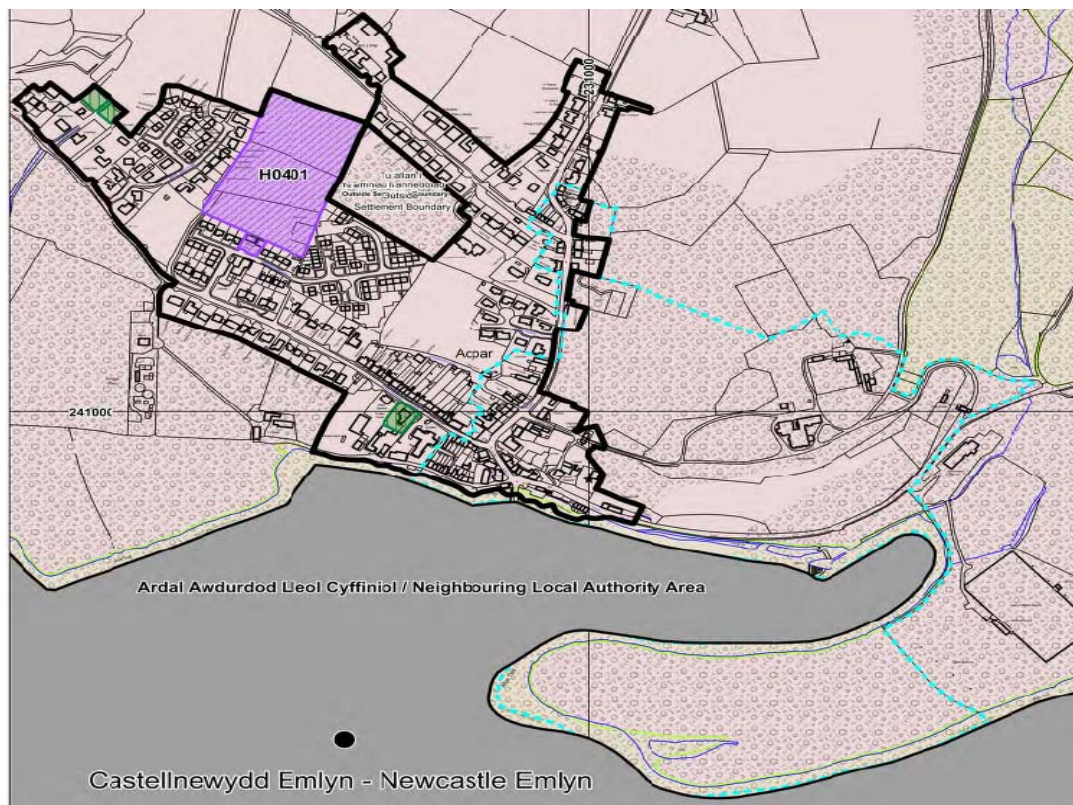
5.9 The table below shows the results of the viability tests on the scheme.

		Affordable Housing (%)						
		0%	5%	10%	15%	20%	25%	30%
St Dogmaels Road, Cardigan	RV (£ Million Per Hectare)	£0.67	£0.59	£0.51	£0.44	£0.37	£0.29	£0.22
	Residual Value	£335,000	£296,000	£259,000	£220,000	£184,000	£146,000	£108,000

5.10 The analysis reflects a contribution of £750 per unit towards Section 106 costs (other than Affordable Housing), as for the High Level Testing.

Site H0401 - Adpar

5.11 This is a site (hatched in purple) with potential for 35 dwellings. The location is highlighted in the location plan below:



Source: LDP Proposals

5.12 The site located to the north of the B4333 (Lloyds Terrace) and to the east Brynderi Close. Derwen Gardens is to the immediate north. The site is green field and slopes northwards.

5.13 The site is located in postcode sector SA38 9, in the Newcastle Emlyn and South West Rural sub market.

5.14 Assuming the construction cost of a dwelling is circa £100,000 (in line with the high level testing) then a 2% discount might be applied to the contract sum in line with the (BCIS) table below:

Contract value	Index	90% confidence interval	90% prediction interval
£130,000	110	109 - 111	93 - 130
£170,000	109	109 - 109	92 - 129
£220,000	108	108 - 108	91 - 128
£280,000	107	107 - 107	90 - 127
£360,000	106	106 - 106	90 - 125
£460,000	105	105 - 105	89 - 124
£600,000	104	104 - 104	88 - 123
£790,000	103	103 - 103	87 - 122
£1,000,000	102	102 - 102	86 - 121
£1,300,000	101	101 - 101	85 - 120
£1,800,000	100	100 - 100	84 - 118
£2,300,000	99	99 - 99	84 - 117
£3,100,000	98	98 - 98	83 - 116
£4,000,000	97	97 - 97	82 - 115
£5,400,000	96	96 - 96	81 - 114
£7,200,000	95	95 - 95	80 - 112
£9,500,000	94	94 - 94	79 - 111
£13,000,000	93	93 - 93	79 - 110
£17,000,000	92	92 - 92	78 - 109
£23,000,000	91	91 - 91	77 - 108
£31,000,000	90	90 - 90	76 - 107
£43,000,000	89	88 - 90	75 - 105

Results

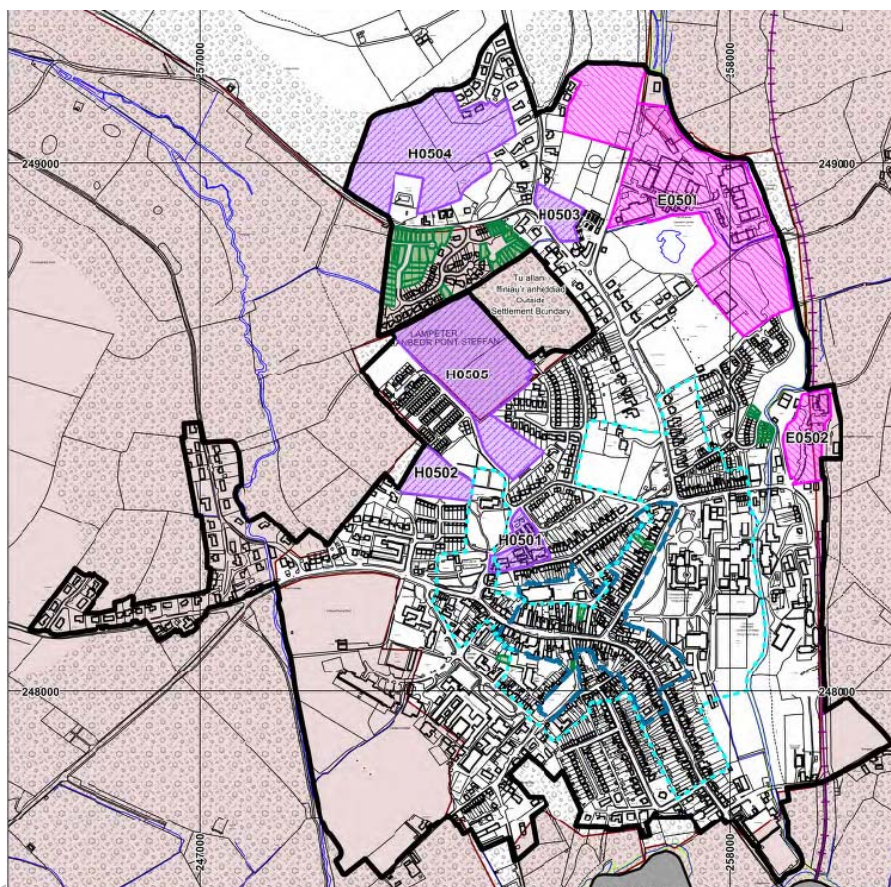
5.15 The viability has been tested although it shows only a weak outcome. The scheme is only marginally viable at 100% Market Housing.

		Affordable Housing (%)						
		0%	5%	10%	15%	20%	25%	30%
Bryndert Close, Adpar	RV (£ Million Per Hectare)	£0.73	£0.67	£0.61	£0.55	£0.49	£0.44	£0.38
	Residual Value	£583,000	£537,000	£490,000	£444,000	£398,000	£352,000	£306,000

5.16 The analysis reflects a contribution of £750 per unit, as for the High Level Testing

Site H0501 – Lampeter

5.17 This is a smaller site (hatched in purple) with potential for 12 dwellings. The location is highlighted in the location plan below:



Source: LDP Proposals

- 5.18 The site located to the north west of the town and east of Bryn Yr Eglwys. The site is brown field and looks to be covered with derelict and under used buildings. It slopes southwards. It is around 1 hectare.
- 5.19 The site is located in postcode sector SA48 7 in the Lampeter and Mid Rural sub market.
- 5.20 Assuming the construction cost of a dwelling is circa £100,000 (in line with the high level testing) then a 1% surplus might be applied to the contract sum in line with the (BCIS) table below:

Contract value	Index	90% confidence interval	90% prediction interval
£130,000	110	109 - 111	93 - 130
£170,000	109	109 - 109	92 - 129
£220,000	108	108 - 108	91 - 128
£280,000	107	107 - 107	90 - 127
£360,000	106	106 - 106	90 - 125
£460,000	105	105 - 105	89 - 124
£600,000	104	104 - 104	88 - 123
£790,000	103	103 - 103	87 - 122
£1,000,000	102	102 - 102	86 - 121
£1,300,000	101	101 - 101	85 - 120
£1,800,000	100	100 - 100	84 - 118
£2,300,000	99	99 - 99	84 - 117
£3,100,000	98	98 - 98	83 - 116
£4,000,000	97	97 - 97	82 - 115
£5,400,000	96	96 - 96	81 - 114
£7,200,000	95	95 - 95	80 - 112
£9,500,000	94	94 - 94	79 - 111
£13,000,000	93	93 - 93	79 - 110
£17,000,000	92	92 - 92	78 - 109
£23,000,000	91	91 - 91	77 - 108
£31,000,000	90	90 - 90	76 - 107
£43,000,000	89	88 - 90	75 - 105

Results

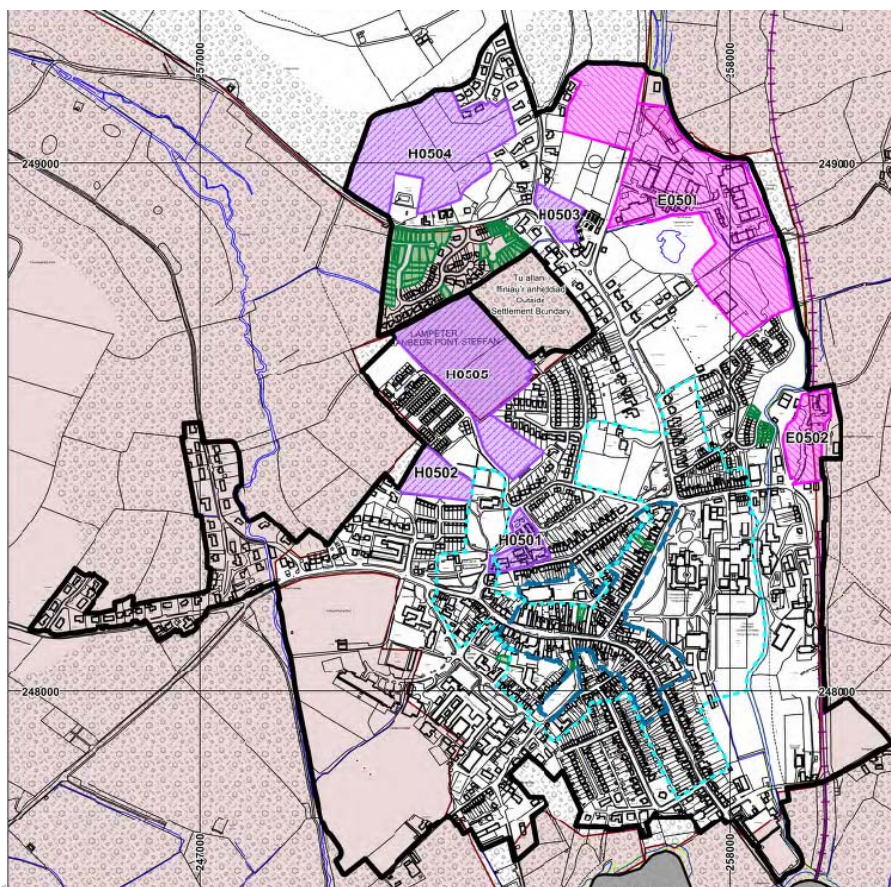
5.21 The residual values for the site at the varying proportions of Affordable Housing are shown below:

		Affordable Housing (%)						
		0%	5%	10%	15%	20%	25%	30%
Mae Y Deri, Lampeter	RV (£ Million Per Hectare)	£0.55	£0.45	£0.36	£0.26	£0.17	£0.07	-£0.02
	Residual Value	£220,000	£180,000	£143,000	£105,000	£66,000	£29,000	-£9,000

5.22 The analysis reflects a contribution of £750 per unit, as for the High Level Testing

Site H0505 – Lampeter

5.23 This is a large site (hatched in purple) with potential for 105 dwellings. The location is highlighted in the location plan below:



Source: LDP Proposals

5.24 The site located to the north of the town and to the north of Maes Y Deri. There is existing low rise housing to the south west of the site, and to the east of the site.

5.25 There is a smaller section of the site which is shown in the photograph below. The site is green field and appears relatively flat. The overall site area is around 4.3 hectares.

5.26 The site is located in postcode sector SA48 7 in the Lampeter and Mid Rural sub market.

5.27 Assuming the construction cost of a dwelling is circa £100,000 (in line with the high level testing) then there would be a discount of 6% to be applied to the contract sum in line with the (BCIS) table below:

Contract value	Index	90% confidence interval	90% prediction interval
£130,000	110	109 - 111	93 - 130
£170,000	109	109 - 109	92 - 129
£220,000	108	108 - 108	91 - 128
£280,000	107	107 - 107	90 - 127
£360,000	106	106 - 106	90 - 125
£460,000	105	105 - 105	89 - 124
£600,000	104	104 - 104	88 - 123
£790,000	103	103 - 103	87 - 122
£1,000,000	102	102 - 102	86 - 121
£1,300,000	101	101 - 101	85 - 120
£1,800,000	100	100 - 100	84 - 118
£2,300,000	99	99 - 99	84 - 117
£3,100,000	98	98 - 98	83 - 116
£4,000,000	97	97 - 97	82 - 115
£5,400,000	96	96 - 96	81 - 114
£7,200,000	95	95 - 95	80 - 112
£9,500,000	94	94 - 94	79 - 111
£13,000,000	93	93 - 93	79 - 110
£17,000,000	92	92 - 92	78 - 109
£23,000,000	91	91 - 91	77 - 108
£31,000,000	90	90 - 90	76 - 107
£43,000,000	89	88 - 90	75 - 105

Results

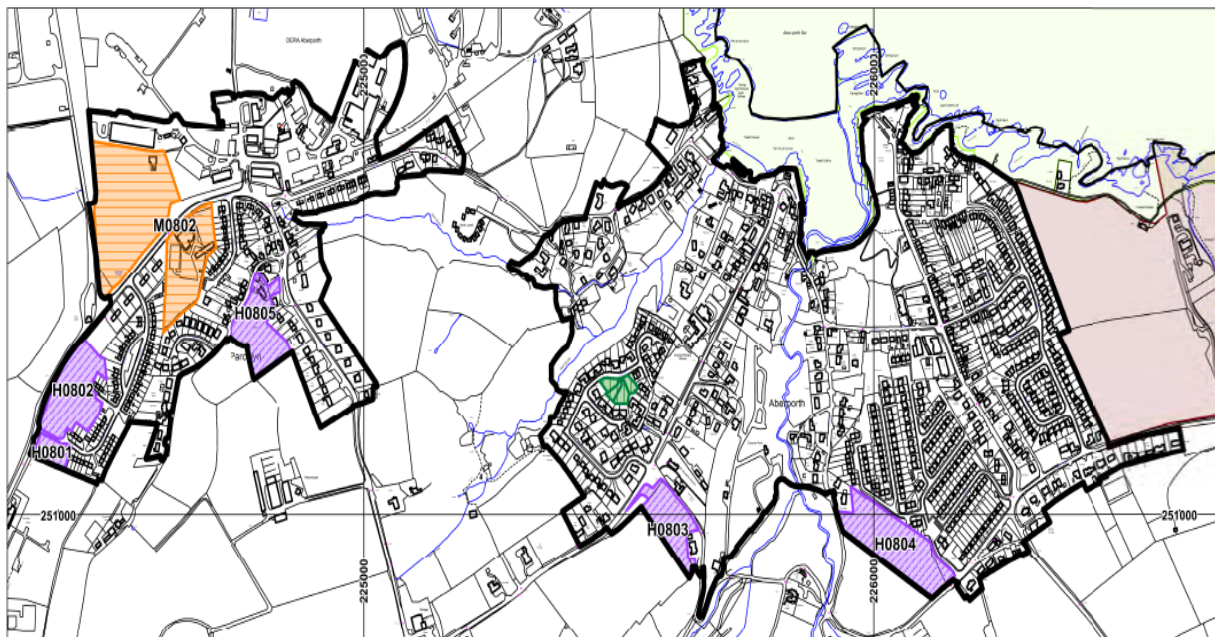
5.28 The table below shows the results of the viability tests on the scheme.

		Affordable Housing (%)						
		0%	5%	10%	15%	20%	25%	30%
Mae Y Deri, Lampeter	RV (£ Million Per Hectare)	£0.74	£0.68	£0.62	£0.56	£0.51	£0.45	£0.39
	Residual Value	£3,163,000	£2,919,000	£2,674,000	£2,430,000	£2,186,000	£1,941,000	£1,697,000

5.29 The analysis reflects a contribution of £750 per unit, as for the High Level Testing

Site M0802 – Aberporth

5.30 This is a large site (hatched in purple) with potential for 48 dwellings. The location is highlighted in the location plan below:



Source: LDP Proposals

5.31 The site located mainly to the north and west of Erlwas in the settlement of Parcllyn. The parcel of land to the south of Erlwas contains a sports and social club. The land is relatively flat both sides of the road. The site is green field and slopes southwards. It is around 2.5 hectares.

5.32 The site is located in postcode sector SA43 2, which is in the Cardigan and Aberporth sub market.

5.33 Assuming the construction cost of a dwelling is circa £100,000 (in line with the high level testing) then there would be a discount of around 3% to be applied to the contract sum in line with the (BCIS) table below:

Contract value	Index	90% confidence interval	90% prediction interval
£130,000	110	109 - 111	93 - 130
£170,000	109	109 - 109	92 - 129
£220,000	108	108 - 108	91 - 128
£280,000	107	107 - 107	90 - 127
£360,000	106	106 - 106	90 - 125
£460,000	105	105 - 105	89 - 124
£600,000	104	104 - 104	88 - 123
£790,000	103	103 - 103	87 - 122
£1,000,000	102	102 - 102	86 - 121
£1,300,000	101	101 - 101	85 - 120
£1,800,000	100	100 - 100	84 - 118
£2,300,000	99	99 - 99	84 - 117
£3,100,000	98	98 - 98	83 - 116
£4,000,000	97	97 - 97	82 - 115
£5,400,000	96	96 - 96	81 - 114
£7,200,000	95	95 - 95	80 - 112
£9,500,000	94	94 - 94	79 - 111
£13,000,000	93	93 - 93	79 - 110
£17,000,000	92	92 - 92	78 - 109
£23,000,000	91	91 - 91	77 - 108
£31,000,000	90	90 - 90	76 - 107
£43,000,000	89	88 - 90	75 - 105

Results

5.34 The table below shows the results of the viability tests on the scheme.

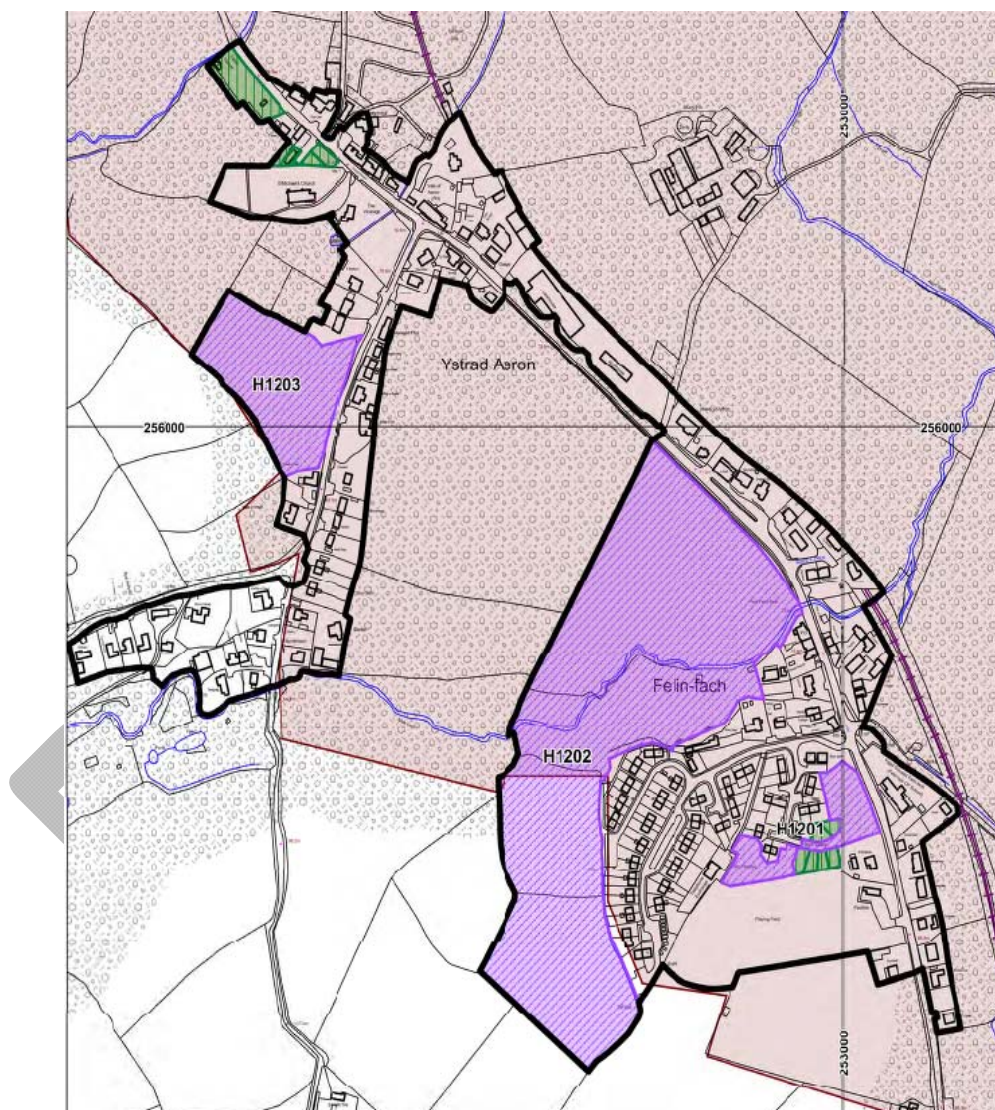
		Affordable Housing (%)						
		0%	5%	10%	15%	20%	25%	30%
Erlwas, Aberporth	RV (£ Million Per Hectare)	£0.58	£0.54	£0.49	£0.47	£0.40	£0.36	£0.31
	Residual Value	£1,452,000	£1,340,000	£1,229,000	£1,115,000	£1,003,000	£891,000	£779,000

5.35 The analysis reflects a contribution of £750 per unit, as for the High Level Testing The Council have stated that there may be recreational

facilities needed on the site which will have to be factored in as and when site specific testing is required.

Site HO1202 – Felinfach

5.36 This is a large site (hatched in purple) with potential for 90 dwellings. The location is highlighted in the location plan below:



Source: LDP Proposals

5.37 The site located to the south of the Lampeter Road and towards the southern end of the settlement. The land ‘wraps around’ the west side of existing development.

5.38 There are houses and a memorial hall to the north of the Lampeter Road. The site is green field. It is estimated to be around 4 hectares.

5.39 The site is located in postcode sector SA48 8 in the Lampeter and Mid Rural sub market.

5.40 Assuming the construction cost of a dwelling is circa £100,000 (in line with the high level testing) then there would be a 6% discount to be applied to the contract sum in line with the (BCIS) table below:

Contract value	Index	90% confidence interval	90% prediction interval
£130,000	110	109 - 111	93 - 130
£170,000	109	109 - 109	92 - 129
£220,000	108	108 - 108	91 - 128
£280,000	107	107 - 107	90 - 127
£360,000	106	106 - 106	90 - 125
£460,000	105	105 - 105	89 - 124
£600,000	104	104 - 104	88 - 123
£790,000	103	103 - 103	87 - 122
£1,000,000	102	102 - 102	86 - 121
£1,300,000	101	101 - 101	85 - 120
£1,800,000	100	100 - 100	84 - 118
£2,300,000	99	99 - 99	84 - 117
£3,100,000	98	98 - 98	83 - 116
£4,000,000	97	97 - 97	82 - 115
£5,400,000	96	96 - 96	81 - 114
£7,200,000	95	95 - 95	80 - 112
£9,500,000	94	94 - 94	79 - 111
£13,000,000	93	93 - 93	79 - 110
£17,000,000	92	92 - 92	78 - 109
£23,000,000	91	91 - 91	77 - 108
£31,000,000	90	90 - 90	76 - 107
£43,000,000	89	88 - 90	75 - 105

Results

5.41 The table below shows the results of the viability tests on the scheme.

		Affordable Housing (%)						
		0%	5%	10%	15%	20%	25%	30%
Lampeter Road, Felinfach	RV (£ Million Per Hectare)	£0.71	£0.66	£0.61	£0.56	£0.50	£0.45	£0.40
	Residual Value	£2,850,000	£2,639,000	£2,340,000	£2,224,000	£2,016,000	£1,809,000	£1,602,000

- 5.42 The analysis reflects a contribution of £750 per unit, as for the High Level Testing There may be infrastructure costs here required particularly flooding measures which will have to be taken into account at site specific testing stage.
- 5.43 The results in relation to the larger and strategic sites should be considered carefully as and when more detailed information emerges at application stages, this may change the outcome, or indeed the level of Section 106 that can be sustained viably. It is important to emphasise that the findings in this chapter do not necessarily 'drive' the policy targets. The targets should predominantly be based on the High Level Testing which is turn is based on the larger data sets and generality of the market.
- 5.44 There are inevitably hot spots where the economics of development will generate values in excess of the indicative sub market values. These areas are material when looking at the policy target, and where the local authority seeks to maximise Affordable Housing provision then they should be taken into account, particularly as the policy is subject to a test of site by site viability.

CHAPTER 6 – BENCHMARKING AND VIABILITY

Benchmarks and policy development

- 6.1 There is no detailed guidance setting out how affordable targets should be assessed, based on an analysis of viability. The Harman guidance provides a helpful framework for developing policy, but this is not 'step-by-step' and does not provide specific information in relation to land owner return.
- 6.2 The (Harman) guidance does support the approach set out in Chapter 2 of this report; i.e. an EUV 'Plus' approach and sets out reservations about the 'market value' approach adopted in the RICS Planning and Viability paper (applies across England and Wales). The Harman guidance, which applies general to local authorities, is helpful in identifying situations where alternative use values (AUVs) might be adopted in lieu of EUVs. It places emphasis on setting land value benchmarks in the local context.
- 6.3 Generally however, an assessment of viability for policy setting purposes might have reference to a range of factors including: past and recent delivery of affordable housing, residual values, the relationship between residual values and existing use values, what have been found to be robust targets in similar authorities through the Local Plan process, the land supply equation and its relationship to the policy weight given to affordable housing delivery in the wider context of housing supply generally. To some extent, land owner expectations are also significant. The experience of the consultant, working in conjunction with the local authority and through developer workshops helps to arrive at a robust policy stance.
- 6.4 In the analysis carried out, it has been assumed that the developer obtains a return of equivalent 20% on gross development value for residential schemes. The question then is what assumption should be made about the level of return to the land owner.
- 6.5 Delegates at the Viability Workshop were asked what a working LVB might constitute in the County. The responses to this question were limited. One delegate stated that people worked to between £11,000 and £12,000 per plot. Another to between £10,000 and £15,000 per plot. These figures were County wide figures rather than being settlement or site specific.
- 6.6 Assistance with land value benchmarks can be drawn from wider experience. The DCLG's study on The Cumulative Impact of Policy Requirements (2011), suggested that a figure of £100,000 to £150,000 per gross acre (£247,000 to £370,500 per gross hectare) is a reasonable benchmark for green field land. Assuming a net to gross factor of around 70%, this would mean a land value benchmark on a

net basis in the region of £400,000 per hectare. HCA findings suggest a multiple of between 10 and 20 fold agricultural value.

- 6.7 Benchmarks for Wales are not proliferate. Many of the CIL Viability studies relate to local authorities having predominantly brown field sites. Probably the best current comparable is Monmouthshire which appears to be adopting a figure of £250,000 per hectare for its CIL Viability Study. This is the best comparable since many sites in the County are green field. This is also the case for the Vale of Glamorgan where a LVB of £300,000 per hectare is currently being considered at examination.
- 6.8 Table 7.1 below takes a County wide land value benchmark of £250,000 per hectare and varies this by reference to prevailing house prices in each of the sub markets:

Table 7.1 Land Value Benchmarks – Ceredigion

	Prices (3 Bed Terrace)	LVB County	LVBs Locally
Aberystwyth	£191,000		£306,090
Aberaeron	£184,000		£294,872
Aberystwyth Hinterland	£157,000		£251,603
Newquay & SW Coast	£156,000	£250,000	£250,000
Cardigan & Aberporth	£152,000		£243,590
Lampeter & Mid Rural	£150,000		£240,385
Newcastle Emlyn & SW Rural	£149,000		£238,782

- 6.9 This suggests a LVB at around £310,000 per hectare at the top of the market and around £240,000 per hectare at the bottom.
- 6.10 Table 7.2 revisits the residual values generated by the High Level Testing for a typical 25 dph scheme and then looks at appropriate Affordable Housing targets for each of the sub markets.

Table 7.2 Residual values and land value benchmarks

25 Dph	0%	5%	10%	15%	20%	25%	30%	35%
Aberystwyth	£1.56	£1.48	£1.41	£1.33	£1.25	£1.18	£1.10	£1.02
Aberaeron	£1.37	£1.29	£1.22	£1.15	£1.07	£1.00	£0.93	£0.85
Aberystwyth Hinterland	£0.64	£0.57	£0.51	£0.45	£0.39	£0.33	£0.27	£0.21
Newquay & South West Coast	£0.62	£0.55	£0.49	£0.43	£0.38	£0.32	£0.26	£0.20
Cardigan & Aberporth	£0.50	£0.44	£0.38	£0.33	£0.27	£0.21	£0.15	£0.09
Lampeter & Mid Rural	£0.43	£0.37	£0.32	£0.26	£0.20	£0.15	£0.09	£0.04
Newcastle Emlyn & South West Rural	£0.40	£0.34	£0.29	£0.23	£0.18	£0.12	£0.06	£0.01
Viabile								

- 6.11 The table (7.2) sets out viable and marginally viable policy positions. It suggests that at the top end of the market a 40% Affordable Housing target is viable; towards the middle of the market (notably Aberystwyth Hinterland and Newquay and South West Coast, a target of 30% is viable.
- 6.12 However in the lower value sub markets, the target should be lower. The Cardigan and Aberporth sub market suggests that a target of 20% is viable, with a target of 15% for Lampeter and Mid Rural and 10% for Newcastle Emlyn and SW Rural are viable.

Larger sites where economies of scale or hot spots might be relevant

- 6.13 The previous chapter looked at the larger sites that the local authority anticipate being delivered and took account of potential economies of scale that might be achieved.
- 6.14 Table 7.3 shows that with the larger sites, where economies of scale of build costs will be achieved, an improved picture of viability emerges. Indeed the two sites in the Cardigan and Aberporth sub market suggest a target range of 25% to 30%; and the Lampeter and Rural sub market suggesting a target range of between 15% and 30% Affordable Housing (indeed potentially higher in some cases).

Table 7.3 Residual values on larger sites

		Affordable Housing (%)						
		0%	5%	10%	15%	20%	25%	30%
St Dogmaels Road, Cardigan	RV (£ Million Per Hectare)	£0.67	£0.59	£0.51	£0.44	£0.37	£0.29	£0.22
Brynderi Close, Adpar	RV (£ Million Per Hectare)	£0.73	£0.67	£0.61	£0.55	£0.49	£0.44	£0.38
Bryn Yr Eglwys, Lampeter	RV (£ Million Per Hectare)	£0.55	£0.45	£0.36	£0.26	£0.17	£0.07	-£0.02
Mae Y Deri, Lampeter	RV (£ Million Per Hectare)	£0.74	£0.68	£0.62	£0.56	£0.51	£0.45	£0.39
Erlwas, Aberporth	RV (£ Million Per Hectare)	£0.58	£0.54	£0.49	£0.47	£0.40	£0.36	£0.31
Lampeter Road, Felinfach	RV (£ Million Per Hectare)	£0.71	£0.66	£0.61	£0.56	£0.50	£0.45	£0.40

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6.15 Overall, I believe the evidence in relation to large site testing would justify the following targets. This would mean the following indicative targets:

Sub Market	AH Target
Aberystwyth	40%
Aberaeron	40%
Aberystwyth Hinterland	30%
Newquay & SW Coast	30%
Cardigan & Aberporth	20%
Lampeter & Mid Rural	20%
Newcastle Emlyn & SW Rural	15%

DRAFT

7 MAIN FINDINGS AND CONCLUSIONS

7.1 The main objective of this study was to review the Council's Affordable Housing policy targets and thresholds in the light of viability. The Council are updating the Local Development Plan and this study tests the current policy assumptions.

Analysis

7.2 The analysis has three principal elements: High Level Testing (a notional one hectare site under different market circumstances), an assessment analysis of smaller sites, including exceptions as well as analysis of certain key sites in the medium and lower value areas.

Targets

7.3 The previous (DVS) evidence base suggested that a single (20%) Affordable Housing target was viable and this fed through to the current policy. Affordable Housing is currently sought on all sites: hence a 'nil' Affordable Housing threshold.

7.4 The current evidence suggests that this approach is not supported in viability terms and that a split target approach is more appropriate to take account of the significant variations that exist within the County Council area. House prices are a key driver of viability and the fact that a new build 3 bed terrace in Aberystwyth has an indicative price of almost £200,000, whilst one in Newcastle Emlyn is only around £150,000, is a very significant issue because of the impacts then, on scheme residual value.

7.5 The Ceredigion area is very varied in terms of its housing market. Coastal areas are mainly higher value with deeper rural settlements having lower values, reflecting greater remoteness.

7.6 Generally the County is not easily accessible from many parts of Wales. This means that although there are 'hot spots' such as Aberystwyth and Aberaeron, the housing market is not generally buoyant. Delegates at the Viability Workshop were keen to point out that when new schemes are developed the sales rates are slow, reflecting a generally low level of demand.

7.7 The challenge of development should be seen in context. Whilst the planning process may in some instances be seen as a challenge by applicants, it is important that the wider relatively low level of economic activity is recognised in understanding why building starts are relatively low.

- 7.8 Nevertheless prices are very robust at the top end of the market and in locations such as Aberystwyth and Aberaeron, an ambitious Affordable Housing target should be set.
- 7.9 In the lower value areas, and in particular in Lampeter and Newcastle Emlyn, it may be difficult in some instances to attain Affordable Housing, simply because residual values are low.
- 7.10 A split target should be set and the range was set out in the previous chapter. The suggested targets are as follows:

Sub Market	AH Target
Aberystwyth	40%
Aberaeron	40%
Aberystwyth Hinterland	30%
Newquay & SW Coast	30%
Cardigan & Aberporth	20%
Lampeter & Mid Rural	20%
Newcastle Emlyn & SW Rural	15%

- 7.11 These targets reflect testing at High Level as well as testing on specific larger sites in the middle and lower values areas.
- 7.12 The suggested split target approach may be significant for the local authority's site allocations and housing delivery generally. However, it should be noted that the current policy is 20% Affordable Housing across the whole County area and only the Newcastle Emlyn sub market suggests a target below this level. Given that other areas are targeted at a higher level, the local authority should comfortably be able to deliver its required level of Affordable Housing.
- 7.13 This may require a certain amount of adjustment in the land market. However this should not be so significant as to hold sites back. In the higher value areas residual value are very significantly higher than existing use values and other land value benchmarks and hence the Council should move to increase the targets.

Thresholds

- 7.14 Chapter 4 considered in some detail the viability of smaller schemes. The Council's current policy is to require Affordable Housing contributions on all sites. The evidence from the analysis in Chapter 4 suggests that this policy should be continued. To a significant extent, location is key rather than scale of site and hence the results of the smaller site testing follow those at High Level.

- 7.15 There will be a large number of dwellings which are likely to come forward from smaller sites, in particular, infill and urban fringe green field. Affordable Housing contributions should be sought from these, although the threshold should be set above one unit as residual values for single scheme may not offset the devaluation to a retained dwelling. A threshold of one net dwelling would seem to be sensible in these respects.
- 7.16 However, opportunities are likely to be restricted to higher value areas (as with the High Level Testing).
- 7.17 There will be several instances where the requirement for Affordable Housing contributions is likely to make smaller schemes unviable and this will normally apply to schemes requiring demolition, residential to residential conversions, barn conversions and to schemes involving the conversion of commercial premises to residential. With respect to the latter two (barn conversions and commercial conversions) the evidence suggests that they should be exempt from Affordable Housing contributions.
- 7.18 The Council's current approach to commuted sums, which is based on open market value, is currently too general and needs to be adjusted on a sub market basis, reflecting differences in viability. It should also recognise that particular types of development might need to be exempted from contribution.

The housing market looking forward

- 7.19 It is important to consider how the findings of this report may hold up over the period of the Plan. A number of factors are relevant and in particular the performance of house prices, build costs and external political factors such as Brexit.
- 7.20 The latter (Brexit) can probably be dealt with fairly quickly in the context of Ceredigion. There is concern in some locations that the pressure of the housing stock will ease with lower immigration, although it is becoming apparent that even if the UK leaves the EU that levels of immigration may not fall. Assuming though that there is some impact, this is likely to have only significant effect in areas where immigration is significantly high. This is not likely to be the case in Ceredigion, hence a Brexit effect on the housing market will only be marginal at the most.
- 7.21 House prices in Ceredigion have grown very significantly since 2000 (please see chart below: HM Land Registry); by a factor of almost 3:

Average price: Ceredigion from January 2000 to May 2017

Key: ● all property types



7.22 However, much of the growth was between 2000 and 2008; indeed process now have not recovered back to the 2008 boom peak level, although they have held position with slow growth from 2009.

7.23 Looking forward is always difficult, particularly over the very long term and there are virtually no forecasters willing to project over the very long term. Some however have made projections for the housing market in Wales generally, which can be expected to translate broadly to the situation in Ceredigion. Price Waterhouse Cooper (2016) have shown the following figures:

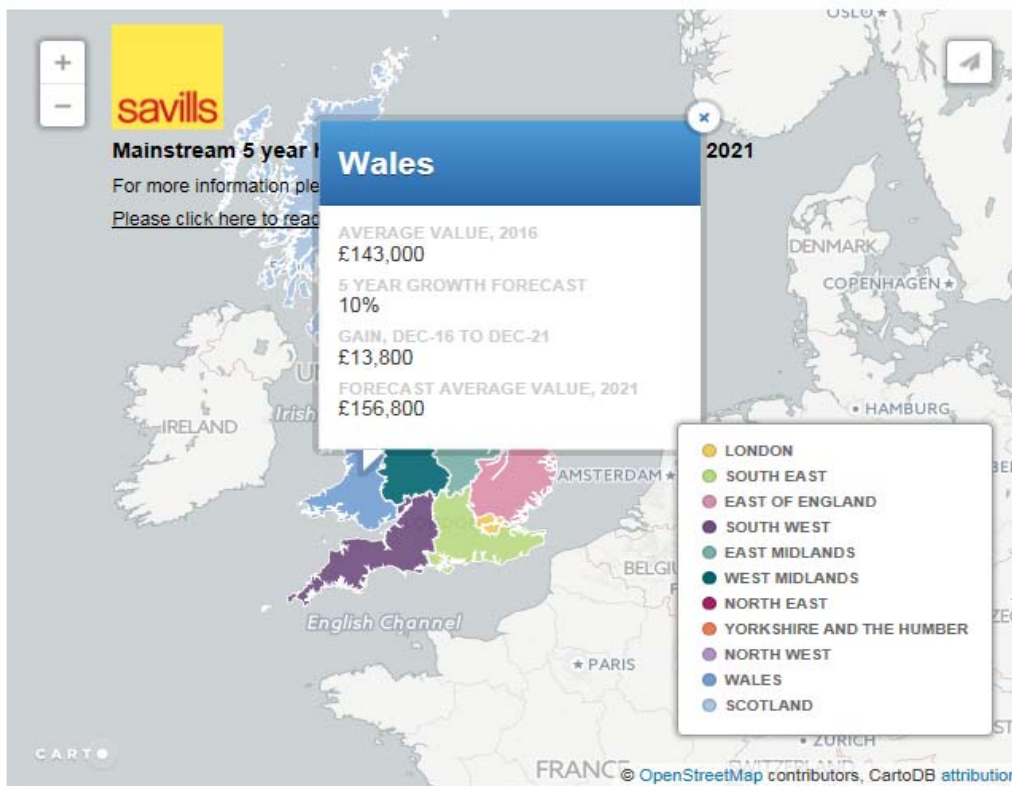
Table 3.2: Regional house price growth in PwC main scenario

Region	2015	2016	2017	2018	2019	2020
East of England	9.8%	5.7%	1.9%	4.0%	6.1%	6.0%
Yorkshire & The Humber	4.0%	1.1%	-0.6%	3.9%	5.2%	5.2%
South West	6.0%	3.7%	1.8%	4.1%	5.7%	5.7%
West Midlands	4.8%	1.6%	-0.2%	3.9%	5.3%	5.3%
London	10.2%	5.9%	0.6%	4.1%	6.0%	6.0%
North West	3.7%	0.6%	-0.7%	3.9%	5.3%	5.2%
South East	8.9%	5.2%	1.0%	3.9%	6.0%	6.0%
North East	2.3%	0.4%	0.0%	3.9%	5.0%	4.9%
East Midlands	5.5%	1.9%	-0.3%	4.0%	5.9%	5.8%
Wales	2.8%	1.3%	0.8%	3.9%	5.8%	5.8%
Scotland	4.0%	-1.6%	-0.4%	4.2%	5.7%	5.7%
Northern Ireland	7.3%	1.7%	0.2%	4.3%	4.8%	4.7%
UK average	6.0%	3.1%	0.9%	4.0%	5.9%	5.8%

Source: PwC analysis based on ONS house price index

7.23 These suggest growth in house prices for Wales at between 4% and 6% per annum to 2020, shortly before the end of the current Plan period.

7.24 Savills (see screenshot below) are projecting prices to rise by on average £143,000 to £156,800; therefore by around 10% between 2016 and 2021; therefore circa 2% per annum.



7.25 Rightmove and Oxford Economics (2014 Policy Expert website) projected price rises from 2014 to 2019 for Wales of 25.9%, circa 5% per annum.

Here are Rightmove and Oxford Economics house price forecasts today and in 2019, and the percentage expected increase.

Predicted price rises by region:

London – £539,903, 32.5%, £715,267

East – £252,111, 35.6%, £341,791

East Midlands – £138,787, 25.0%, £173,503

South West – £198,050, 31.8%, £260,938

North West – £140,163, 24.3%, £174,289

South East – £275,842, 37.3%, £378,636

West Midlands- £152,256, 26.5%, £192,644

Wales – £140,294, 25.9%, £176,695

Yorkshire and the Humber – £146,440, 27.9%, £187,247


Knight Frank have projected price growth for Wales of 8.8% between 2017 and 2021; therefore circa 2% per annum.

	2016	2017	2018	2019	2020	2021	2017-2021
Mainstream residential sales markets							
UK	5.0%	1.0%	2.5%	3.0%	3.0%	4.0%	14.2%
London	7.0%	-1.0%	2.0%	2.5%	3.0%	5.5%	12.5%
North East	0.0%	0.5%	2.5%	2.5%	2.0%	1.5%	9.3%
North West	4.0%	0.5%	2.0%	2.5%	3.0%	2.0%	10.4%
Yorks & Humber	3.5%	1.0%	3.0%	3.5%	3.0%	2.0%	13.1%
East Midlands	5.5%	1.5%	3.0%	3.5%	4.0%	4.5%	17.6%
West Midlands	4.5%	1.5%	3.0%	4.0%	4.0%	4.0%	17.6%
East	7.5%	1.5%	2.5%	4.0%	3.5%	5.5%	18.1%
South East	8.0%	1.0%	2.0%	4.0%	4.0%	5.0%	17.0%
South West	4.5%	2.0%	2.0%	3.5%	3.5%	4.5%	16.5%
Wales	-0.5%	0.0%	2.0%	2.5%	2.0%	2.0%	8.8%
Scotland	2.0%	0.1%	2.3%	2.7%	2.8%	2.8%	11.0%

Knight Frank Residential house price forecasts

7.26 On the basis of the forecasts it is reasonable to project prices forward at say 3% a year over the Plan period. This is also probably the best forecast for the longer term although clearly the Council will be monitoring housing market change over the longer period.

7.27 The measure of viability is the relationship between values and costs. The BCIS Tender Price Index provides projected costs going forward. These are set out in the table below:

BCIS All-in TPI  Base date: 1985 mean = 100 | Updated: May-2017 | #101

Recent changes			Percentage change		
Date	Index	Sample	On year	On quarter	On month
2Q 2015	283	20	9.3%	4.8%	
3Q 2015	269	28	4.7%	-4.9%	
4Q 2015	271	Forecast 15	4.6%	0.7%	
1Q 2016	276	23	2.2%	1.8%	
2Q 2016	284	23	0.4%	2.9%	
3Q 2016	289	Forecast 17	7.4%	1.8%	
4Q 2016	286	Forecast 7	5.5%	-1.0%	
1Q 2017	288	Forecast 6	4.3%	0.7%	
2Q 2017	289	Forecast	1.8%	0.3%	
3Q 2017	288	Forecast	-0.3%	-0.3%	
4Q 2017	286	Forecast	0.0%	-0.7%	
1Q 2018	286	Forecast	-0.7%	0.0%	
2Q 2018	287	Forecast	-0.7%	0.3%	
3Q 2018	288	Forecast	0.0%	0.3%	
4Q 2018	289	Forecast	1.0%	0.3%	
1Q 2019	290	Forecast	1.4%	0.3%	
2Q 2019	293	Forecast	2.1%	1.0%	
3Q 2019	299	Forecast	3.8%	2.0%	
4Q 2019	302	Forecast	4.5%	1.0%	
1Q 2020	306	Forecast	5.5%	1.3%	
2Q 2020	309	Forecast	5.5%	1.0%	
3Q 2020	317	Forecast	6.0%	2.6%	
4Q 2020	319	Forecast	5.6%	0.6%	
1Q 2021	326	Forecast	6.5%	2.2%	
2Q 2021	328	Forecast	6.1%	0.6%	
3Q 2021	336	Forecast	6.0%	2.4%	
4Q 2021	338	Forecast	6.0%	0.6%	

7.28 A fair projection over the Plan period would seem to be 5% per annum.

7.29 In terms of overall viability it is therefore likely that as figures are currently projected, any increases in prices will be counteracted by increases in costs. However, viability will be generally maintained as a 3% increase in values is broadly equivalent to a 5% increase in costs. This assumes a selling price of circa £160,000 (3 Bed Terrace in mid market) and a build cost of circa £90,000 per unit.

Towards a potential CIL (Community Infrastructure Levy)

7.30 Some local authorities in Wales are looking to adopt a CIL Charge for the range of development being carried out in their areas. Caerphilly is the first authority to adopt, followed by RCT. Conwy, Torfaen and Blaenau Gwent are in the process of viability testing.

- 7.31 CIL places very specific requirement on an authority to show that infrastructure (physical, social and environmental) is both needed and is viable. CIL is set on a per square metre basis and can be varied according to location and type of development.
- 7.32 There are potential advantages to an authority in that the contribution is clear, although monies levied from one location can be spent in another, which is contrary to the Section 106 process which requires contributions based on necessary and material requirements to the site in question.
- 7.33 From a viability perspective the test can be argued to be a more stringent one as it requires an inspector to take an objective view of land value benchmarks, which have traditionally not been so significant a problem with Affordable Housing which can be negotiated on a site by site basis. CIL is not negotiable, although even in the most viable locations of South East England and London, it is sometimes not seen to be viable because of high existing use values. The temptation therefore is to set CIL relatively low in order to avoid situations where schemes are held back on viability grounds.
- 7.34 With viability being tight in many sub markets of Ceredigion, CIL may not be the best way ahead, particularly as many of the large sites in the pipeline could be otherwise delivered using traditional Section 106 agreements. There is undoubtedly scope for setting a CIL in locations such as Aberystwyth and Aberaeron, although the expectation is that a minimal or even nil CIL would be appropriate at the lower end of the market.
- 7.35 The local authority also needs to consider whether there is enough potential development in the higher value areas to make the mechanism worthwhile. CIL can be expensive to collect and administer and any benefits from additional monies will be to be considered alongside the cost of collection.
- 7.26 Another factor is that the testing work here is based only on a relatively low figure of £750 per unit and it is assumed that this is around the sum that would be sought to cover all other items of infrastructure excluding Affordable Housing.

Appendix 1 CEREDIGION COUNTY COUNCIL HOUSING VIABILITY STUDY: WORKSHOP NOTES

COUNTY HALL, ABERAERON

Delegates

Name	Organisation	Position
Tim Macy	Aberystwyth University	Space Manager
Keith Clements	Aberystwyth University	Interim Director of Estates Development
Rhys ap Dylan	Morgan & Davies	
Llyr Edwards	Tai Ceredigion	Director of Property
Ian Fraser	Hughes Architects	
Huw Evans	Huw Evans	
Gareth O Thomas	Tai Cantref	Development Manager
Gareth M Thomas	Tai Cantref	Development Officer
Cenwyn Jones	Tai Cantref	Development Officer
Andrew Davies	Tai Cantref	Development Officer
Ian Jones	Rheidol Developments	Owner
Joseph Evans	DJ Evans Property Developments Ltd	Director
Tony Bates	Morris & Bates Solicitors	Solicitor
Gareth Davies	T I Davies a'I Fab Cyf.	Director
Paul Nicholls	ArchiSpec	Planning Consultant
Robert Hanly	ArchiSpec	Planning Consultant
Joe Sansom	Sansom Timber Frame (Design) Ltd	Director
Keith Davies	Ceredigion County Council	Affordable Housing Officer
Cllr Dafydd Edwards	Ceredigion County Council	Cabinet: Responsibility for Financial Services, Information Technology and Customer Services, Housing and Planning
Anjuli Davies	Ceredigion County Council	Planning Policy and Research Services Manager
Sarah Groves-Phillips	Ceredigion County Council	Planning Policy Officer
Rebecca Young	Ceredigion County Council	Planning Policy Officer
Catrin Cond	Ceredigion County Council	Planning Policy Technical Officer
Apologies		
Sue Thomas	Ceredigion County Council	Housing Strategy Manager
Cllr Gareth Lloyd	Ceredigion County Council	Cabinet: Responsibility for Economic and Community Development Services
Matt Edwards	Castle Designs	

John Davis	John Davis Architerctural Services	
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Workshop Notes

A workshop was held on Monday 18th July 2016. Representatives of the development industry were in attendance. In addition local authority housing and planning officers attended.

Ceredigion County Council and Andrew Golland Associates would like to thank all who attended for their contributions.

At the workshop, Andrew Golland (AGA) gave a presentation summarising the methodology and outlining the process of testing.

By way of background to the study, Anjuli Davies and Sarah Groves-Phillips explained the overall purpose of the study and its role in policy development and evidence-based the local development plan preparation process.

It was agreed that the PowerPoint presentation (attached) would be made available to all Workshop participants in conjunction with feedback notes.

1 Context for the study

The Council are aware of the need to deliver both Affordable Housing as well as open market housing generally. The study will proceed with these issues in mind. A number of general issues were raised during the course of the afternoon. These included:

- A concern that the LDP allocations are too big and don't suit type of builders in Ceredigion; self-build schemes are prevalent in the County.
- A concern over previous definitions of small-scale developers used; Limited capacity of development industry; large sites take a long time to build out (e.g. 10+ years); increases finance and build costs; results in very low residual land values
- A concern to push for a greater number of smaller units in rural areas;
- An assertion that there are too many outline permissions being submitted where viability can't be properly assessed; results in viability having to be re-assessed, plans amended and developments re-negotiated at a later stage leading to added costs;

It was explained (AGA) that an objective of the study was to generate realistic targets which can help housing supply alongside Section 106 contributions.

2 Basis for interpreting viability: land owner and developer return

AGA outlined the methodology of the viability model which is based upon scheme revenue versus development costs (including developer margin and S106 agreements). Ceredigion CC currently use this approach in their negotiations with applicants.

Delegates agreed in principle to the general approach for assessing viability. This is by reference to residual scheme value and the existing use value of a site or another appropriate land value benchmark (LVB). However one stated that the approach is too 'straight line' and does not reflect the reality of the market workings.

Delegates were asked what a working LVB might constitute in the County. The responses to this question were limited. One delegate stated that people worked to between £11,000 and £12,000 per plot. Another to between £10,000 and £15,000 per plot.

£5,000 per plot was seen to be appropriate for Affordable Housing (although this would assume a product that is viable on a free standing basis). Some working on the basis that affordable plots have no value.

Another gave a broad (per hectare) LVB as around £300,000.

Delegates were asked whether these figures reflected Affordable Housing and/or other contributions. It was not clear whether they did or not.

Respondents to this note are asked again for LVB in indications, based on local evidence, as it will be necessary to use benchmark figures for calculations. If a single figure cannot be identified, respondents are asked to provide figures per site 'type' or area.

The land market

There was much concern that 'policy' was affecting the functioning of the land market. One point raised was whether the RSL sector could pick up the delivery of Affordable Housing alone, creating a land market for private housing which would then meet the aspirations of land owners.

There was also much concern about a 'one size fits all' approach with respect to the land market. It was explained by the Council that the purpose of the study is to reflect differences in local housing market situations and that a single target policy was not necessarily the outcome that the viability update would support.

3 Overall methodology

It was explained that the study will focus mainly on testing Affordable Housing targets and thresholds. This will be mainly tested through the High Level notional half a hectare site testing, although it was explained that smaller sites and a selection of larger (allocated/windfall) sites will be tested on a case study basis.

It was emphasised that the approach will not preclude the rights of developers to negotiate on a scheme by scheme basis. Developers can demonstrate that where costs for example, are higher than those tested, and can be justified, policy might be relaxed.

Participants at the workshops did not express any particularly strong comments about the approach set out (please see the PowerPoint which explains the approach diagrammatically AGA explained that this was an approach which has been accepted elsewhere at LDP Examinations).

Data sources (e.g. HMLR for house prices and BCIS for build costs) were explained to participants. The need for best primary data sources based on a large sample was understood and agreed.

4 Sub markets and market values

A key part of the study will involve the analysis of viability at a sub market level. This provides analysis which will pick up on the 'tone' of areas and their likely viability.

AGA explained that the price sets are based on five years of HM Land Registry data. This data set reflects every market transaction for second hand homes across the County. It was agreed that this data set is

appropriate as a baseline for policy development since it sets the 'tone' for each of the postcode sectors.

A new build premium was added to this, although it was questioned that although this might apply in some locations, for Ceredigion, it was not realistic.

The baseline data is indexed to April using the HMLR index. A link to this is provided as discussed. <http://landregistry.data.gov.uk/app/ppd> .

It was agreed that it is difficult to build a data set around the new build market, as transactions are relatively low.

Delegates generally agreed with the approach although one questioned whether asking estate agents' views would be more accurate. AGA responded by saying that elsewhere were asked for their views on the indicative prices set out in the Powerpoint agents had played a helpful role in cross checking the sales data.

A few examples were discussed and the following feedback was received:

- Generally prices in the lower and mid sub markets were thought to be about right. However there was concern that at the top of the market prices might be too high.
- Prices in Lampeter were thought to be about right.
- One delegate felt a reasonable price for a 3 bed semi in Aber (periphery) was £170-180k for 80sq.m
- There is a case for a separate analysis (if possible) of Aberaeron and New Quay) which are seen to be 'niche' markets. In these locations land prices are higher as developable land is limited.
- 3 bed semi's considered a better benchmark example than 3 bed terraced.

It was suggested sending the house price chart to the Estates Department for a sense check.

Delegates generally agreed that more time to look at the prices would be welcome. These are now included with the Powerpoint presentation and the figures are as presented on the day.

5 Density and development mix

AGA set out the suggested range of schemes which the DAT will test. These are set out in the PowerPoint Presentation.

It was suggested that a range for densities through from 15 dph to 30 dph should be tested. A density of 80 dph should not be tested for the High Level testing but would be picked up by looking at the smaller and conversion schemes or any town centre sites.

Delegates are asked to comment on typical mixes.

6 Development costs

AGA presented the proposed page that will be used for the testing framework. This is included in the PowerPoint presentation. It was explained that the construction costs (base build costs per square metre) will be calculated from the BCIS data source.

This was generally accepted as an appropriate approach, although some delegates stated that the (15%) allowances for external works and infrastructure costs may not be high enough for the County. Smaller scale dev has higher infrastructure costs so whilst the build cost seems ok – the infrastructure costs is much greater

One delegate stated that he thought the Location Factor for the County should be more than one, not less.

A point was raised about contingency. The Council may consider this on a site by site basis, but it is not considered appropriate for policy testing where outturn figures are being tested.

Developers at the Workshop were invited to provide costs from recent and current developments.

7 Profit margin

There was some discussion on profit margins. It was agreed that the purpose of the margin is to reflect development risk and that between different locations and over time this may change.

The DAT (Development Appraisal Toolkit) currently adopts a 17% margin for private housing on Gross Development Value.

One delegate stated that the margin should equate to 25% on costs.

There is an allowance of 5% as a contractor return for Affordable Housing.

These rates are considered by AGA to be consistent with appeal decisions, LDP evidence bases and leading appraisal software (e.g. GLA Toolkit and the HCA's Economic Appraisal Toolkit (EAT)).

8 Affordable housing tests and issues

AGA suggested a range of policy scenarios which should be tested and questioned whether they were reasonable. These are set out in the PowerPoint Presentation and reflect the policy positions.

It was agreed that the revenue assumptions set out in the PPP should be adopted as these are policy expectations in practice.

It was stated that there are too many undeliverable planning consents being issued that are sought by landowners and agents with limited understanding as to how the developer will finance the AH units up front and manage the phasing and layout.

Phasing of AH was identified as a problem for developers, due to its impact on borrowability/finance availability. The Council explained that phasing of a scheme is negotiable on a site by site basis.

9 Section 106 costs

Costs (other than those for Affordable Housing) were not discussed in detail. Developers raised concern over open space provision and its future maintenance. The Council explained that the open space policy is a separate discussion, however, costs of open space provision can be factored in to the DAT. Please can delegates provide examples of costs of this nature on sites they are bringing forward. Thank you.

10 AOB and Next Steps

Feedback to this note, and the Powerpoint Presentation are key. They will inform all aspects of the study and where justified will be taken on board.

If you could direct your comments to Andrew Golland and the Council at the email addresses below, this would greatly assist in taking forward the Study.

Thank you

Andrew Golland draig@btopenworld.com
Ceredigion County Council ldp@ceredigion.gov.uk

DRAFT

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Appendix 2 Key assumptions

House prices

Sub Markets	PCS	Detached			Semis		Terraces		Flats		
		5 Bed	4 Bed	3 Bed	3 Bed	2 Bed	3 Bed	2 Bed	3 Bed	2 Bed	1 Bed
Aberystwyth	SY23 2	£353,000	£307,000	£261,000	£206,000	£192,000	£191,000	£177,000	£175,000	£153,000	£107,000
	SY23 1										
Aberaeron	SA46 0	£340,000	£295,000	£251,000	£199,000	£185,000	£184,000	£170,000	£168,000	£147,000	£103,000
Aberystwyth Hinterland	SY23 3	£291,000	£253,000	£215,000	£170,000	£158,000	£157,000	£147,000	£145,000	£126,000	£88,000
	SY24 5										
	SY23 4										
	SY20 8										
Newquay & South West Coast	SA44 6	£290,000	£252,000	£214,000	£169,000	£157,000	£156,000	£146,000	£144,000	£125,000	£87,000
	SA47 0										
	SA45 9										
Cardigan & Aberporth	SA43 1	£281,000	£246,000	£208,000	£165,000	£153,000	£152,000	£142,000	£140,000	£121,000	£86,000
	SA43 3										
	SA43 2										
Lampeter & Mid Rural	SY23 5	£277,000	£241,000	£204,000	£163,000	£150,000	£150,000	£140,000	£138,000	£120,000	£84,000
	SA48 8										
	SY25 6										
	SA48 7										
Newcastle Emlyn & South West Rural	SA38 9	£276,000	£239,000	£203,000	£161,000	£150,000	£149,000	£138,000	£137,000	£120,000	£84,000
	SA44 5										
	SA44 4										
	SA40 9										

Build costs (BCIS)

	Base Costs	External Works & Infrastructure	Less Contractors Return	Sub Total	Mid Wales Factor	Total
		(At 15%)	(at 6%)			
Flats - Low Rise	£1,238	£186	£85	£1,338	0.94	£1,258
Estate Housing (2 Storey)	£1,067	£160	£74	£1,153	0.94	£1,084

Development mix

	20	25	30	35	40	50
1 Bed Flat						5
2 Bed Flat					5	10
2 Bed Terrace			10	15	15	20
3 Bed Terrace	10	10	10	15	20	25
3 Bed Semi	20	30	35	30	25	20
3 Bed Detached	20	20	25	25	25	15
4 Bed Detached	30	25	15	10	10	5
5 Bed Detached	20	15	5	5		
	100	100	100	100	100	100

Affordable Housing revenue

20 Dph	Revenue on Average	35 Dph	Revenue on Average
Aberystwyth	£142,044	Aberystwyth	£119,865
Aberaeron	£136,728	Aberaeron	£115,426
Aberystwyth Hinterland	£117,063	Aberystwyth Hinterland	£98,865
Newquay & South West Coast	£116,547	Newquay & South West Coast	£98,349
Cardigan & Aberporth	£113,450	Cardigan & Aberporth	£95,783
Lampeter & Mid Rural	£111,540	Lampeter & Mid Rural	£94,278
Newcastle Emlyn & South West Rural	£110,766	Newcastle Emlyn & South West Rural	£93,467
25 Dph	Revenue on Average	40 Dph	Revenue on Average
Aberystwyth	£136,036	Aberystwyth	£113,476
Aberaeron	£130,999	Aberaeron	£109,253
Aberystwyth Hinterland	£112,128	Aberystwyth Hinterland	£93,578
Newquay & South West Coast	£111,612	Newquay & South West Coast	£93,062
Cardigan & Aberporth	£108,681	Cardigan & Aberporth	£90,636
Lampeter & Mid Rural	£106,905	Lampeter & Mid Rural	£89,217
Newcastle Emlyn & South West Rural	£106,100	Newcastle Emlyn & South West Rural	£80,726
30 Dph	Revenue on Average	50 Dph	Revenue on Average
Aberystwyth	£126,130	Aberystwyth	£101,578
Aberaeron	£121,467	Aberaeron	£97,790
Aberystwyth Hinterland	£104,004	Aberystwyth Hinterland	£83,781
Newquay & South West Coast	£103,488	Newquay & South West Coast	£83,265
Cardigan & Aberporth	£100,804	Cardigan & Aberporth	£81,108
Lampeter & Mid Rural	£99,170	Lampeter & Mid Rural	£79,921
Newcastle Emlyn & South West Rural	£98,344	Newcastle Emlyn & South West Rural	£79,260

Unit sizes

Unit Sizes (Square Metres)								
	Detached			Semis	Terraces		Flats	
	5 Bed	4 Bed	3 Bed	3 Bed	3 Bed	2 Bed	2 Bed	1 Bed
Market	150	125	100	88	88	83	62	46
Affordable	114	110	94	88	88	83	62	46

Appendix 3 Illustrated example: Newquay and South West Coast – 25 dph at 20% Affordable Housing

1 - SITE IDENTIFICATION

Site Details	<input type="text" value="Ceredigion"/>
Site Address	<input type="text" value="Example - Newquay and South West Coast - 30% Affordable Housing - 25dph"/>
Site Reference	<input type="text"/>
Application Number	<input type="text"/>
Scheme Description	<input type="text"/>

I have read and accepted the terms and conditions set out in the [license agreement](#)

Toolkit Date: December 2011
Benchmarks Date: December 2011 - 2012

3 - BASIC SITE INFORMATION

Total Size of Site In Hectares

Density / Number of Dwellings

Specify either a number of dwellings or a density for this site. If a scheme already exists in the Toolkit then adjusting the density will result in clearance of the unit details on the next page.

Enter a Number of Dwellings (Density is then calculated)

Number of dwellings

Enter your own density

Enter density

Adjust density

Resulting Number of Dwellings

Resulting Density dph

Is this a rural development?

Bedspaces

Specify the number of bedspaces:

Specify the number of habitable rooms:

4 - CHARACTERISTICS OF DEVELOPMENT

You can either enter the details for each unit type in the cells below or press the button 'Use default unit types' to call up the Toolkit values

Clear Table

Click this button to clear table contents

Use Default Unit Types

Press this button to automatically use the default units types and mix.

Ref.	Description of Dwelling	No of Bed-Rooms	Dwelling Type	No of Units	Size in sq.m Affordable	Size in sq.m Market	Parking (flats only)	No. of Storeys (1-99)
1								
2	3 Bed Terrace	3	House	2	88	88	Surface	n/a
3	3 Bed Semi	3	House	8	88	88	Surface	n/a
4	3 Bed Det	3	House	5	94	100	Surface	n/a
5	4 Bed Det	4	House	6	110	125	Surface	n/a
6	5 Bed Det	4	House	4	114	150	Surface	n/a
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Total Number of units				25.00				

On the following pages of the Toolkit you must clear any values left in the Rents and Market Values tables; this information may no longer be relevant

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5 - MARKET VALUES

This is a user entered scheme

There are no default unit prices available, please clear the table and enter your own values

Market Value price adjust (%)

100 %

Reset

Clear Table

Ref.	Dwelling Type	No of Bed-Rooms	Market Value	Adjusted Market Value
1				
2	3 Bed Terrace	3	£156,000	£156,000
3	3 Bed Semi	3	£169,000	£169,000
4	3 Bed Det	3	£214,000	£214,000
5	4 Bed Det	4	£252,000	£252,000
6	5 Bed Det	4	£290,000	£290,000
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

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6 - TENURE MIX

You may decide the distribution of the units across the tenures in two ways. By Percentage: In which case you enter a percentage of the total number of units to assign to each tenure. These percentages are applied equally across all unit types. By Quantity: In which case enter the exact number of units of each type to assign to each tenure in the table below.

Input by Percentages

Input by Quantity

Ref.	Description	SALE	AFFORDABLE			No of Units
			Social rent	Homebuy	Intermediate rent	
		70%	30%			
1						
2	3 Bed Terrace	1.4	0.6			2.0
3	3 Bed Semi	5.6	2.4			8.0
4	3 Bed Det	3.5	1.5			5.0
5	4 Bed Det	4.2	1.8			6.0
6	5 Bed Det	2.8	1.2			4.0
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
Total		17.5	7.5			25.0

Percentage purchased by purchaser for Homebuy	Default:	70%	User:	
Percentage purchased by purchaser for Equity Share	Default:	70%	User:	

The number of dwellings may be expressed as fractions for the purposes of financial calculations

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11 - DEVELOPMENT COSTS

Depress this button to
clear these tables

Clear Tables

Build Costs per sq m

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be

	Toolkit Values	User Values
Bungalows	£1,198	
Flats (16+ storeys)	£2,124	
Flats (6-15 storeys)	£1,594	
Flats (5 & less storeys)	£1,162	£1,258
Houses <= 75m2	£1,011	£1,084
Houses > 75m2	£968	£1,084

Other Development Costs

If you wish to use your own values then you can enter them in the white cells below. If you leave any blank the Toolkit Value for that row will be used

	Toolkit Values	User Values	
Professional Fees %	12%		of build costs
Internal Overheads	5%		of build costs (Market and ES)
Finance (Market)	6%		of build costs (Market and ES)
Finance (Affordable Housing)	6%		of build costs (SR, NH and IR units)
Marketing Fees	3%		of market value (Market and ES)
Developers Return	17%		of market value (Market and ES)
Contractors Return	5%		of development costs (excl finance) applies to SR, NH and IR units

Land Finance Please see guidance notes

Wheelchair Costs

	Toolkit Value	User Values
Unit size increase	25%	
Build cost increase	15%	

Exceptional Development Costs

Costs for Code SH	
<Enter cost description>	
<Enter cost description>	
Scheme Total	£0

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12 - PLANNING OBLIGATIONS

For each type of contribution you may either enter a total figure (for that row) or you may enter values per unit (for each tenure).
To enter one total value for a row, tick the corresponding box in the "Enter Total?" column and enter a value in the "User Total" column : To enter the values by tenure leave the box un-ticked.

You have the option to enter a Planning Obligation package per unit. This value supercedes any values entered by unit or tenure.

Depress this button to clear the page

	Input by Total		Input by Unit				Calculated Total (Affordable and Sale)
	Enter Total?	User Total	Sale	Affordable			
				Social rent	Homebuy	Intermediate rent	
Education Contribution	<input type="checkbox"/>						£0
Highway Works	<input type="checkbox"/>						£0
Contribution to public transport	<input type="checkbox"/>						£0
Contribution to community facilities	<input type="checkbox"/>						£0
Provision for open space	<input type="checkbox"/>						£0
Contribution to public realm	<input type="checkbox"/>						£0
Contribution to public art	<input type="checkbox"/>						£0
Environmental improvements	<input type="checkbox"/>						£0
Town centre improvements	<input type="checkbox"/>						£0
Waterfront Improvements	<input type="checkbox"/>						£0
Support for employment development	<input type="checkbox"/>						£0
Flood Defence Strategy	<input type="checkbox"/>						£0
Employment related training	<input type="checkbox"/>						£0
Other	<input type="checkbox"/>						£0

Obligations package per unit

Total for Scheme	£18,750
Total for Scheme per hectare	£18,750
Total for Scheme divided by total number of units	£750
Total for Scheme divided by number of sale units	£1,071

18 - KNOWN REVENUE

Enter the known payments to be made by the RSL to the developer]

	Number Of Units	Known Revenue per unit	Revenue for the tenure
Social Rent	7.5	£ 111,612	
Homebuy	0		
Intermediate Rent	0		
Equity Share	0		
Or enter a known revenue for the scheme			

Method of Calculation	Total Revenue
Per Unit	£ 837,090
Incomplete	£ -
Incomplete	£ -
Incomplete	£ -
£ 837,090	

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21 - SCHEME RESULTS

Site Economics

RESIDUAL VALUE	£ 255,090
Total scheme revenue	£ 4,621,090
Total scheme costs	£ 4,366,000

Residual	Per hectare	£ 255,000
	Per dwelling	£ 10,000
	Per market dwelling	£ 15,000
	Per bedspace	£ -
	Per habitable room	No Info

Revenue	Market housing	£ 3,784,000
	Affordable Housing	£ 837,090
	- Social rent	£ 837,000
	- Homebuy	£ -
	- Intermediate Rent	£ -
	- Equity Share	£ -
	Capital Contribution	£ -
Commercial Elements	£ -	

Costs	Market housing	£ 3,305,000
	Affordable Housing	£ 991,000
	- Social rent	£ 991,000
	- Homebuy	£ -
	- Intermediate Rent	£ -
	- Equity Share	£ -
	Planning Obligations	£ 19,000
	Exceptional Development Costs	£ -
	Commercial Elements	£ -
Land Finance	£ -	

Alternative Site Values		Against residual	
Existing Use Value	£ -	£ -	-
Acquisition Cost	£ -	£ -	-
Alternative Use Value 1	£ -	£ -	-
Alternative Use Value 2	£ -	£ -	-
Alternative Use Value 3	£ -	£ -	-

Site Details

Site	Example - Newquay and South West Coast - 30% Affordable Housing - 25
Address	
Site Details	Ceredigion

Site Reference	0
Application Number	0
Site Location	Conwy
Scheme Description	0

Total number of units	Dwellings	25
	Bedrooms	No Info
	Bedspaces	721
	% Wheelchair Units	0%

Density (per hectare)	Dwellings	25.0
	Bedrooms	No Info
	Bedspaces	721.0

Affordable Units		Quantity	% of All Units
	Total	7.5	30%
	Social rent	7.5	30%
	Intermediate	0.0	0%

Grant	Whole scheme	£ -
	Per Social Rental dwelling	£ -
	Per HomeBuy dwelling	£ -

Cost Components

Discounting Function

Save Results

View Results

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GLOSSARY OF TERMS

A

Abnormal Development Costs: Costs associated with difficult ground conditions e.g. contamination.

Affordable Housing: As defined in PPS3 as housing that includes Social Rented and Intermediate Affordable housing.

Affordable Rented Housing: Housing let at above Social Rented levels and up to 80% of Open Market Rent

Appraisal: development calculation taking into account scheme revenue and scheme cost and accounting for key variables such as house prices, development costs and developer profit.

B

Base Build Costs: including costs of construction: preliminaries, sub and superstructure; plus an allowance for external works.

C

Commuted Sum: a sum of money paid by the applicant in lieu of providing affordable housing on site.

Community Infrastructure Levy: A levy raised by local authorities from developers and land owners in order to cover the costs of providing infrastructure, where the form of provision can include physical, social and environmental infrastructure. The levy is charged on a per square metre basis across a range of development uses.

D

Developer's Profit or margin: a sum of money required by a developer to undertake the scheme in question. Profit or margin can be based on cost, development value; and be expressed in terms of net or gross level.

Developer Cost: all encompassing term including base build costs (see above) plus any additional costs incurred such as fees, finance and developer margin.

Development Economics: The assessment of key variables included within a development appraisal; principally items such as house prices, build costs and affordable housing revenue.

E

Existing Use Value (EUV): The value of a site in its current use; for example, farmland, industrial or commercial land.

F

Finance (developer): usually considered in two ways. Finance on the building process; and finance on the land. Relates to current market circumstances

G

Gross Development Value (GDV): the total revenue from the scheme. This may include housing as well as commercial revenue (in a mixed use scheme). It should include revenue from the sale of open market housing as well as the value of affordable units reflected in any payment by a housing association(s) to the developer.

I

Intermediate Affordable Housing: PPS3 Housing defines intermediate affordable housing as housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent.

L

Land Value: the actual amount paid for land taking into account the competition for sites. It should be distinguished from Residual Value (RV) which is the figure that indicates how much should be paid for a site.

Local Development Framework (LDF): a folder of planning documents encompassing DPDs (Development Plan Documents) and SPDs (Supplementary Planning Documents)

M

Market Housing: residential units sold into the open market at full market price to owner occupiers, and in some instances, property investors. Usually financed through a mortgage or through cash purchase in less frequent cases.

P

Planning Obligation: a contribution, either in kind or in financial terms which is necessary to mitigate the impacts of the proposed development. Affordable housing is a planning obligation as are, for example, education and open space contributions. (See Section 106)

Proportion or percentage of Affordable Housing: the proportion of the scheme given over to affordable housing. This can be expressed in terms of units, habitable rooms or floorspace

R

Residual Valuation: a key valuation approach to assessing how much should be paid for a site. The process relies on the deduction of development costs from development value. The difference is the resulting 'residue'

Residual Value (RV): the difference between Gross Development Value (GDV) and total scheme costs. Residual value provides an indication to the developer and/or land owner of what should be paid for a site. Should not be confused with land value (see above)

Registered Provider (RP): a housing association or a not for profit company registered with the Homes and Communities Agency and which provides affordable housing

S

Scheme: development proposed to be built. Can include a range of uses – housing, commercial or community, etc

Section 106 (of the Town and Country Planning Act 1990): This is a legally binding agreement between the parties to a development; typically the developer, housing association, local authority and/or land owner. The agreement runs with the land and binds subsequent purchasers. (See Planning Obligation)

Shared Ownership (SO): Also known as a product as 'New Build HomeBuy'. From a developer or land owner's perspective SO provides two revenue streams: to the housing association as a fixed purchase sum on part of the value of the unit; and on the rental stream. Rent charged on the rental element is normally lower than the prevailing interest rate, making this product more affordable than home ownership.

Social Rented Housing (SR): Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are SET through the national rent regime.

Sub Markets: Areas defined in the Viability Study by reference to house price differentials. Areas defined by reference to postcode sectors, or amalgams thereof.

Supplementary Planning Document (SPD): planning documents that provide specific policy guidance on e.g. affordable housing, open space, planning obligations generally. These documents expand policies typically set out in Local Plans and LDFs.

T

Target: Affordable housing target. Sets the requirement for the affordable housing contribution. If say 30% on a scheme of 100 units, 30 must be affordable (if viable).

Tenure Mix: development schemes usually comprise a range of housing tenures. These are described above including market and affordable housing.

Threshold: the trigger point which activates an affordable housing contribution. If a threshold is set at say 15 units, then no contribution is payable with a scheme of 14, but is payable with a scheme of 15. The appropriate affordable housing target is then applied at the 15 units, e.g. 20%, or 30%.

V

Viability: financial variable that determines whether a scheme progresses or not. For a scheme to be viable, there must be a reasonable developer and land owner return. Scale of land owner return depends on the planning process itself.