

Shropshire Dynamic Viability Index

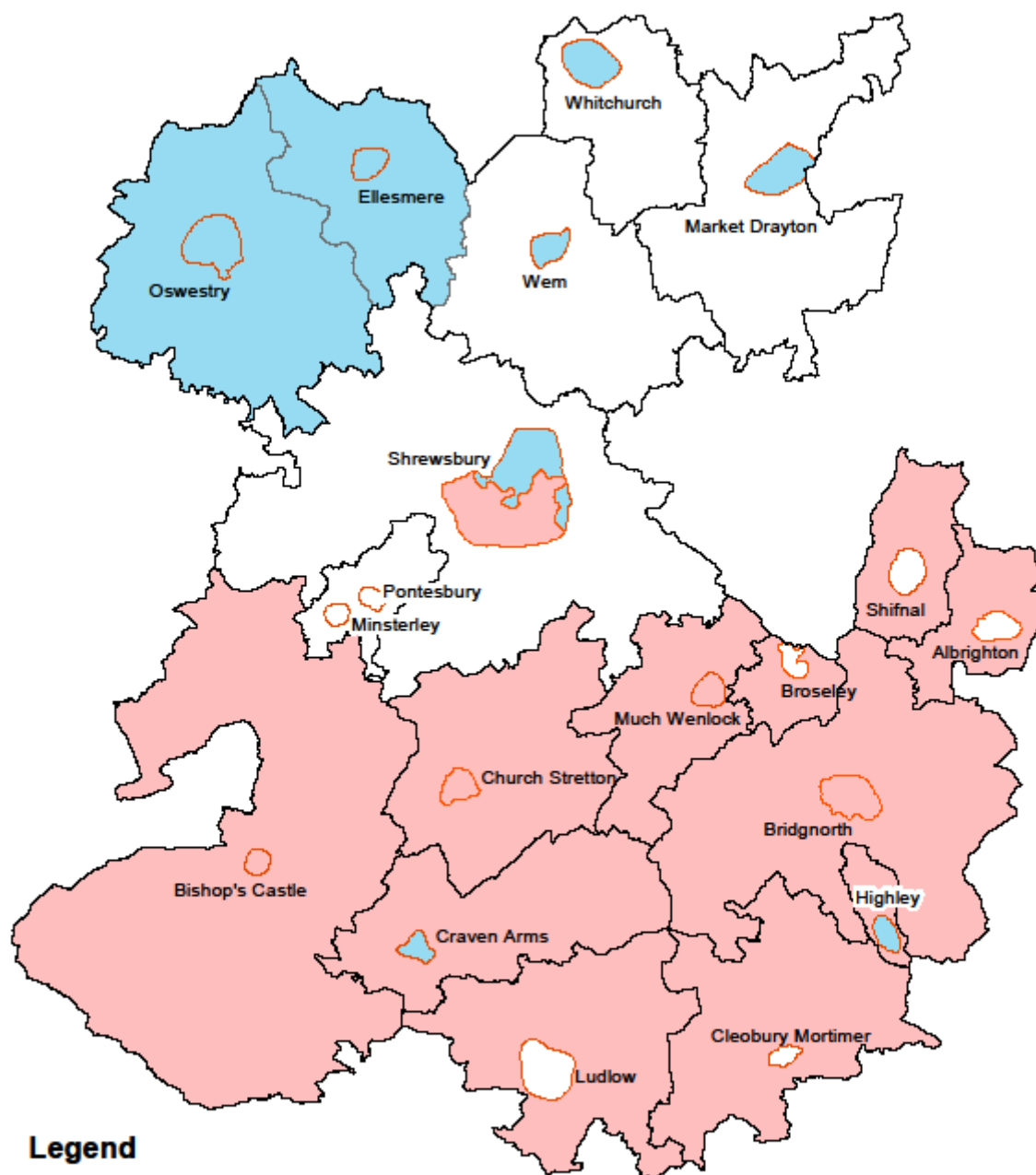
The index below is calibrated on the house prices and cost of construction for area B. In future years, a rise or fall in house prices will result in a move right or left along the row, while a rise or fall in the cost of construction will result in a move up or down the column in accordance with the degree of change. For house prices, the degree of change will be determined by the percentage change in the Land Registry house price index for Shropshire. For cost of construction, the degree of change will be determined by the percentage change in the BIS all construction (ALLCON) tender price index for new construction. The latest firm figure in December each year will be used to calculate the degree of change from the starting point, to inform the target rate for the next financial year.

		HOUSE PRICES								
		-20	-15	-10	-5	0	+5	+10	+15	+20
CONSTRUCTION COSTS	-20	49%	50%	50%	50%	50%	50%	50%	50%	50%
	-15	34%	46%	50%	50%	50%	50%	50%	50%	50%
	-10	19%	32%	39%	39%	39%	39%	39%	39%	42%
	-5	4%	18%	26%	26%	27%	29%	29%	30%	33%
	0%	0%	7%	13%	14%	15%	18%	19%	20%	24%
	+5	0%	0%	0%	1%	3%	7%	9%	10%	15%
	+10	0%	0%	0%	0%	0%	0%	0%	0%	5%
	+15	0%	0%	0%	0%	0%	0%	0%	0%	0%
	+20	0%	0%	0%	0%	0%	0%	0%	0%	0%

The degree of change is deemed to be the same across areas A, B and C, as neither the Land Registry house price index nor the BIS all new construction index provides geographical detail for sub-markets within Shropshire. The target rate for areas A and C will be determined by the target rate for area B, keeping the proportions constant as shown below.

	Target rate from 1 st September 2013	proportions
Area A	20%	1.333
Area B	15%	1
Area C	10%	0.666

Affordable Housing Areas



Legend

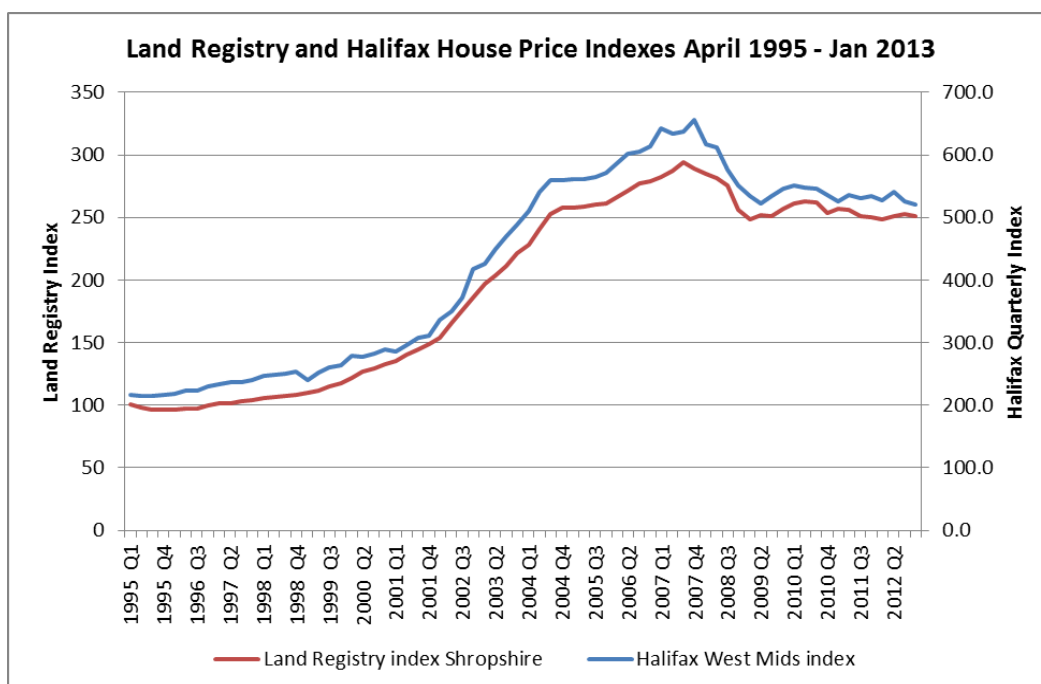
- CIL Charging Boundary
- Area A
- Area B
- Area C

© Crown copyright and database rights 2013
Ordnance Survey 100049049

Indexes for the dynamic viability approach

The recommended affordable housing target rate reflects current values at 2013, but clearly these will change over time. To ensure that the target rate does not diverge from market conditions it is important to have some way of adjusting the target rate in future. The Shropshire dynamic viability index does this, by allowing the two most significant variables that affect viability to be taken into account each year, and the target rate adjusted accordingly. These two variables are house prices and the cost of construction.

The previous Shropshire Viability Index, based on the AHVS 2008, used the quarterly Halifax house price index for the West Midlands to gauge changes in house prices. More recently the Land Registry has produced its own index, which is now easily available on its website. These two indexes are similar but not identical, as the comparison graph below illustrates.



Both indexes are seasonally adjusted and statistically robust, but the Land Registry index is considered preferable to the Halifax for two main reasons: (1) the Land Registry index is the most comprehensive available, reflecting all sales including cash buyers, whereas the Halifax house price index is based on mortgage offers approved by them; and (2) the Land Registry index is specific to Shropshire, whereas the Halifax house price index is only available at a regional or national level. Therefore the Land Registry index is recommended for future use.

The previous Shropshire Viability Index, based on the AHVS 2008, used the national Building Cost Information Service's (BCIS) all-in cost of construction index. A major disadvantage of this approach was that the BCIS index is a costly subscription-only service and therefore not readily accessible. A more appropriate and freely accessible measure is the quarterly Department for Business, Innovation and Skills (BIS tender price index for new construction. This is one of a number of construction price and cost indices that are published as an online service by BIS and are derived from data provided by the BCIS under contract to BIS. The all construction (ALLCON) tender price index for new construction is recommended as a suitable index for use in future.