Affordable Housing Commuted Sum Position Statement

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1. Purpose of Statement

1.1   This Policy is to provide guidance to developers, including Housing Associations and other Registered Providers on the Councils' approach to how and when commuted payments in lieu of on-site affordable housing will be considered.

1.2   In the event that the affordable housing units are not provided on site on a development dwelling site due approved circumstances, the developer will be able to build and sell a higher proportion of market units, which will improve their revenue. The commuted sum methodology allows the Council to recoup, from the developer, the equivalent open market land value, from which the developer is benefitting.

1.3   Only in exceptional circumstances will a financial contribution in lieu of on-site affordable housing provision [or broadly equivalent cost) be accepted. This would need to be robustly justified in accordance with the National Planning Policy Framework and may only be accepted if the agreed approach contributes to the creation of mixed and balanced communities.

1.4   It should be emphasised that the payment of a financial contribution in lieu of on-site affordable housing is seen as the least preferable option and the overwhelming preference is for on-site provision of affordable housing. It is strongly recommended that pre-application advice is sought if an applicant considers that an off-site contribution is appropriate.

1.5   Developers should use Pre-application discussion which can provide an opportunity to address potential problems or issues before submitting a planning application, thereby potentially reducing the chances of the planning application being rejected.

1.6   If the Council agrees that a financial contribution is appropriate, the onus will be on the applicant to provide the correct information to enable a robust financial appraisal to be undertaken. The applicant will bear the costs of the appraisal and verification of the financial information, the cost of which will be confirmed before the work is commissioned.

1.7   Any financial contribution would then be used to enable the equivalent off-site provision of affordable housing within the Borough.

2. Commuted Sums

2.1   Commuted sums can apply to several different situations such as;

➢ Where the entire affordable housing requirement is to be provided off-site,

➢ Where some of the affordable housing requirement is provided both on-site and off-site, or

➢ Where the affordable housing calculation includes a 'partial dwelling' (e.g. 5.4 affordable dwellings) with the 'partial value' (e.g. 0.4) to be paid as a commuted sum

2.2   The financial contribution sought in lieu of affordable housing will take into account the land, servicing and purchasing costs which the Council or Registered Provider would need to pay to buy plots on the open market in order to develop equivalent affordable housing on another site. Land costs (including servicing and purchasing costs) typically represent 30% of the open market value of housing.

2.3   Servicing and professional fees are estimated to be about 10% of the land value (3% of the total cost). Therefore, the financial contribution sought will be 33% of the open market value of the residential units to be delivered through the respective planning permission.

2.4   It is expected that the developer profit is 17.5% and that the affordable housing contribution should not be reduced from the required affordable housing provisions to allow a larger profit than this.

2.5   The Methodologies below sets out how contributions will be calculated. The calculation utilises average sales price data based on postcode areas. The Council considers these sums are reasonable and broadly equivalent to delivering on-site provision.

2.6   Commuted sum Formula A sets out a methodology to be used when calculating the contributions for development sites of up to 40 dwellings in total.

2.7   Commuted sum Formula B sets out the methodology to be used when calculating sites of over 40 Dwellings in total.

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3. Commuted Sum formula A

      3.1 Formula A calculates the commuted sum for the development sites with dwellings of 40 property units or less.

$$C_S = (S_P \times NU) \times RLV\% \,(36\%) \times AHP)$$

Key

C_S	**Commuted Sum**
S_P	**Expected Sale Price** This is the average expected sale unit sale price
N_U	**Number of Units** total number of dwellings on site
RLV%	**Residual land value percentage** This adjustment factor is used to represent the cost of land purchase and servicing incurred by the Local Planning Authority or Housing Provider. Land costs typically represent 30% of the open value market value of housing. Servicing and professional fees are estimated to be about 15-20% of the land value (6% of the total cost). Therefore, the financial contribution sought will be 36% of the open market value of the residential units to be delivered through the respective planning permission.
A_{hp}	**Affordable Housing Provision percentage**

Step 1 ($S_P \times N_u$): Identify the Gross Development Value (GDV) of the housing units on-site.

- This is the total expected sale price of the market property, or properties, proposed on the development site. It is expected that in identifying the GDV advice is taken from a suitably qualified Independent Valuer, at the applicants' expense, full details of which should be submitted to the Council.

Step 2: Multiply the GDV by (R_{LV}) 36% to find the residual land value.

- This is the estimated value of the land, including site acquisition, preparation and servicing costs, after all, other costs and profits.

Step 3: Apply the Affordable Housing percentage requirement under the Affordable Housing policy to give the final contribution.

- The new local plan states that the affordable housing provision on Brownfield sites is 30% and on greenfield sites is 40% for the number of dwellings to be developed the required percentage will need to be applied to the estimated cost of providing the equivalent serviced land to the proposed development.

Summary of Overall Methodology - Worked Examples:

Example 1

Planning proposal to carry out a development of fifteen identical units on a brownfield land site, with an anticipated sale price of £400,000 per unit	
Step 1: Calculate the Gross Development Value (GDV) of the development (15 x £400k)	£6,000,000.00
Step 2: Find the residual land value of the development (£6m x 36%)	£2,160,000.00
Step 3: Apply the percentage contribution required under the affordable housing policy the as this site is brownfield this will equate to 30% of the estimated cost of providing the equivalent serviced land to the proposed development (£2,160,000 x 36%)	Commuted sum: **£648,000.00**

Example 2

Planning proposal to carry out a development of 25 units, 15 two beds and 10 three beds on a greenfield land site, with an anticipated sale price of £320,000 per unit for the two beds £360,000	
Step 1: Calculate the Gross Development Value (GDV) of the development (15 x £320k) + (10 X 360k)	£8,400,000.00
Step 2: Find the residual land value of the development (£8.4 m x 36%)	£3,024,000.00
Step 3: Apply the percentage contribution required under the affordable housing policy the as this site is Greenfield this will equate to 40% of the estimated cost of providing the equivalent serviced land to the proposed development (£3024000 x 40%)	Commuted sum: £1,209,600

Example 3

Planning proposal to carry out a development of units, 21 identical units on a Brownfield land site, with an anticipated sale price of £290,000 the developer has agreed to supply 5 units	
Step 1: Calculate the Gross Development Value (GDV) of the development 21 X £290k	£6,090,000
Step 2: Find the residual land value of the development (£6,090,000 x 36%)	£2,192,400
Step 3: Apply the percentage contribution required under the affordable housing policy the as this site is Greenfield this will equate to 30% of the estimated cost of providing the equivalent serviced land to the proposed development (£2,009,700 x 30%)	£657,720
Step 4: Divide the proposed affordable housing delivery by the required affordable housing delivery and multiply this to the worth of commuted sum for the site 5/6.3 X £657,720	£522,000
Step 5: The commuted sum for 1.3 units	£135,720

4. Commuted sum formula B

4.1 Formula B calculates the commuted sum for the development sites exceedingly over 40 dwelling units

4.2 The standard financial contribution example set out in Table 1, is based on Land Registry house price sales data for 2022. It is disaggregated by area of the Borough by postcode and type of housing to be more representative of the differences in land value across the borough. This is consistent with the approach in the Community Structure Levy Stage 2 viability work which used postcode areas.

4.3 The contribution should be calculated using Land Registry house sales data for the most recently available calendar year. Regard may also be given to sales for the postcode sector where the postcode district appears to not give a representative value, although caution should be used when the data is based on a very small number of sales. In such cases, it may be appropriate to consider sales over a longer time period.

4.4 If a site covers more than a single postcode district the commuted sums payment will be based on the relevant proportion of development proposed within each postcode

$$C_S = (A_h + M_{vd}) \times A_{hp} \times S_f) \times RLV\%(0.36)$$

Key

C_S	Commuted Sum
AH	Number of Affordable Units required
Mvd	Number of Market value units on the proposed on the application site
Ahp	Affordable Housing Provision percentage
Sf	Average sale price for the relevant postcode area for the previous calendar see table below
RLV%	**Residual land value percentage** This adjustment factor is used to represent the cost of land purchase and servicing incurred by the Local Planning Authority or Housing Provider. Land costs typically represent 30% of the open value market value of housing. Servicing and professional fees are estimated to be about 15-20% of the land value (6% of the total cost). Therefore, the financial contribution sought will be 36% of the open market value of the residential units to be delivered through the respective planning permission.

Table 1

Post Code	Detached	Semi-Detached	Terraced	Flat/Maisonette

TN1	£501,998	£728,397	£542,136	£289,795
TN11	£816,337	£649,416	£454,167	£504,167
TN12	£724,944	£387,370	£353,469	£228,250
TN17	£807,256	£577,611	£344,429	£295,025
TN18	£884,615	£454,312	£375,667	£446,000
TN2	£966,817	£523,078	£448,333	£286,976
TN27	£748,486	£423,167	£351,385	£228,500
TN3	£980,057	£634,22	£534,636	£222,742
TN4	£881,544	£524,484	£414,613	£299,255

http://landregistry.data.gov.uk/app/standard-reports.

Step 1 Identify the total number of Market Value units of dwellings broken down into property types Detached, Semi-Detached, Terraced and Flat/Maisonette

Step 2 Multiply by the affordable housing provision percentage to find the Number of affordable housing units required for each property type

Step 3 Identify the equivalent market dwelling value in the commuted sum postcode area and Multiply the figure with Number of affordable housing units required to get Market dwelling value of the affordable housing requirement

Step 4 Multiply the RLV (36%) for each property type to calculate Commuted Sum Required to provide the affordable housing off-site

Step 5 Accumulate the commuted sum required to provide affordable housing off-site for each site to get the total Commuted Sum required to provide affordable housing

Example 1

Planning proposal to carry out a development of 65 units on a Brownfield Site in Benenden and Cranbrook TN17

Type of Dwelling unit	Number of proposed market value dwellings	Affordable housing requirement	Number of affordable housing units required	Number of affordable housing units proposed	Market dwelling value of dwelling in commuted sum area	Market dwelling value of affordable housing requirement	Market dwelling value of affordable housing proposed	Commuted Sum Required to provide the affordable housing off-site
Detached	5	30%	1.5	0	£807,256	£1,210,884	0	£435,918.24
Semi-Detached	20	30%	6	0	£577,611	£3,465,666	0	£1,247639.76
Terraced	30	30%	9	9	£344,429	£3,099,861	£3,099,861	0
Flats/Maisonette	10	30%	3	3	£295,025	£885,075	£885,075	0
Total	65		19.5	12				£1,683,558

Example 2

Planning proposal to carry out a development of 70 units on a Brownfield Site in Paddock Wood TN12,

Type of Dwelling unit	Number of proposed market value dwellings	Affordable housing requirement	Number of affordable housing units required	Number of affordable housing units proposed	Market dwelling value of dwelling in commuted sum area	Market dwelling value of affordable housing requirement	Market dwelling value of affordable housing proposed	Commuted Sum Required to provide the affordable housing off-site
Terraced	22	30%	6.6	0	£353,469	2,332,895.40	0	£839842.344
Semi-Detached	31	30%	9.3	0	£387,370	3,602,541	0	£1,296914.76
Flats/Maisonette	17	30%	5.1	17	£228,250	1,164,075	3,880,250	(£977,823.00)
Total	70		18.6	17				£1,158,934.20

5. Monitoring

5.1   Monitoring will be on a site-by-site basis. Funds collected will be used within the borough to deliver affordable housing without expenditure deadline, or as agreed in the S.106 agreement.

5.2   The Council will record and report where funds have been allocated and spent. This information will be made available on request and will be published on an annual basis. Through the S.106 Agreement, the Council will expect to index the agreed financial contribution from the date of the agreement to the date of payment. The index applied will be the Land Registry House Price Index.