

## Commuted Sums – a correction

HDH has noted an error in the calculation of the suggested brownfield site commuted sum payment in the *Whole Plan Viability Assessment – REFRESH – May 2022*. The relevant sections (paragraphs 10.43 to 10.55 and Appendix 16) are duplicated and corrected below.

Policy Ho04 Affordable Housing requires:

*The council will require 30% affordable housing of the total number of dwellings to be provided on all greenfield sites involving a major scheme (10 dwellings or more). In the south east and Ashton Green areas shown on diagram 3 the Council will require 10% affordable housing of the total number of dwellings to be provided on brownfield sites involving a high-density major scheme.*

In error, on the brownfield sites, the number of affordable units was calculated based on a 30% affordable housing requirement, rather than the 10% requirement. Further, it was assumed that affordable housing would be forthcoming on brownfield sites beyond the south east and Ashton Green areas.

The calculation is based on the development appraisal for the typologies. The Residual Value with affordable housing is deducted from the Residual Value without affordable housing. The difference is then divided by the number of affordable units. In error, on the brownfield sites, the number of affordable units was calculated based on a 30% affordable housing requirements rather than the suggested 10% requirement.

**The correct figure on the greenfield sites remains a £100,000 per affordable unit not delivered on-site. The correct figure in the brownfield sites is £58,000 per unit on brownfield sites rather than the figure of £19,000 per unit that appears in the *Whole Plan Viability Assessment – REFRESH – May 2022*.**

The corrected text reads as follows:

### Commuted Sums

**10.43** LCC's preference is for affordable housing to be delivered on-site. This approach is in line with Paragraph 63 of the NPPF that says:

*Where a need for affordable housing is identified, planning policies should specify the type of affordable housing required, and expect it to be met on-site unless:*

- a) *off-site provision or an appropriate financial contribution in lieu can be robustly justified; and*
- b) *the agreed approach contributes to the objective of creating mixed and balanced communities.*

*Paragraph 63, 2021 NPPF*

**10.44** It is sensible for councils to set out guidance as to how a commuted sum would be calculated so as to provide transparency, and to avoid the undue delays that might arise during s106 negotiations if details of a payment had to be developed from first principles on each occasion. The analysis provides a basis on which it would be possible to formulate appropriate arrangements for calculating the commuted sum. Across the country different councils have

taken different approaches, sometimes calculating contributions on a site-by-site basis, other times setting out a predetermined 'commuted sum'.

#### *Review of plan policy formulae*

- 10.45 Some time ago we researched the nature of commuted sum formulations in then approved or emerging local planning policies. Whilst some relied on generalities, the vast majority which had developed a specific formula, had used one which derived from the Housing Corporation's<sup>1</sup> Total Cost Indicator (TCI) system. This system was designed to provide cost discipline, so as to ensure that affordable housing was procured by Registered Social Landlords on terms which produced value for money for the public subsidy, Social Housing Grant (SHG), which had been the normal funding basis through which it was provided.
- 10.46 Given that this was its purpose, the TCI was useful in providing a basis for calculating commuted sums. It was designed to provide cost guidance specifically related to each local council area; contained such guidance for each of a large number of different dwelling size bands; and was updated through indexing and readjustment each year, so remained current.
- 10.47 Unfortunately, the Housing Corporation replaced the TCI system with an approach which does not provide these benefits. This reflected, to some extent, the move towards a more targeted use of SHG and a greater reliance on developer subsidy. However, from the viewpoint of commuted sum formulation, the change is, in some respects, to be regretted.

#### *Alternative approach*

- 10.48 We have adopted an approach to the calculation of the developer contribution, utilising the site viability analysis. It is based upon the contribution that the developer would have made if an on-site affordable contribution were delivered.
- 10.49 The calculation works as follows:
- a. Estimate the value of the site with 100% market housing.
  - b. Estimate the Residual Value of the site with the target level (i.e. the 30% on greenfield sites) of affordable housing.
- 10.50 The difference between (a) and (b) is the reduction in site value due to the affordable housing policy contribution. This is set out in the tables included in **Appendix 16**:
- 10.51 Taking the appraisal for Typology 27 in the South East and Ashton Green area as an example, the Residual Value with no affordable housing, i.e. 40 market dwellings, is £3,173,989. With the option of 30% affordable housing, the Residual Value falls to £2,012,773. The developer's

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<sup>1</sup> The Housing Corporation was the non-departmental public body that funded new affordable housing and regulated housing associations in England. It was abolished in 2008 with its responsibilities being split between the Homes and Communities Agency and the Tenant Services Authority. In January 2018 Homes and Communities Agency was replaced by Homes England and Regulator of Social Housing.

contribution is £1,161,216 (£3,173,989- £2,012,773); divided by 12 affordable dwellings (30% of 40), this gives a cost of £96,768 per affordable dwelling.

10.52 The calculated contributions in the tables above vary, but the average is about £100,000/unit on greenfield sites. On brownfield sites within the South East and Ashton Green area the figure is about ~~£19,000/unit~~ £58,000/unit.

#### *Suggested guidance*

10.53 Paragraph 63 of NPPF is clear that off-site provision or financial contribution in lieu '*can be robustly justified*'. On this basis, the above calculations provide a sound basis for determining a commuted sum figure. There are two alternatives open to the Council. The first is to work to a published 'standard commuted sum payment'. If LCC were to take this option, we would recommend a £100,000/unit payment per affordable unit not delivered on-site on greenfield sites and ~~£19,000/unit~~ £58,000/unit on brownfield sites.

10.54 LCC is currently preparing a new Local Plan. This document will be long lived and is likely to be in place across several economic cycles. We would therefore suggest that LCC prepares separate guidance setting out the amount of the payment, and to allow a simple review should viability change.

10.55 Alternatively, LCC may prefer to calculate the commuted sum scheme by scheme as it does now. This has the advantage of being an up-to-date figure, but the disadvantage of a lack of clarity for developers. The methodology used is to assess the Open Market Value of the units that would be affordable units, and then deduct from that the amount that a housing association would pay for those units as affordable units – the difference being the commuted sum.

# Appendix 16 – Corrected Commuted Sum Calculation

## Calulator with error

					Area (ha)		Units		Residual Value (£)		Difference	
					Gross	Net	All	Affordable	No Aff	With Affordable	Site	Per Unit
Site 1	Brown 500	South East & Ashto	Brown	PDL	22.86	14.29	500	150	12,097,531	9,250,769	2,846,763	18,978
Site 2	Brown 200	South East & Ashto	Brown	PDL	9.14	5.71	200	60	3,992,295	2,870,951	1,121,343	18,689
Site 3	Brown 75	South East & Ashto	Brown	PDL	3.43	2.14	75	23	1,552,034	1,101,577	450,456	20,020
Site 4	Brown 40	South East & Ashto	Brown	PDL	1.39	1.14	40	12	1,084,417	846,117	238,300	19,858
Site 5	Brown 20	South East & Ashto	Brown	PDL	0.69	0.57	20	6	581,179	457,528	123,651	20,609
Site 6	Brown 15	South East & Ashto	Brown	PDL	0.52	0.43	15	5	421,479	329,999	91,481	20,329
Site 7	Brown 9	South East & Ashto	Brown	PDL	0.26	0.26	9					
Site 8	Brown 5	South East & Ashto	Brown	PDL	0.14	0.14	5					
Site 9	Brown 500 HD	South East & Ashto	Brown	PDL	14.55	9.09	500	150	13,706,730	10,947,295	2,759,435	18,396
Site 10	Brown 200 HD	South East & Ashto	Brown	PDL	5.82	3.64	200	60	4,630,748	3,567,681	1,063,067	17,718
Site 11	Brown 75 HD	South East & Ashto	Brown	PDL	1.65	1.36	75	23	1,818,465	1,381,832	436,633	19,406
Site 12	Brown 40 HD	South East & Ashto	Brown	PDL	0.88	0.73	40	12	1,224,265	986,775	237,490	19,791
Site 13	Brown 20 HD	South East & Ashto	Brown	PDL	0.36	0.36	20	6	628,087	508,271	119,816	19,969
Site 14	Brown 15 HD	South East & Ashto	Brown	PDL	0.27	0.27	15	5	439,741	356,522	83,220	18,493
Site 15	Brown 9 HD	South East & Ashto	Brown	PDL	0.16	0.16	9					
Site 16	Brown 5 HD	South East & Ashto	Brown	PDL	0.09	0.09	5					
Site 17	Flats 300	South East & Ashto	Brown	PDL	4.80	3.00	300	90	450,978	450,978		
Site 18	Flats 100	South East & Ashto	Brown	PDL	1.21	1.00	100	30	134,720	134,720		
Site 19	Flats 30	South East & Ashto	Brown	PDL	0.36	0.30	30	9	22,889	22,889		
Site 20	Flats 12	South East & Ashto	Brown	PDL	0.12	0.12	12	4	10,550	10,550		
Site 21	Flats 9	South East & Ashto	Brown	PDL	0.09	0.09	9					
Site 26	Green 75	South East & Ashto	Green	Agricultural	3.43	2.14	75	23	5,591,420	3,412,156	2,179,264	96,856
Site 27	Green 40	South East & Ashto	Green	Agricultural	1.39	1.14	40	12	3,173,989	2,012,773	1,161,216	96,768
Site 28	Green 12	South East & Ashto	Green	Paddock	0.34	0.34	12	4	1,072,568	697,269	375,299	104,250
Site 29	Green 9	South East & Ashto	Green	Paddock	0.26	0.26	9					

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Site 5	Brown 20	South East & Ashto	Brown	PDL	0.69	0.57	20	2	581,179	457,528	123,651	61,826
Site 6	Brown 15	South East & Ashto	Brown	PDL	0.52	0.43	15	2	421,479	329,999	91,481	60,987
Site 7	Brown 9	South East & Ashto	Brown	PDL	0.26	0.26	9	1				
Site 8	Brown 5	South East & Ashto	Brown	PDL	0.14	0.14	5	1				
Site 9	Brown 500 HD	South East & Ashto	Brown	PDL	14.55	9.09	500	50	13,706,730	10,947,295	2,759,435	55,189
Site 10	Brown 200 HD	South East & Ashto	Brown	PDL	5.82	3.64	200	20	4,630,748	3,567,681	1,063,067	53,153
Site 11	Brown 75 HD	South East & Ashto	Brown	PDL	1.65	1.36	75	8	1,818,465	1,381,832	436,633	58,218
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