

London Borough of
Richmond upon Thames

Guidance Notes on the
Calculation of a Commuted Sum
for the provision of Affordable
Housing off-site

Annex A

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Bespoke Property Group

maximising development potential

1.0 PRINCIPLES

1.1 In accordance with CIL Regulation 122 and the NPPF the methodology behind the calculation of commuted sums for affordable housing must be:

- a) Fair and reasonable
- b) Reflective of the site to which the application relates

1.2 The calculations on the pro-forma calculator are aimed at establishing what subsidy a developer would have had to contribute to provide the affordable housing on site. This is without any assistance from HCA Social Housing Grant in accordance with the current funding guidance.

1.3 The calculations do not try to share in the uplift in values that will be achieved by putting affordable housing off-site.

1.4 The calculations are based on the following formula which reflects the true cost to a developer, had the affordable housing been delivered on site:

	Open Market value of units on site
Less:	Developer's profit (inclusive of marketing costs)
Equals:	cost of developing units on site (ie land + build + fees)
Less:	anticipated income from a Registered Provider (Capitalised rents, shared ownership sales)
Equals:	<u>Cost to developer of subsidising affordable housing</u>

2.0 HOW TO FILL IN THE COMMUTED SUM CALCULATOR

- 2.1 All cells coloured yellow are to be filled in by the applicant.
- 2.2 Enter site name (cell B3) and date (cell F3) carrying out the calculation.
- 2.3 Enter any comments in the notes area (cells G4 – K16) about site specifics, particularly where standard planning policies are not being met.
- 2.4 Enter the level of affordable housing as a percentage of the units on site. This will be the level agreed with the LPA that is viable (cell E5).
- 2.5 Enter the percentage of affordable units that are to be provided as affordable rented (cell E7).
- 2.6 The number of intermediate tenure units are automatically calculated on the basis of the input at 2.4 above (cell E9). Intermediate tenure is taken as Shared Ownership by LBRuT.
- 2.7 If any affordable rent or intermediate units are to be provided on site, these can be netted off the amounts to be put in the tables for those tenures (see cells E13 and E15).
- 2.8 The net amount of affordable rented and shared ownership units are inputted in cells B22-B28 and B34-B40. The mix of units should reflect that on the application site.
- 2.9 The Open Market Value (OMV) of each unit should be input in cells C22-C28 and C34-C40. The OMV should be the anticipated net achievable price, ie net of any discounts or marketing incentives.
- 2.10 The profit level to be inputted at cell D21 should be the gross profit inclusive of marketing costs as these would not apply to affordable housing.

- 2.11 Affordable Rents – the rent level per week for each unit type should be agreed with the LBRuT Housing Department, and reflect sections 2.1 and 2.2 of the Affordable Housing SPD and the Council's current Tenancy Strategy. Benchmarks for this purpose are set out on the Council's website alongside the SPD. The rent should be net of any service charge tenants would be due to pay as part of their rent.
- 2.12 The management charges relating to each tenure of the affordable housing should be checked with a Registered Provider (RP). This may be expressed by the RP as an amount per unit per annum, but should then be converted to a percentage of rent for inputting at cells G21 and G33. The default values are set at 25% for affordable rent and 6% for shared ownership respectively.
- 2.13 The yield to capitalise the net rent should be inputted at cells H21 and H33. This information can be established by consulting an RP or valuer. In the absence of site specific information LBRuT will accept a default value of 6%.
- 2.14 The 'equity rent' on the unsold portion of a shared ownership unit is to be input at cell F33. This information can be established by contacting an RP, but the value should not exceed 2.75% being the maximum allowed by the HCA. 2.75% will be treated as the default value.
- 2.15 The 'initial tranche' sale for shared ownership should be input at cell J33. The percentage of equity sold will have to ensure that the units are affordable to the target market for this type of tenure and this will vary from ward to ward. 40% will be treated as the default value.
- 2.16 The calculator will calculate the affordable housing commuted sum taking into account all of the above inputs. The calculated Commuted Sum will appear at cell K43. See also Annex E for a more detailed step by step guide.