

## **Step by Step Guide to the Affordable Housing Commuted Sum Calculator February 2014**

*Please note these are informal notes to assist with the interpretation of the Affordable Housing SPD Annex A the Affordable Housing Commuted Sum Calculation Pro-Forma and Guidance Notes. Section 2 of the Annex explains how to fill in the commuted sum calculator, but this step by step visual guide may assist further with how to complete the spreadsheet.*

First check the policy requirements for the type of proposal – these vary according to the current or former use and the number of units proposed in the development. There is a flowchart at page 8 in the SPD.

The commuted sum calculator is primarily designed to work on small sites, as set out in section 2.8 of the SPD, where the proposal is for less than 10 units, all of which will be private, based on the scheme that is the subject of the planning application. The calculator is set up to capture what a developer would have had to put in to make a small percentage of the units proposed affordable. For other types of sites the policy approach is more complex and use of the calculator is not appropriate.

**Step 1:** Using the tables in the Affordable Housing SPD identify the correct % affordable homes. Enter the number of units in the proposed development (gross) and below that the % that should be affordable.

**LONDON BOROUGH OF RICHMOND UPON THAMES  
AFFORDABLE HOUSING SPD - ANNEXE A - COMMUTED SUM CALCULATION**

<b>Site Name:</b> Example @ Richmond		09/06/2013	Notes
Number of Units on proposed development	3		
Level of Affordable Housing required	15%		
Number of Affordable Units required	0.45	No.	
Percentage Affordable Rented required	80%		
Number of Affordable Rented Units required	0.36	No.	
Percentage Intermediate required	20%		
Number of Intermediate units required	0.09	No.	
<b>Less on Site provision</b>			
Affordable Rented Units provided on site	0	No.	
<b>Net number of units of Affordable Rented off-site</b>	0.36	No.	
Intermediate Units provided on site	0	No.	
<b>Net number of Intermediate units off-site</b>	0.09	No.	

**Off-Site Commuted Sum calculation**

<b>Affordable Rented</b>									
Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Rent per week	Mgt Charge 25.00%	Yield 6.00%	Capitalised Rent	Commuted Sum
1 Bed Flat			0	0		0	6.00%	0	0
2 Bed Flat			0	0		0	6.00%	0	0
3 Bed Flat			0	0		0	6.00%	0	0
2 Bed Hse			0	0		0	6.00%	0	0
3 Bed Hse			0	0		0	6.00%	0	0
4 Bed Hse			0	0		0	6.00%	0	0
5 Bed Hse			0	0		0	6.00%	0	0
<b>Total</b>	0							<b>Total</b>	0

<b>Intermediate - Shared Ownership</b>										
Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Equity Rent 2.75%	Mgt Charge 6.50%	Yield 6.00%	Capitalised Rent	1st Tranche 40.00%	Commuted Sum
1 Bed Flat			0	0	0	0	6.00%	0	0	0
2 Bed Flat			0	0	0	0	6.00%	0	0	0
3 Bed Flat			0	0	0	0	6.00%	0	0	0
2 Bed Hse			0	0	0	0	6.00%	0	0	0
3 Bed Hse			0	0	0	0	6.00%	0	0	0
4 Bed Hse			0	0	0	0	6.00%	0	0	0
5 Bed Hse			0	0	0	0	6.00%	0	0	0
<b>Total</b>	0									0

<b>Total Units</b>	0.00							<b>Total Commuted Sum</b>	0
--------------------	------	--	--	--	--	--	--	---------------------------	---

The spreadsheet will automatically apply an 80/20 split to the number of affordable units required. This is to reflect the Council's general approach to the tenure of affordable housing – 80% rented, 20% intermediate, which is set out in [Core Strategy Policy CP15](#).

**Step 2:** Transfer the breakdown of the number of units that should be affordable rent or intermediate into the lower part of the spreadsheet. The breakdown should be proportionate to the mix of units that are proposed on site. The totals for affordable rented and intermediate units will be calculated automatically.

**LONDON BOROUGH OF RICHMOND UPON THAMES  
AFFORDABLE HOUSING SPD - ANNEXE A - COMMUTED SUM CALCULATION**

Site Name: Example @ Richmond	Date	09/08/2013	Notes
Number of Units on proposed development	3	No.	1 x 1 bed, 2 x 2 bed
Level of Affordable Housing required	15%		
Number of Affordable Units required	0.45	No.	
Percentage Affordable Rented required	80%		
Number of Affordable Rented Units required	0.36	No.	
Percentage Intermediate required	20%		
Number of Intermediate units required	0.09	No.	
<b>Less on Site provision</b>			
Affordable Rented Units provided on site	0	No.	
<b>Net number of units of Affordable Rented off-site</b>	0.36	No.	
Intermediate Units provided on site	0	No.	
<b>Net number of Intermediate units off-site</b>	0.09	No.	

**Off-Site Commuted Sum calculation**

Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Rent per week	Mgt Charge 25.00%	Yield 6.00%	Capitalised Rent	Commuted Sum
1 Bed Flat	0.12		0	0		0	6.00%	0	0
2 Bed Flat	0.24		0	0		0	6.00%	0	0
3 Bed Flat			0	0		0	6.00%	0	0
2 Bed Hse			0	0		0	6.00%	0	0
3 Bed Hse			0	0		0	6.00%	0	0
4 Bed Hse			0	0		0	6.00%	0	0
5 Bed Hse			0	0		0	6.00%	0	0
<b>Total</b>	0.36							<b>Total</b>	0

Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Equity Rent 2.75%	Mgt Charge 6.50%	Yield 6.00%	Capitalised Rent	1st Tranche 40.00%	Commuted Sum
1 Bed Flat	0.03		0	0	0	0	6.00%	0	0	0
2 Bed Flat	0.06		0	0	0	0	6.00%	0	0	0
3 Bed Flat			0	0	0	0	6.00%	0	0	0
2 Bed Hse			0	0	0	0	6.00%	0	0	0
3 Bed Hse			0	0	0	0	6.00%	0	0	0
4 Bed Hse			0	0	0	0	6.00%	0	0	0
5 Bed Hse			0	0	0	0	6.00%	0	0	0
<b>Total</b>	0.09									0

<b>Total Units</b>	0.45							<b>Total Commuted Sum</b>	0
--------------------	------	--	--	--	--	--	--	---------------------------	---

Check that the total number of units is equivalent to the total number of affordable units that was calculated in Step 1.

**Step 3:** Enter the Open Market Value (OMV). This should be the value of each whole unit, which reflects the anticipated net achievable price i.e. net of any discounts or marketing incentives. Annex B of the SPD sets out the sources of information that should inform the OMV – RICS local valuer, internet research, local estate agents, other comparable developments. For the purposes of the spreadsheet, the Council may accept a notional figure, but further evidence may be requested, and for any viability appraisal it would need to be determined by market research (see further explanation at the end of this guidance). A value should be put against each size and type of units in the proposal, for both rented and intermediate.

**LONDON BOROUGH OF RICHMOND UPON THAMES  
AFFORDABLE HOUSING SPD - ANNEXE A - COMMUTED SUM CALCULATION**

<b>Site Name:</b> Example @ Richmond	<b>Date:</b> 09/08/2013	<b>Notes:</b>
Number of Units on proposed development	3 No.	1 x 1 bed, 2 x 2 bed
Level of Affordable Housing required	15%	
Number of Affordable Units required	0.45 No.	
Percentage Affordable Rented required	80%	
Number of Affordable Rented Units required	0.36 No.	
Percentage Intermediate required	20%	
Number of Intermediate units required	0.09 No.	
<b>Less on Site provision</b>		
Affordable Rented Units provided on site	0 No.	
<b>Net number of units of Affordable Rented off-site</b>	<b>0.36 No.</b>	
Intermediate Units provided on site	0 No.	
<b>Net number of Intermediate units off-site</b>	<b>0.09 No.</b>	

**Off-Site Commuted Sum calculation**

<b>Affordable Rented</b>										
Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Rent per week	Mgt Charge 25.00%	Yield 6.00%	Capitalised Rent	Commuted Sum	
1 Bed Flat	0.12	260,000	52,000	208,000		0	6.00%	0	24,960	
2 Bed Flat	0.24	370,000	74,000	296,000		0	6.00%	0	71,040	
3 Bed Flat			0	0		0	6.00%	0	0	
2 Bed Hse			0	0		0	6.00%	0	0	
3 Bed Hse			0	0		0	6.00%	0	0	
4 Bed Hse			0	0		0	6.00%	0	0	
5 Bed Hse			0	0		0	6.00%	0	0	
<b>Total</b>	<b>0.36</b>							<b>Total</b>	<b>96,000</b>	

<b>Intermediate - Shared Ownership</b>										
Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Equity Rent 2.75%	Mgt Charge 6.50%	Yield 6.00%	Capitalised Rent	1st Tranche 40.00%	Commuted Sum
1 Bed Flat	0.03	260,000	52,000	208,000	4,290	279	6.00%	66,853	104,000	1,114
2 Bed Flat	0.06	370,000	74,000	296,000	6,105	397	6.00%	95,136	148,000	3,172
3 Bed Flat			0	0	0	0	6.00%	0	0	0
2 Bed Hse			0	0	0	0	6.00%	0	0	0
3 Bed Hse			0	0	0	0	6.00%	0	0	0
4 Bed Hse			0	0	0	0	6.00%	0	0	0
5 Bed Hse			0	0	0	0	6.00%	0	0	0
<b>Total</b>	<b>0.09</b>									<b>4,286</b>

<b>Total Units</b>	<b>0.45</b>							<b>Total Commuted Sum</b>	<b>100,286</b>
--------------------	-------------	--	--	--	--	--	--	---------------------------	----------------

**Step 4:** This step is based on assessing a new affordable unit as proposed, as the anticipated income from a Registered Provider (capitalised rents, shared ownership sales) will be deducted from the commuted sum.

Registered Providers need to fulfill their GLA housing contract (acting as the HCA in London) and work with Councils, to ensure affordability to future tenants. The SPD Annex A guidance notes at paragraph 2.11 confirm the affordable rents should comply with the Council's policies and be agreed with the Council's housing officers.

The agreed assumption by unit size is set out on the Council's website [http://www.richmond.gov.uk/supplementary\\_planning\\_documents\\_and\\_guidance.htm](http://www.richmond.gov.uk/supplementary_planning_documents_and_guidance.htm) for use in the commuted sum calculation. Regard will be had to the Council's [Tenancy Strategy](#) – currently as adopted by Cabinet in January 2013 which includes updated guideline rents. The Council does seek lower rents on larger units, to ensure affordability is maintained for family homes for those reliant on welfare benefits bearing in mind Government policy to cap household benefit entitlement. The Strategy and the rent levels within it will be regularly updated. Please ensure that you are using the current version of the Tenancy Strategy.

Using these benchmarks, enter the affordable rents for each unit type.

**LONDON BOROUGH OF RICHMOND UPON THAMES  
AFFORDABLE HOUSING SPD - ANNEXE A - COMMUTED SUM CALCULATION**

Site Name: Example @ Richmond	Date: 09/08/2018	Notes
Number of Units on proposed development	3 No.	1 x 1 bed, 2 x 2 bed
Level of Affordable Housing required	15%	
Number of Affordable Units required	0.45 No.	
Percentage Affordable Rented required	80%	
Number of Affordable Rented Units required	0.36 No.	
Percentage Intermediate required	20%	
Number of Intermediate units required	0.09 No.	
<b>Less on Site provision</b>		
Affordable Rented Units provided on site	0 No.	
<b>Net number of units of Affordable Rented off-site</b>	0.36 No.	
Intermediate Units provided on site	0 No.	
<b>Net number of Intermediate units off-site</b>	0.09 No.	

**Off-Site Commuted Sum calculation**

Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Rent per week	Mgt Charge 25.00%	Yield 6.00%	Capitalised Rent	Commuted Sum
1 Bed Flat	0.12	260,000	52,000	208,000	210	2,730	6.00%	136,500	8,580
2 Bed Flat	0.24	370,000	74,000	296,000	225	2,925	6.00%	146,250	35,940
3 Bed Flat			0	0		0	6.00%	0	0
2 Bed Hse			0	0		0	6.00%	0	0
3 Bed Hse			0	0		0	6.00%	0	0
4 Bed Hse			0	0		0	6.00%	0	0
5 Bed Hse			0	0		0	6.00%	0	0
<b>Total</b>	0.36							<b>Total</b>	44,520

**Intermediate - Shared Ownership**

Unit type	Off Site Provision	OMV £	Profit 20.00%	Net Total Cost	Equity Rent 2.75%	Mgt Charge 6.50%	Yield 6.00%	Capitalised Rent	1st Tranche 40.00%	Commuted Sum
1 Bed Flat	0.03	260,000	52,000	208,000	4,290	279	6.00%	66,853	104,000	1,114
2 Bed Flat	0.06	370,000	74,000	296,000	6,105	397	6.00%	95,136	148,000	3,172
3 Bed Flat			0	0	0	0	6.00%	0	0	0
2 Bed Hse			0	0	0	0	6.00%	0	0	0
3 Bed Hse			0	0	0	0	6.00%	0	0	0
4 Bed Hse			0	0	0	0	6.00%	0	0	0
5 Bed Hse			0	0	0	0	6.00%	0	0	0
<b>Total</b>	0.09									4,286

<b>Total Units</b>	0.45							<b>Total Commuted Sum</b>	48,806
--------------------	------	--	--	--	--	--	--	---------------------------	--------

In this example, an affordable housing contribution of £48,806 is calculated.

**Further explanation:**

The above steps are intended to show the minimum inputs that are required to work out a commuted sum calculation.

Any cells highlighted in yellow can be amended, however the spreadsheet is embedded with various other benchmarks and default values for use in the commuted sum calculation, which are based on expert advice and knowledge of the local market. The Council would require evidence to justify any variation in these benchmarks and default values.

The onus is on developers to submit the spreadsheet at Annex A with an application (section 3 in SPD). It will assist in speeding up the Council's consideration of an application if as much relevant information as possible can be provided initially by the applicant/agent.

The purpose of the spreadsheet is to generate the maximum sum that a developer would put in to make the relevant % of those units affordable. The contribution would normally be secured via a legal agreement (S106 Agreement or Unilateral Undertaking).

If the contribution calculated is below £1,000 (and no other financial contributions are required) the Council may waive this as an exception, as it is recognised that the resources required to secure the contribution via a legal agreement may outweigh the amount that is received.

Should the applicant/agent seek to mitigate the contribution on the grounds of financial viability a properly detailed submission is required to be made. Annex B to the SPD sets out the schedule of inputs and sources of information necessary for such appraisals. The Council will appraise such applications using the GLA Affordable Housing Development Control Toolkit. Please note that it is the Council's policy to commission an independent review of any detailed affordable housing viability submission and the cost of such reviews is charged to the applicant.