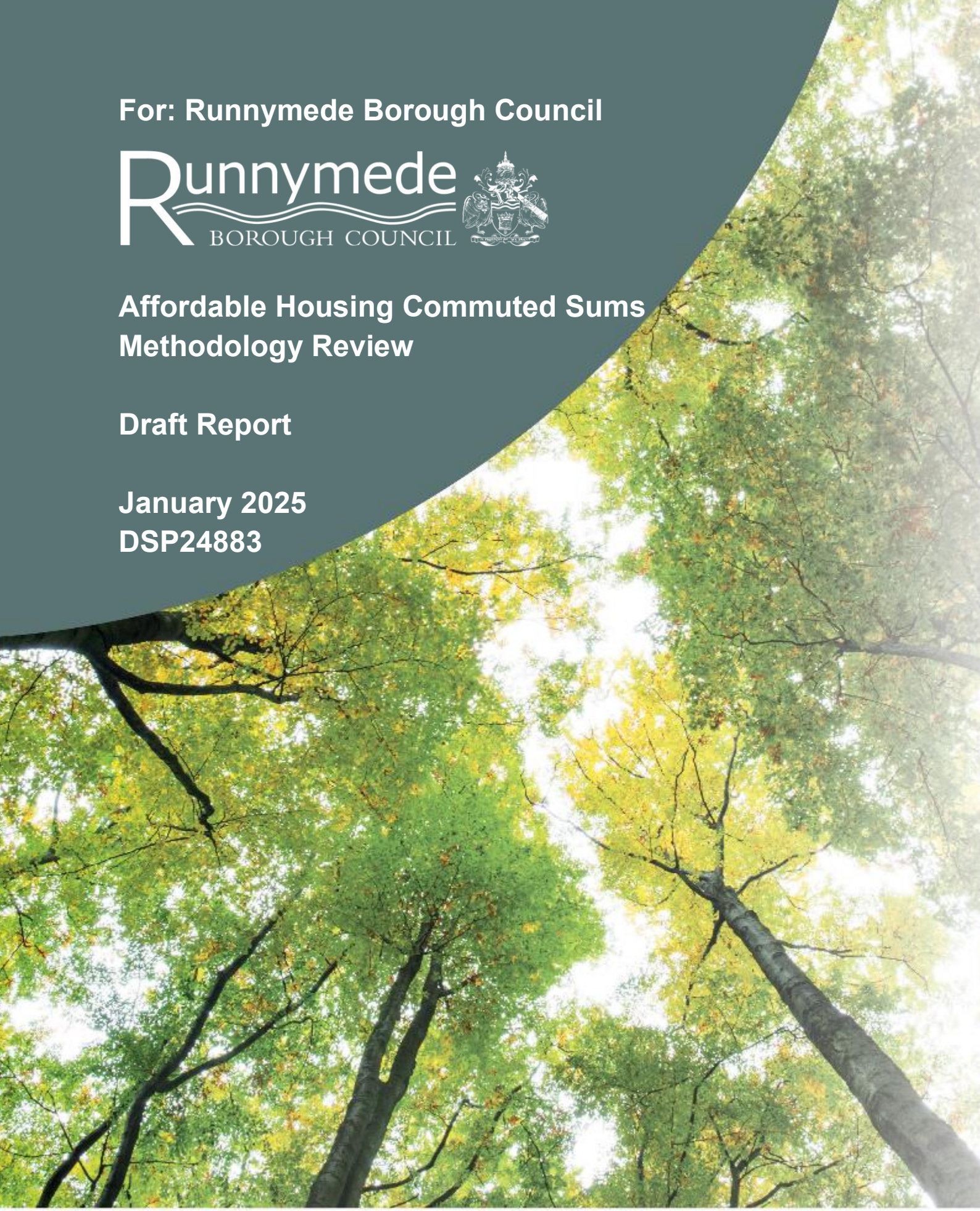
For: Runnymede Borough Council

Affordable Housing Commuted Sums Methodology Review

Draft Report

January 2025
DSP24883



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1. Introduction

1.1 Introduction, Background and Purpose

1.1.1 This report is intended for Runnymede Borough Council (RBC) to inform a potential review method for calculating off-site contributions/payments in lieu of on-site affordable housing (AH) provision, in circumstances where planning officers have agreed that on-site provision is not suitable.

1.1.2 RBC's current policy sets out a method of calculating such contributions, however the Council is seeking to update this methodology and introduce a simpler and more straightforward method which will allow for easier and faster calculation of the sum required by policy.

1.1.3 Policy SL20 of Runnymede 2030 Local Plan (adopted July 2020) sets out the requirements for affordable housing. Policy SL19 concerns housing mix and size requirements.

1.2 Overall Approach to AH set out in RBC Local Plan

1.2.1. The approach set out in Runnymede's Local Plan is as follows:

i All C3 development of 10 units or more (with the exception of Gypsy and Traveller/Travelling showpeople plots) is required to provide 35% affordable housing, with a split of 70% affordable/social rent and 30% other forms of AH.

ii Only where it can be demonstrated that providing any affordable housing on-site is not viable or feasible will the Council consider accepting financial contributions in lieu of on-site provision.

1.2.2. The Affordable Housing Supplementary Planning Document (SPD) adopted in April 2022 provides further guidance on how the requirements of policy SL20 will be delivered. The SPD sets out, amongst other things, that where the affordable housing requirement is not a whole number it will be rounded up or down to the

nearest whole number. If the split of dwellings results in 0.5 of rented and 0.5 of another tenure type, the rented accommodation will be rounded up.

1.2.3. However, the SPD is currently being updated to take into account this Affordable Housing Financial Contribution approach and also to take account of the changes introduced by the revised National Planning Policy Framework (December 2024). This update to the SPD will include changing the rounding up mechanism to ensure that where the affordable housing requirement is not a whole number it will only be rounded down where it continues to meet the affordable housing requirement in Policy SL20. To ensure that a policy compliant amount of affordable housing is provided, rounding to a whole unit number will be required (up or down depending on what is required to meet the policy requirement). Therefore, in the next stage of this study, once RBC have identified a suitable methodology, we will factor this approach in to the affordable housing mix for the relevant appraisals/calculations, to ensure that the review is consistent with RBC's updated approach.

1.3 Current RBC methodology

1.3.1. The SPD sets out a method of calculating such contributions.

1.3.2. The method currently in use was introduced in 2022 by BPS Chartered Surveyors and based on assumptions from their 2019 Local Plan Viability Work for RBC.

1.3.3. The formula for calculating contributions is based on an approach which compares two appraisals:

> Appraisal 1 - being an all private appraisal of the proposed application scheme
>
> less
>
> Appraisal 2 - an appraisal of a policy compliant scheme

1.3.4. The above methodology takes a site-specific approach to affordable housing and provides a suitable assessment of the contributions due. It does, however, have some disadvantages, the principal one being that it requires a judgement to be made on assumptions being fed into the calculation; there may not always be

agreement between the planning applicant and the Council on these. Reaching agreement can be time-consuming and may require external input which can add cost to the process. The Council therefore wishes to consider whether a simpler method of calculating the contribution due can be applied.

1.3.5. It should be noted that regardless of the methodology used to calculate the level of contributions due, the amount payable could still potentially be reduced due to overall viability considerations for the specific development. The current methodology takes account of this and proposes an approach for this scenario:

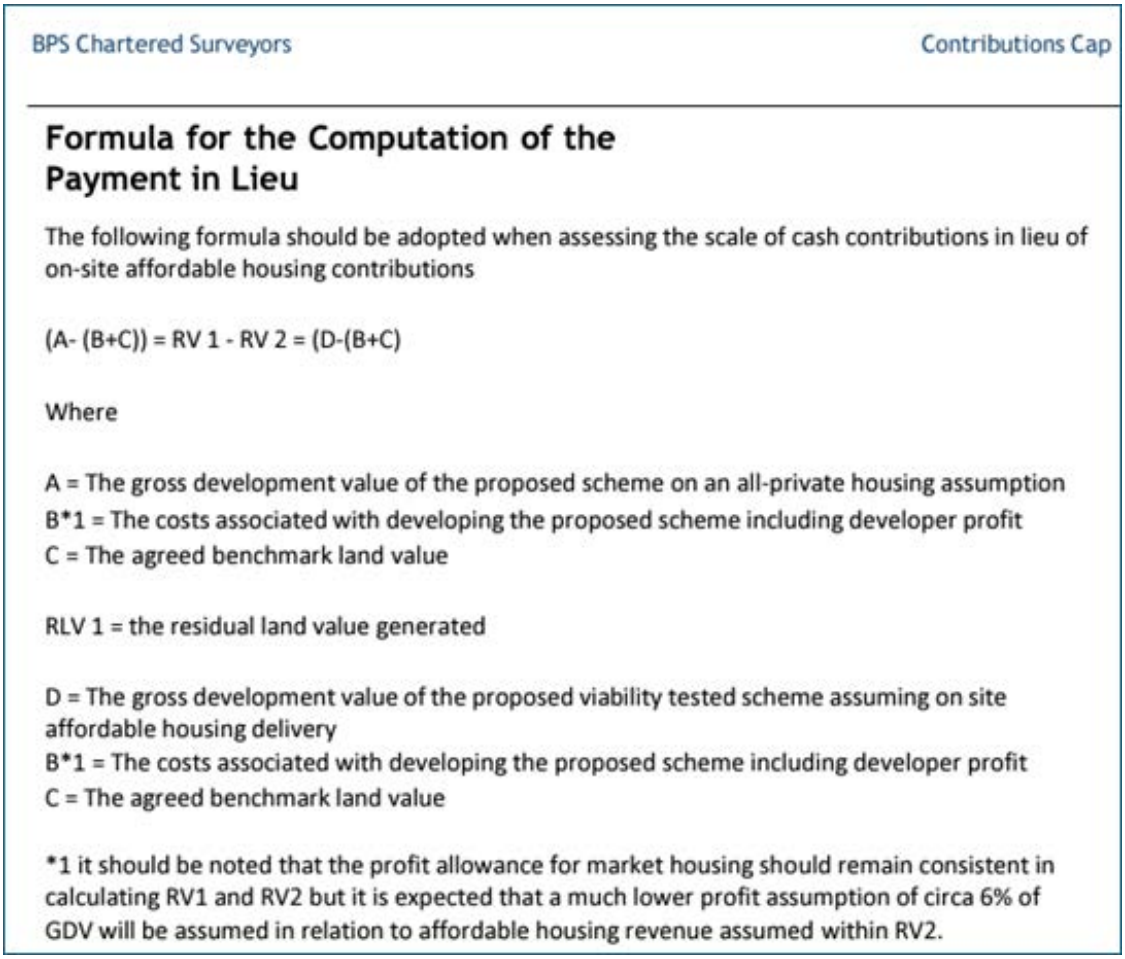
> Where schemes have been viability tested, and it is agreed that a lesser contribution is commensurate with viability, the approach is slightly modified as follows:
>
> Appraisal 1 - being an all private appraisal of the proposed application scheme
>
> less
>
> Appraisal 2 - an appraisal of the viability tested proposed scheme (assuming on site affordable delivery)

1.3.6. Any methodology should reflect a requirement for the financial contribution to be broadly equal to the cost of providing affordable housing on-site – i.e. there should be equivalence to a developer between on-site provision or the provision of a financial contribution.

1.3.7. Our aim in providing this initial report is to identify methodologies that are commonly used by other Local Authorities and recommended by DSP elsewhere in order to determine a relatively simple means of calculating AHFCs that meets current guidance and best practice whilst also being at a level that does not mean this is a more attractive route to planning applicants in comparison with expected on-site AH provision.

1.4 Current formula for calculating contributions in lieu of on-site AH

1.4.1. The formula for calculating commuted sums is set out in Appendix 3 of the SPD as follows:



BPS Chartered Surveyors — Contributions Cap

Formula for the Computation of the Payment in Lieu

The following formula should be adopted when assessing the scale of cash contributions in lieu of on-site affordable housing contributions

(A- (B+C)) = RV 1 - RV 2 = (D-(B+C)

Where

A = The gross development value of the proposed scheme on an all-private housing assumption
B*1 = The costs associated with developing the proposed scheme including developer profit
C = The agreed benchmark land value

RLV 1 = the residual land value generated

D = The gross development value of the proposed viability tested scheme assuming on site affordable housing delivery
B*1 = The costs associated with developing the proposed scheme including developer profit
C = The agreed benchmark land value

*1 it should be noted that the profit allowance for market housing should remain consistent in calculating RV1 and RV2 but it is expected that a much lower profit assumption of circa 6% of GDV will be assumed in relation to affordable housing revenue assumed within RV2.

1.4.2. BPS's research also tested the outcomes of this formula by running further appraisals based on affordable housing only *'to test whether the contribution sum provides sufficient* funding *to meet the costs of development and fund the acquisition of land at broadly the same level as generated by the policy compliant residual appraisal'.*

1.4.3. These test appraisals indicated that as well as the cost of providing affordable housing units, the contributions resulting from the formula allowed for between £82,777 and £492,474 per plot in land purchase costs (depending on the location within the borough) with the typical rate being £100k and £150k.

1.4.4. The appraisals assumed different sales values for different areas of the borough, (with Egham, for example, assumed to have a market sales value of £5,830/m²) and assumed a flat rate build cost for market and affordable housing across the borough of £1,500/m².

1.4.5. Other assumptions (based on the LP viability assessment typology testing) included:

- Professional fees at 12.0% works cost
- Marketing at 3.00% GDV
- Finance at 6.75% interest (100% debt finance)
- 20.0% GDV profit on market housing, included as a fixed cost within the appraisals
- 6.0% GDV profit on affordable housing, included as a fixed cost within the appraisals (where AH is included)

1.4.6. The Local Plan study assumed a Benchmark Land value of £2,000,000 per hectare for viability testing of typologies (included as a fixed cost within the appraisal). However, for the purposes of setting the commuted sums approach with reference to the AH policy, this exercise does not revisit viability. The comparative appraisals were considered on a residual land value basis, i.e. considering the total surplus after allowing for the profit assumptions in 1.4.5, above.

2. Review of potential affordable housing contribution mechanism options and local examples

2.1 Introduction – review of contribution mechanisms

2.6.1 There is no Government or other formal requirement, or widely recognised guidance, as to how affordable housing contributions of this type should be calculated or set out, with LAs seemingly taking a variety of different approaches.

2.6.2 The following sets out examples of approaches that we are aware of and that have been used in other Local Authority areas, many of which have either been recommended by DSP or are based on approaches taken by DSP for other clients.

2.6.3 We have also carried out a review of approaches used by neighbouring authorities and across the wider region and where DSP has specifically provided suggested affordable housing financial contributions methodologies. A summary is provided below indicating our understanding of approaches used.

2.2 Review of LA approaches - neighbouring local authorities

Spelthorne

2.2.1. Policy for commuted sum payments on sites of four to nine dwellings, which assumes a payment based on 30% of the enhanced value of a site derived from grant of a planning consent. It is not clear how the 'enhanced value' would be calculated, although an example is given of garden land with a close to nil value increasing to £90,000 per plot (and therefore requiring a contribution of £30,000). The relevant research dates back to 2007, therefore is somewhat dated and precedes the current NPPF/PPG.

Surrey Heath

2.2.2. Policy CP5 requires a contribution on small sites, in lieu of on-site AH, calculated with the following formula:

Summary methodology for calculating a financial contribution equivalent to the cost of 20% of the gross number of dwellings on sites of 3-4 dwellings

Step 1 – Open Market Value (OMV) of the relevant or comparative development
Step 2 – Multiply the OMV (Step 1) by the residual land value percentage (see para 7.9)
Step 3 – Add 15% of the result of Step 2 to reflect site acquisition and servicing costs.
Step 4 – Apply the affordable housing policy percentage

2.2.3. The relevant 'residual land value percentage' was set as follows, although the policy notes this could be subject to change:

Mytchett/lower end Frimley – 11.6%
Bagshot/Lightwater/Frimley – 21.4%
West End/Bisley/Frimley Green/lower end Camberley – 28%
Windlesham/upper end Camberley – 33.3%
Chobham – 43.1%

The calculation therefore applies the specific percentage to the OMV of the proposed development (result of Step 1) to establish the indicative base land value depending on location. In terms of percentage figures for Camberley and Frimley, the average between the lower and upper figures will be used. This equates to 30.7% for Camberley and 16.5% for Frimley.

2.2.4. It should be noted that the above method and variation by area was based on appraisals of small schemes, with the calculation intended for use on schemes of below 10 units.

This is a similar methodology to 'Option B' (discussed in our review of Options in section 2.6, below).

Elmbridge

2.2.5. 2020 SPD (updated April 2021) requires contributions from sites of under 10 dwellings (and uses a similar calculation on sites where it has been agreed that AH provision will not be made on-site, applied to the relevant number of market units).

Summary of methodology for calculating a financial contribution equivalent to the cost of 20% of the gross number of dwellings on sites of 1-4 dwellings

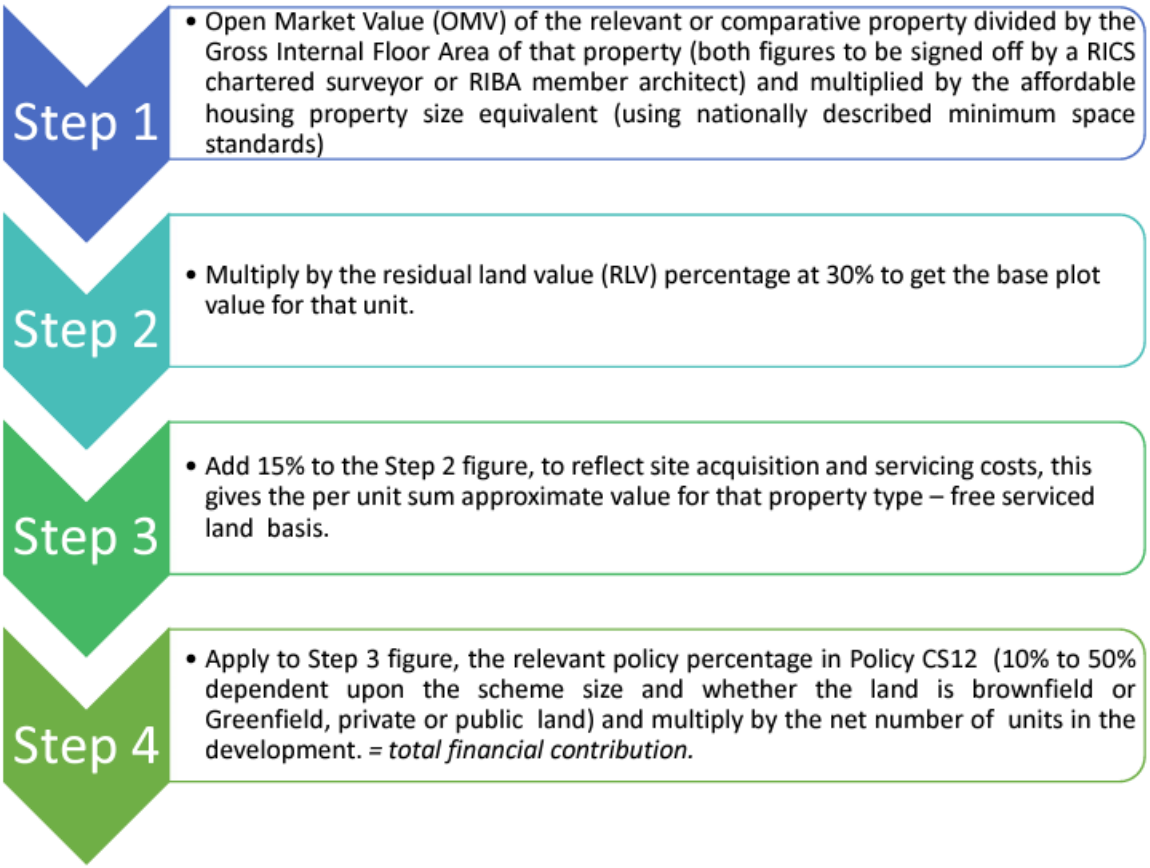
Step 1 – Open Market Value (OMV) of the relevant or comparative development
Step 2 – Multiply the OMV (Step 1) by the residual land value percentage (39.2%)
Step 3 – Add 15% of the result of Step 2 to reflect site acquisition and servicing costs.
Step 4 – Apply the affordable housing policy percentage (i.e. Step 3 x 20%)

2.2.6. The same methodology as applied by Surrey Heath, above, but without any variance for location. Again, similar to Option B, discussed in 2.6, below.

2.2.7. The methodology also includes an adjustment for property size (assuming specific unit sizes for AH).

Woking

2.2.8. AH Delivery SPD 2023. Policy CS12 allows for off-site contributions to be made where there are clear housing management reasons or in the interests of the effective distribution of affordable housing across the Borough.



Example

Calculating the 30% financial contribution required for a brownfield site comprising 5 x 1 bedroom flats and 9 x 2 bedroom flats.

Proposed 14 unit scheme: 5 x 1 bed flats, 9 x 2 bed flats.

5 x 1 bedroom flat (2 bedspaces) size: 50 sqm OMV: £269,000
Guide size for relevant or comparative affordable home –50 sqm

9 x 2 bedroom flat (4 bedspaces) size: 72 sqm OMV: £387,360
Guide size for relevant or comparative affordable home – 70 sqm

Step 1: Open Market Value (OMV) of a relevant or comparative development

Market value of proposed property / size of the property x affordable housing size that would have been required to be provided on-site.

1 bed flat: £269,000 / 50 sqm = £5,380 per sqm

£5,380 x 50 sqm = £269,000 x 5 units = £1,345,000

2 bed flat: £387,360 / 72 sqm = £5,380 per sqm

£5,380 x 70 sqm = £376,600 x 9 units = £3,389,400

Total OMV of relevant or comparative development = (£1,345,000 + £3,389,400) = £4,734,400

Step 2: Multiply the OMV (Step 1) by the residual land value percentage (30%)
£3,321,615 x 30% = £1,420,320

Step 3: Add 15% of the result of Step 2 to reflect site acquisition and servicing costs
£1,420,320 + 15% = £1,633,368 (= base plot/land value of affordable unit)

Step 4: Apply the affordable housing policy percentage from Policy CS12 (i.e. Step 3 x 30% for sites between 10 and 14 units.

£1,633,368 x 30% = **£490,010 Affordable Housing Financial Contribution**

2.2.9. Again, a similar method to what is in use in Elmbridge and Surrey Heath boroughs (and referred to as Option B, below).

2.3 Review of LA approaches - other Surrey local authorities

Guildford

2.3.1. Appendix 7 of Guildford's planning contributions SPD sets out the following calculation, which requires an assessment of the market value of the proposed homes:

The methodology considers the financial benefit to the developer of not including affordable housing in the development scheme. This is the difference in gross development value between a development of 100% market housing and 65% market housing with 35% affordable housing.

Example :

Proposed development of 50 units of assisted living / extra care flats.
Provision of affordable housing is sought at 35%, i.e. 17.5 flats, rounded up to 18 flats.

Flat size	**Number of homes**	**Floor space** as proposed for the market homes	**Sales value per square metre** £ / sq m based on recent actual market housing sales	**Value (floor space x Sales value** £ / sqm	
1 bed flat	9	55	5200	2,574, 000	
2 bed flat	9	70	5200	3,276,000	
			TOTAL	5,850,000	A
Value of flats as affordable housing (assuming sale to RP at average 55% of market value) NOTE : starter homes will be at 80% of market value				3,217,500	B
Development value without affordable housing minus value of flats for sale to a Registered Provider = Additional value to the developer of retaining 18 homes for market sale / rent rather than them being affordable				2,633,000	A-B
The affordable housing payment in lieu would therefore be **£2,633,000**					

Mole Valley

2.3.2. Mole Valley's SPD sets out the following calculation:

For calculation purposes open market value (OMV) and the guide size of an equivalent affordable home is as follows:

1 x 4 bed detached house (210m²)	OMV - £925,000
4 x 3 bed detached houses (150m²)	OMV - £750,000 each
2 x 2 bed semi-detached houses (115m²)	OMV - £500,000 each
1 x 2 bed bungalow (93m²)	OMV - £525,000
Size - 210m² (4 bed house)	Guide size for a 4 bed affordable home - 100m²
Size - 150m² (3 bed houses)	Guide size for a 3 bed affordable home - 85m²
Size - 115m² & 93m² (2 bed units)	Guide size for a 2 bed affordable home - 75m²

Step 1: Open market value (OMV) of a relevant or comparative property divided by the size of the property and multiplied by the appropriate affordable housing size that would have been required on site.

4 bed house - £925,000 / 210m² = £4,405	*£4,405 x 100m² = £440,500*
3 bed house - £750,000 / 150m² = £5,000	*£5,000 x 85m² = £425,000*
2 bed house - £500,000 / 115m² = £4,348	*£4,348 x 75m² = £326,100*
Bungalow - £520,000 / 93m² = £5,591	*£5,591 x 75m² = £419,325*

Step 2: Multiply the OMV (completed sale value, or GDV) by the residual land value percentage (30%)

4 bed house - £440,500 x 30% = £132,150 (base land / plot value)

3 bed houses - £425,500 x 30% = £127,500

2 bed houses - £326,100 x 30% = £97,830

Bungalow - £419,325 x 30% = £125,798

Step 3: Add 15% to the step 2 result to reflect site acquisition and servicing costs (this gives the per unit sum for that property type)

4 bed house - £132,150 + 15% = £151,973

3 bed houses - £127,500 + 15% = £146,625

2 bed houses £97,830 + 15% = £112,505

Bungalow - £125,798 + 15% = £144,668

Step 4: Apply to the relevant site number and proportion (i.e. 20%)

4 bed house - £151,973 x 20% x 1 = £30,395

3 bed houses - £146,625 x 20% x 4 = £117,300

2 bed houses - £112,505 x 20% x 2 = £45,002

Bungalow - £144,668 x 20% x1 = £28,933

Total required sum for all 8 units = £221,630

2.3.3. This is similar to Option B, below.

Epsom and Ewell

2.3.4. Appendix C to the Council's Revised Developer Contributions SPD refers to the Development Contributions Calculator. This requires input of various assumptions including the OMV of each unit type, and an assumed AH mix (unit types/bed sizes) which the applicant must agree with the housing department (and which must reflect the type/size of housing of the proposed development as a whole) is applied to a 70% Affordable Rent and 30% Shared Ownership mix. The calculator then works out an overall contribution based on rental income (and % share sold for shared ownership properties).

Waverley

2.3.5. Waverley have a fairly recent (2022) SPD which sets out the approach regarding commuted sums (and notes that any sums agreed in a s106 agreement will be indexed).

2.3.6. Waverley's approach is as follows:

How is a commuted sum calculated?

115. On sites where a financial contribution is being made, the Council will calculate the payment which seeks to equate to the land value of the relevant dwelling plots (those that would have been made available for on-site affordable housing). In essence the thinking involves calculating how much it would cost to go elsewhere and replace the land on which the affordable housing would have been provided on-site.

116. This approach assumes a straightforward payment made by the landowner (who may also be the developer) under the terms of a Section 106 agreement in much the same way as occurs with planning obligations for aspects such as highways/transport, open space, education etc.

117. The methodology assumes an additional planning obligations payment being made by the developer, albeit from the increased Gross Development Value sales receipts which results from having no affordable housing on-site.

118. The final sum agreed will be at the Council's discretion.

2.3.7. The method of calculation is not stated but is likely to be similar to the Surrey Heath, Elmbridge and others.

Reigate and Banstead

2.3.8. Where financial contributions are agreed, the Council expects the off-site contribution to be equivalent or greater than the cost of providing the AH on site. R&BBC follow a similar approach to the current Runnymede BC approach. The methodology compares two viability appraisals, one residual appraisal assuming full compliance with affordable housing requirements of the DMP and the requirements of this Affordable Housing SPD and one residual appraisal assuming 100% market housing (as is proposed by the developer without affordable housing). The off-site payment in lieu will be the difference between the two residual land values.

2.4 Review of LA approaches - other nearby local authorities

Crawley

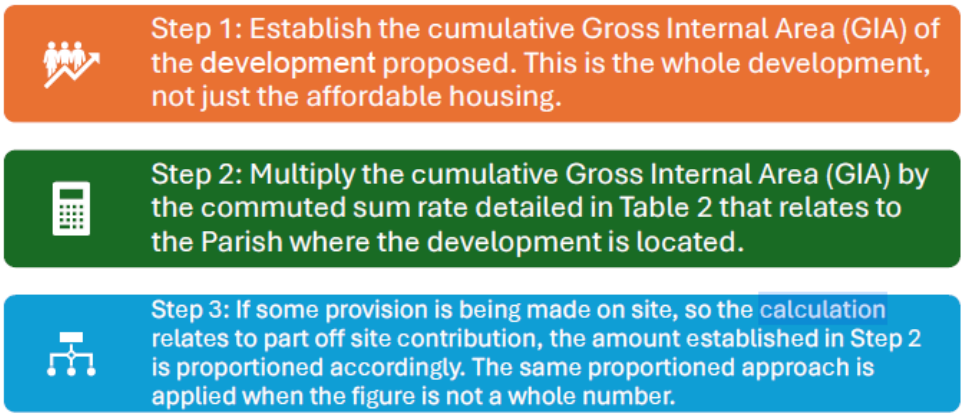
2.4.1. Crawley BC has an affordable housing calculator spreadsheet that applies different rates per square metre of development proposed which appear to be based on an original assumption of £52,500 per affordable housing unit required by policy, adjusted by the Retail Price index from the date of adoption of the policy in 2017 – therefore a current rate equivalent to £74,412 per AH unit required by policy.

Kingston

2.4.2. Annex 3 of the 2012 Kingston AH SPD sets out a calculation which (as per current RBC policy) requires comparison of two residual appraisals (100% market scheme and policy compliant scheme).

East Hampshire

2.4.3. Sets out the following method of calculation for commuted sums, which applies a £/m² rate to the overall scheme GIA, varying according to location in the district:



6.5 Table 2 - Affordable Housing Commuted Sums

	Group 1	Group 2	Group 3	Group 4
Parish	Whitehill and Bordon	Clanfield	Alton	Beech
		Headley	Bramshott and Liphook	Bentley
		Horndean	East Tisted	Bentworth
		Rowlands Castle	Four Marks	Binstead
			Froyle	Chawton
			Grayshott	Farringdon
			Lasham	Kingsley
			Medstead	Selborne
			Ropley	Wield
			Shalden	Worldham
Commuted sum (£) per square metre (GIA) indexed[1]	£229.92	£387.99	£510.14	£646.65

2.4.4. It is not clear how the above rates were originally set however it seems likely that an approach similar to Option C, below, was taken.

Basingstoke & Deane

2.4.5. This Council uses a similar approach to current RBC policy, comparing a residual appraisal of a 100% market scheme and a policy compliant scheme as noted in 2.6 of the BDBC SPD:

2.6.1. How should commuted sums be calculated?

2.83 The level of financial contributions sought will reflect the equivalent development cost of meeting affordable housing policy requirements on-site.

2.84 To be 'equivalence' based, a financial contribution will reflect the difference between the Gross Development Value (GDV) of a given proposal without onsite affordable housing and the GDV of a given development that includes a policy compliant element of affordable housing. The financial contribution equates to the subsidy (or loss of income) that a developer would be required to forgo, if they were to comply with policy on-site.

2.85 Such calculations usually require a Residual Land Valuation exercise comparing the financial impact of including and excluding a policy compliant element of affordable housing. However, where circumstances involve a very small number of affordable homes, it may be possible to reach defensible conclusions using a comparative market valuation exercise and value information obtained from Registered Providers.

2.86 In any event, the council will reserve the right to refer viability and valuation evidence to an external RICS valuer for verification, usually at the cost of the applicant.

2.4.6. Appendix 2.4 of Basingstoke & Deane's SPD sets out requirements for the assumptions to go into the relevant appraisals.

Winchester

2.4.7. Winchester CC has a very simple/straightforward approach which sets out £ amounts per unit of AH that would be required on site by policy. These figures were a 2012 update of figures previously set in 2008. It is not clear whether these figures have been updated/indexed since or if this approach is still in use. In any event, this appears to have been set up principally to deal with commuted sums on small sites and WCC is no longer seeking commuted sums from small developments (under 10 units) therefore AH financial contributions are only agreed in exceptional cases and likely to be limited by viability considerations.

Sevenoaks

2.4.8. The Council requires the equivalent of 10% affordable housing on sites of less than 5 dwellings in their emerging Local Plan (but on sites of 0.5ha or more), which continues their previous policy. The policy also allows for financial contributions on larger sites in exceptional circumstances. The Council has a 2011 Affordable Housing SPD that sets out a formula for calculating a financial contribution on sites of fewer than 5 dwellings. This approach was originally devised and recommended by DSP, which is consistent with the Option B approach below.

2.4.9. In summary the Sevenoaks formula is:

- Step 1: Identify the Open Market Value (OMV) of the proposed development
- Step 2: Multiply Open Market Value (from step 1) by the residual land value percentage (38.8%[1])
- Step 3: Add 15% of the result of step 2 to reflect site acquisition and servicing costs (gives the per unit sum(s))
- Step 4: Apply the percentage requirement under the affordable housing policy to give the final contribution.

[1] Figure needs to be calculated through modelling – see Option B below.

2.5 Review of LA approaches - further afield

Chichester

2.5.1. Chichester DC applies a £/m2 rate to the relevant scheme GIA. DSP carried out work in 2019 as part of Local Plan Viability Assessment which reviewed the methodology and updated the calculation per the LP viability assumptions/appraisal results at the time, recommending the following (to be indexed by HPI):

> **Sites of 9 units or fewer**
>
> For off-site contributions/payments in lieu of affordable housing relating to sites of 9 units or fewer, we recommend a charge of £400 per m^2 be applied to the total floor area of schemes in the South area, and £500 per m^2 in the North area.
>
> **Sites of 10 or more units**
>
> For off-site contributions/payments in lieu of affordable housing relating to sites of 10 or more units, we recommend a rate of £140,000 per unit for each unit required by policy which is not being provided on site.
>
> Alternatively, a lower rate could be used for developments made up only of flats, of £130,000 per unit (with all other developments providing £140,000 per unit).

2.5.2. This approach is similar to Option C, below.

Worthing

2.5.3. DSP recently carried out work for Adur & Worthing Councils linked to the Worthing Local Plan Viability Assessment which recommended the following rates in that borough, to be indexed to the Land Registry HPI or similar:

Table 7: Suggested FC per unit of AH that would otherwise be provided on site

Suggested FC per unit - as at Jan 2021 - link to HPI		
Developments of flats only	£	55,000
Houses or Mixed Developments	£	100,000

2.5.4. Worthing BC has drafted an approach seeking these sums, which we understand it intends to link to the relevant Build Cost Index figure provided by the RICS for CIL purposes. The Council proposes including a 10% additional element which would cover the necessary feasibility work to bring forward an affordable housing site.

2.5.5. Again, an approach similar to Option C, below.

Southend

2.5.6. Following a report by BNP Paribas in 2015, the following approach was recommended, intended to simplify the process – particularly in cases where viability was not in dispute and therefore a full viability assessment was not necessary. The Southend approach requires an assessment of the market value of the AH units that would be required on site by policy, multiplied by 30% to reach a plot value, then adding 10% to reflect site acquisition costs. Therefore effectively 33% of the assumed market value of the relevant affordable housing units.

2.5.7. This is similar to Option B, below.

Bromley

2.5.8. London Borough of Bromley Council uses a formula as follows, which assesses the value of an AH unit and requires the difference between that and the GDV of a market unit to be paid as a contribution.

"Difference between the open market value of the equivalent on-site affordable housing units and the maximum price that a Registered Provider (RP) would reasonably pay for those units, assuming nil grant (with limited adjustment reflecting potential cost variation for provision of units for private sale rather than affordable housing e.g. marketing costs)."

Tonbridge & Malling

2.5.9. T&M BC's 2008 Affordable Housing SPD indicates that "*In exceptional circumstances, the Borough Council will consider a commuted sum payment in lieu of on-site or off-site provision. Where the Borough Council agrees that a commuted sum payment can be made in-lieu of units not provided on site or if no alternative off site provision can be agreed it will expect a payment-in-lieu broadly equivalent to the value of the total units forfeited"*. November 2021 Affordable Housing Protocol (not policy) reiterates that there is no fixed approach. States "*Should on-site and off-site delivery be ruled out as options, a commuted sum may be deemed acceptable. The initial calculation for a commuted sum will be subject to discussion between viability consultants as part of the process laid out at section 7*" (Section 7 is the viability appraisal approach).

Maidstone

2.5.10. Set out in July 2020 Affordable Housing & Local Needs SPD, MBC's financial contributions are based on the difference between the market value of the unit and the amount a Registered Provider would pay for that unit based on the required housing mix for that site (i.e. a transfer value calculated by reference to BRMA for each tenure type).

Market values considered on site-by-site basis. The financial contribution is then the difference between the open market value and the transfer price.

2.5.11. It notes that "*Many Councils make allowances in their financial contribution for the difference in profit levels between providing open market units on site and affordable housing on site. This has the effect of reducing the overall financial contribution*". It goes on to state: "*this difference in profit is offset by the extra revenue potentially received by the developer given that the site is now 100% open market and also accounts for the extra costs involved for both the Council and RPs in finding alternative sites and schemes for the off-site contribution*"

Ashford

2.5.12. This Borough's February 2009 Affordable Housing SPD states: "*Commuted sums (financial payments in lieu of on-site provision) will only be acceptable if the amount paid will actually result in the provision of the appropriate amount, sizes, types and tenure of affordable housing in a sustainable scheme*

In terms of the commuted sums formula, the Council's approach is as follows:

1. *Define the mix of size, type, tenure of the affordable homes*
2. *Using this mix, agree the rents and shared ownership costs with the RSL partner*
3. *Using these rent limits and costs ask RSL to advise about the maximum level of prudent borrowing against the scheme*
4. *Apply the following formula. Purchase price of suitable land + construction costs + on costs – maximum RSL prudent borrowing = developer contribution"*

2.5.13. However, it is not clear whether a more up to date approach is now used.

Rother

2.5.14. The Council has a 2006 Affordable Housing SPD but more recent commuted sums assessment utilising approaches that are similar to those advocated by DSP (see Option C below) with the commuted sum calculated based on the difference in RLV of a scheme with 100% market housing and a scheme with a policy compliant level of affordable housing. Assessment then converts the results of modelling to £/m2 rates. Not clear whether Rother DC is currently operating this approach, however.

Wealden

2.5.15. Wealden DC has published a practice note that sets out how commuted sums will be calculated. The calculation assumes 38% of open market value as a 'base land value' and adds 15% to allow for land costs. This is applied to the number of AH units that should have been provided on site. Where that is uncertain and the scheme has not

been designed to allow for AH, a commuted sum is calculated for the whole scheme and then multiplied by the % of AH required by policy (typically 35%). The latter approach tends to result in higher amounts due to being based on a percentage of a market housing scheme; with market units tending to have larger floor areas than affordable units.

2.5.16. Wealden also have a separate calculation for development of park homes, which is linked to market values set out for various areas within the district.

2.5.17. The rate of 38% of open market value was proposed by Peter Brett Associates as part of LP viability work.

2.5.18. This approach is consistent with Option B, below.

Canterbury

2.5.19. This council uses an approach similar to that used in Elmbridge, Surrey Heath, Sevenoaks and others (DSP originated). In summary the formula is:

Step 1: 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 30%[2] 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 percentage requirement under the Affordable Housing policy (HD2) to give the final contribution.

- The Affordable Housing policy (HD2) percentage for the number of dwellings to be developed (30%) is applied to the estimated cost of providing the equivalent serviced land to the proposed development.

[2] Not clear if this is calculated or a 'rule of thumb' estimate or similar.

2.6 Review/discussion of methods

2.6.1 We have reviewed the above examples and distilled these to three main approaches that share characteristics. We will look now look at these in more detail and explain how they might work in practice in the RBC context. We have also briefly summarised other methods which we have not pursued further at this stage.

2.6.2 Each of the following potential methods / principles requires different inputs and assumptions / judgments. These are examples to illustrate the types of calculation approaches. This section is not exhaustive – as the review of approaches in the previous section indicates, there are many potential routes to calculating contributions, and variations on those themes.

2.6.3 Where it forms part of the calculation, an assumption of affordable housing revenue, blended at 55% of market value (MV) has been used in the examples below assuming a tenure mix of 70% rented / 30% intermediate. Affordable housing revenue level in this sense means the payment made by the registered affordable housing provider ('RP') to a developer. In practice payments made by RPs to developers can vary considerably. For affordable / social rent this could be as low as 35-55% of MV but could be more; for shared ownership this could be up to approximately 65% to 75% of MV.

2.6.4 For the examples set out below, where necessary we have used an assumed mix of dwellings based on a typical development and with reference to the RBC 2018 LP Viability Study typologies and assumptions. In running fuller modelling in due course and based on the preferred financial contributions route, we will need to ensure that emerging Local Plan policy requirements both on dwelling mix and costs are taken into account. RBC may also wish to consider the likely site supply and those site types where a commuted sum is most likely to arise.

A: Market revenue less affordable housing revenue level

2.6.5 As applied by Guildford BC and London Borough of Bromley. This is a relatively common principle applied in the calculation of affordable housing contributions and may be best suited to larger sites where, exceptionally, on-site affordable housing is accepted as unworkable.

2.6.6 Once a developer no longer provides an on-site affordable home, the scheme revenue is increased; the difference being the gap between the market sale price (revenue level) and the affordable housing revenue level. There is usually a significant gap between the level of revenue generated by affordable housing and the market sale level of revenue, and this is at the heart of the viability impact that affordable housing has. An example is provided below, assuming 35% affordable housing should be provided on-site but where it is assumed that an exception has been granted to accept a financial contribution in lieu of all AH units:

Example: A1 - RBC, fairly small site requiring 35% AH

Number of units	Type	Floor area (m2)	Market Value (£/m²)	Market Value/Unit	Total
4	2 bed houses	79	£6,000	£474,000	£1,896,000
6	3 bed houses	100	£6,000	£600,000	£3,600,000
2	4 bed houses	130	£6,000	£780,000	£1,560,000
12		**1176**	**£6,000**	**£588,000**	**£7,056,000**
Average per whole dwelling			**£6,000**		**£588,000**

Minus affordable housing revenue level @ say 55%[3] MV = £3,300/sq. m
Produces an affordable housing contribution per average whole dwelling equivalent of £264,600.

Average per whole dwelling	**£6,000**		**£588,000**
Less 55% MV	**£2,700**		**£264,600**

Policy requires 35% AH (rounded up) = 4 dwellings. 4 x £264,600 = £1,058,400 contribution.

£1,058,400 / 12 equates to a contribution of £88,200 per market dwelling.

[3] This figure could be calculated specifically based on RBC specific tenure mix. Broad assumption made here based on current policy of 70% AR and 30% other tenures.

Example A2 - RBC, large site with mix of flats and houses requiring 35% AH

Number of units	Type	Floor area (m2)	Market Value (£/m²)	Market Value/Unit	Total
5	1 bed flats	46	£6,000	£276,000	£1,380,000
5	2 bed flats	64	£6,000	£384,000	£1,920,000
20	2 bed houses	68	£6,000	£408,000	£8,160,000
50	3 bed houses	100	£6,000	£600,000	£30,000,000
15	4 bed houses	125	£6,000	£750,000	£11,250,000
5	5 bed houses	145	£6,000	£870,000	£4,350,000
100		**9510**	**£6,000**	**£570,600**	**£57,060,000**

Minus affordable housing revenue level @ say 55% MV = £3,300/sq. m
Produces an affordable housing contribution per average whole dwelling equivalent of £256,770.

Average per whole dwelling	**£6,000**		**£570,600**
Less 55% MV	**£2,700**		**£256,770**

2.6.7 35% AH required. Replacing the full AH requirement with a commuted sum in lieu of 35 units would result in a commuted sum of £8,986,950.

2.6.8 £8,986,950 / 100 equates to a contribution of £89,870 per market dwelling. This is a similar level to the result from the smaller scheme.

Pros:

- Derived from on-site affordable housing thinking;
- There are examples in operation, although more usually in respect of monies in-lieu on larger schemes where agreed on an exceptional basis instead of on-site affordable housing.
- Does not involve calculation, updating etc. of affordable housing revenue assumption.

Cons:

- Potentially complex;
- Requires understanding of affordable housing revenue;
- Potentially some criticism because it does not capture differences in profit sufficiently;
- Site by site calculation.

B: Land value based contribution

2.6.9 Used by Surrey Heath BC, Elmbridge, Sevenoaks, Woking, Wealden and others. This is based on the land subsidy (cost benefit) that would be provided on-site if the developer were reimbursed reasonable build costs for the on-site affordable homes provision. This is a method which the authors of this report have devised and supported and is in operation with several local authorities that have adopted SPD that use this methodology. We believe that Canterbury DC uses a similar, if slightly simpler version of this approach.

Example B1 - RBC, fairly small site requiring 35% AH[4]

Number of units	Type	Floor area (m2)	Market Value (£/m²)	Market Value/Unit	Total
4	2 bed houses	79	£6,000	£474,000	£1,896,000
6	3 bed houses	100	£6,000	£600,000	£3,600,000
2	4 bed houses	130	£6,000	£780,000	£1,560,000
12		**1176**	**£6,000**	**£588,000**	**£7,056,000**

Residual land value (RLV) before affordable housing, say 35% of MV[5] = market land plot value of say £205,800.

Add 15% for land acquisition & preparation costs = £236,670 per whole average dwelling equivalent.

Same basic calculation as at A above; assuming a 35% equivalent proportion = 4 x £236,670 = £946,680.

Equates to a contribution of £946,680 / 12 = £78,890 per market dwelling.

[4] DSP assumptions made here on unit size. Other LAs have set an 'AH equivalent unit size' to apply. RBC's LP assumptions have a variety of sizes, but it is likely the AH mix would not include all of these (for example unlikely to include large 4 or 5 bed detached houses).

[5] Guide only for this example; If confirmed as being the preferred route DSP would advise on % of RLV either as a single figure across the RBC area or a more nuanced approach varying by location if that were evidenced and did not conflict with wider affordable housing policy. The % of RLV figure can be developed by modelling a number of development typologies that take into account the policy costs assumed within the viability assessments supporting the Local Plan.

Example B2 - RBC, large site with mix of flats and houses requiring 35% AH

Number of units	Type	Floor area (m2)	Market Value (£/m²)	Market Value/Unit	Total
5	1 bed flats	46	£6,000	£276,000	£1,380,000
5	2 bed flats	64	£6,000	£384,000	£1,920,000
20	2 bed houses	68	£6,000	£408,000	£8,160,000
50	3 bed houses	100	£6,000	£600,000	£30,000,000
15	4 bed houses	125	£6,000	£750,000	£11,250,000
5	5 bed houses	145	£6,000	£870,000	£4,350,000
100		**9510**	**£6,000**	**£570,600**	**£57,060,000**

Residual land value (RLV) before affordable housing, say 35% of MV = market land plot value of say £199,710.

Add 15% for land acquisition & preparation costs = £229,667 per whole average dwelling equivalent.

Same basic calculation as at A above; assuming a 35% equivalent proportion = 35 x £229,667 = £8,038,345.

Equates to a contribution of £8,038,345 / 100 = £80,383 per market dwelling.

Again, a similar amount to the result from the smaller scheme (with the amount being slightly lower due to the inclusion of smaller units (flats).

As noted in the examples above, some LAs have introduced an element of differentiation by location to the above approach.

Pros:

- There are examples in operation, including on smaller sites.
- Derived from on-site affordable housing thinking.
- Potential to be better understood by landowners and developers.
- Links better to cost of affordable housing provision, particularly where on-site AH policies sought nil cost land / discounted land or equivalent.
- Avoids need to understand and keep under review the affordable housing revenue level aspect of the above calculation (in potential method A above).

Cons:

- Needs guiding and updating (particularly re: the calculation of the percentage of market value RLV figure and more so if considered necessary to vary by location[6]) – which may not be considered straight-forward by some / may need to be considered resourcing wise.
- Needs to be carefully judged re: impact.
- Might be viewed as complex by some.
- Site by site calculation.

C: Using the current method (comparing nil AH appraisal with policy compliant appraisal) to determine typical contributions, then fixing contributions at that level

2.6.10 As applied by Chichester DC, East Hampshire DC and Worthing Council. The basic premise of the current approach is to compare the RLV of a scheme with a policy complaint level of affordable housing with one that has nil affordable housing applied. The difference in RLV is the effective equivalent value of the affordable housing and therefore the potential equivalent financial contribution that could be secured.

2.6.11 This method can be applied on a site by site or case by case basis or, as we are suggesting here, the methodology can be used on a selection / sample of scheme typologies so that 'typical' levels of financial contribution can be calculated and applied Borough-wide without the need to undertake site specific calculations.

2.6.12 A similar exercise was undertaken by BPS as part of the LP viability testing, however that report was not developed to suggest fixed levels of contribution – instead noting that based on typology testing the calculation resulted in a suitable level of contribution which would broadly support the provision of AH elsewhere.

2.6.13 Recent experience on the ground in Runnymede demonstrates that whilst this is correct in theory it requires the parties to agree on suitable input assumptions to both the 100% market and AH policy compliant appraisals. In an example recently submitted to RBC it is contended that a policy compliant scheme is viable, but it is not possible to provide the AH on site due to issues with finding an RP to take on the units. The applicant's position was that based on their assumptions there was a very small contribution due when applying the calculation formula. This is contributing to delays in the planning process whilst a suitable contribution is considered.

[6] Will also vary over time as both Local Plan policy costs and any future adjustment to CIL would impact the percentage of RLV figure. Can be potentially varied by value area.

2.6.14 At the time of writing a further commuted sum assessment has been submitted to RBC on the basis that whilst a policy compliant scheme is viable it has not been possible to find a Registered Provider to take on the affordable homes. The submitted commuted sum calculation results in an amount equivalent to circa £50,000 per affordable dwelling that would otherwise be provided on site (or £17,000 per market dwelling). The submitted assumptions are yet to be reviewed by RBC however the overall position indicates the problems that can arise in this situation, where the amount of money paid as a commuted sum is unlikely to be sufficient to enable an equivalent amount of affordable housing elsewhere, with £50,000 not being sufficient to cover the cost of land purchase and construction for a dwelling (or to cover the cost of purchasing a dwelling on the open market and subsidising its letting at a below-market rent). It also highlights that the method of comparing the residual value of two scenarios ignores the overall profit position – which in the case of the example being referred to results in a similar RLV for the two schemes but a total developer profit which is very much greater once on-site AH is replaced by a commuted sum. (Although the increased profit does come with increased risk due to the need to sell more market housing units).

2.6.15 If this were the preferred route the methodology could be applied to a selection of typologies taken from the viability assessment that supports the adopted Local Plan. All development cost assumptions would also be assumed as per that latest assessment, e.g. build costs, s106 contributions, fees, profit etc but updated/indexed to the present time. We have also carried out research into sales values to ensure that market value assumptions are up to date and to pick up on variation for different areas of the borough. Our research suggests that there is potential to apply a higher rate for Virginia Water, for example, and a lower rate for Addlestone. It should be noted however that sales values can vary from street to street within an area therefore careful consideration should be given if / when introducing any differentiation bearing in mind the purpose of this exercise and the related affordable housing enabling work.

2.6.16 For each typology we would then compare the policy compliant appraisal RLV undertaken for the LP assessment (or run wholly new appraisals) assuming on-site affordable provision, with the same appraisals but run with nil affordable housing included (a similar approach to that taken by BPS). This would confirm the broad cost of providing affordable housing when viewed as the difference in RLV between the ‘with’ and ‘without’ affordable housing appraisals. This could then be expressed as a per dwelling rate (or further expressed as a £/m sq. rate) for each affordable dwelling (or part dwelling).

2.6.17 It should be noted that what is being considered in relation to AHFCs is principally the relative positions between on-site and off-site provision in terms of the viability outcome, rather than the viability position itself. This goes back to the aim for broad equivalence within the approach, as above. Viability is not being re-explored or the LP policy being adjusted in any way.

2.6.18 Inevitably this method would produce a variety of potential AHFC levels or rates, so from that point a judgement would need to be made on a single or small number of per unit contribution levels to recommend bearing in mind the aim to keep this relatively simple and for it to be readily accessible to inform both a starting point and any subsequent review/negotiation that may be necessary.

2.6.19 Typically using this methodology, we would expect contribution levels to be in the region of £50,000 - £150,000 per equivalent affordable home (with the level varying by unit type (flats / houses) and affordable housing proportion and location).

2.6.20 As an initial indicator, we have run initial appraisals using the same two examples as above (12 unit scheme and 100 unit scheme), applying the current methodology and our broad assumptions on updated values/costs alongside LP assumptions. We have applied an AH mix where relevant, based on the LP housing mix and likely preferences of the housing service (DSP assumption). See 2.8, below.

Pros & Cons:

The method takes into account the direct difference between providing the policy level on-site affordable housing and providing nil affordable housing. It also takes into account the full 'costs' of each approach. An overall view has to be taken, acknowledging that the actual impact on scheme viability will vary according to value level and effectively by individual scheme. As above, an alternative would be to consider the GDV (gross development value) of a specific scheme where AHFCs are being considered. However, in our view that has the disadvantage of values being uncertain at an early stage in the planning process and adding complexity or at least more uncertainty to the process of agreeing contributions. Overall, in our view it seems more appropriate for the purpose to guide on typical/expected AHFC levels, accepting that just as is the case with on-site AH provision, the exact influence of the policy requirement will inevitably vary.

2.7 Other approaches ruled out

2.7.1. There are a number of other approaches that we have seen suggested or used in the past which include:

- Straight percentage of Market Value (MV) of the appropriate dwelling(s) assuming a straight and very simple percentage of market value as a proxy for an affordable housing contribution (e.g. Say MV of £250,000 X 20% = £50,000 contribution per dwelling). We have seen this as a suggested approach in the past but are not aware of its use currently. It is similar to the approach taken in some other examples noted above but does not take into account the likely AH housing mix. In our view, we would not consider this approach further as although it may be simpler to use, it does not necessarily relate directly to the subsidy provided by a developer in providing on-site affordable housing.

- "Grant replacement" or grant related view – relate or equate the contribution to the amount of public subsidy (grant) that might have been available / be available. This is an approach that we have seen used in the past, but not on any regular basis and not recently given that affordable housing delivered through the s106 regime is expected to be delivered without grant funding[7].

- Affordable housing provision / build cost based – variations on A above. It is possible to devise calculations that have the potential to be more reflective of affordable housing cost, rather than looking at value gained by the developer through not providing it on-site. However, such calculations can get complex and require a greater levels of input, updating and discussion. The following are just examples and, overall, are unlikely to be suitable in the RBC context in our view. Therefore, we will not dwell in detail on these.

[7] There is pressure on the Government to change the rules on this and there are also instances where AH is being proposed to be delivered outside S106 to enable grant funding. However, for now the general position is that Homes England will not grant fund S106 AH.

Example:

i. **MV less profit and RP payment** (profit @ 20% Gross Development Value – GDV of AH)
e.g. £588,000 – (£588,000 x 0.2) - £245,000 =
so, £588,000 - £117,600 - £264,600 = £205,800.
x 4 dwellings = £823,200 / 12 = £68,600 per dwelling.

ii. **Build + land cost less RP payment**
[Build – avg. 98 sq. m @ £1,700/sq. m[8] base plus 20% allowances = £2,040/sq. m; land at say 35% MV (£588,000 x 0.35); RP payment @ 55% MV (£264,600)]

e.g. say (£199,920 + £205,800) - £264,600 = £141,120 per whole dwelling.
35% equivalent proportion x 12 dwellings = 4 dwellings = £564,480

Equates to £47,040 per market dwelling (indicative only; components of calculation approximated for illustration).

- Calculation based on assessment of AH value (with reference to rents and shared ownership, and in some cases land costs and/or RP borrowing costs; also in some cases relating to fixed assumptions on market housing values). Appears complicated and requiring officer time to agree suitable assumptions. Unlikely to be simpler/more effective than the current RBC approach and might not result in a broadly equivalent cost to developer compared with on-site provision.

- An approach which includes very specific £/m2 rates linked to the housing mix of the proposed development. Has proved effective in agreeing contributions however requires a lot of officer input and although we have experience of this being accepted by a Planning Inspector this has been acknowledged during a Local Plan EiP as difficult to relate back to LP stage assumptions.

[8] Approx rate based on average of BCIS rates at present day for Runnymede

2.8 Current methodology

2.8.1. We have run appraisals on a similar basis to the BPS study, using assumptions from that study (which in turn were taken from the Council's Local Plan viability assessment. We have however assumed updated build costs and values as noted above, to give an indication of the contributions that the current commuted sums policy would deliver and enable comparison with the other potential approaches ('options'). This would form the basis for 'Option C'.

2.8.2. If proceeding with Option C for the final stage of this reporting a more in-depth look at values and costs will be required, and consideration of current policy costs (e.g. including CIL). As noted above consideration could also be given to testing of different value levels for different areas of the borough.

2.8.3. We note that CIL was not included in the LP appraisals and we have not included it here, as part of our initial overview (again following the approach taken by BPS). CIL is not chargeable on affordable housing and therefore a CIL contribution would be reduced in a policy compliant appraisal and would therefore alter the relationship in BPS's approach. We will however consider the inclusion of CIL as part of the next stage of this study (further testing once the Council has decided a preferred way forward).

2.8.4. It should also be noted that in the results of the Option C exercise will also differ according to the assumed AH mix (unit sizes and AH tenure) which is all part of the overview that will have to be taken to reach a suitable fixed rate per unit or per sq. m.

2.8.5. Appraisal summaries are attached as Appendix 1 and the results are summarised here. (NB assumed housing mix/affordable housing mix is based on DSP assumptions with reference to the LP housing mix and likely requirements of the housing service).

12-unit scheme – current methodology

12-unit scheme: nil AH 20.0% profit on market housing					
Number of units	**Type**	**Floor area (m2)**	**Market Value (£/m²)**	**Market Value/Unit**	**Total**
4	2 bed houses	79	£6,000	£474,000	£1,896,000
6	3 bed houses	100	£6,000	£600,000	£3,600,000
2	4 bed houses	130	£6,000	£780,000	£1,560,000
12		**1176**	**£6,000**	**£588,000**	**£7,056,000**

Residual value of £2,371,418 indicated by appraisal.

12-unit scheme: 35% AH delivered on site (assumed to be 55% of MV). 20.0% profit on market housing and 6.0% profit on AH.					
Number of units	**Type**	**Floor area (m2)**	**Market Value (£/m²)**	**Market Value/Unit**	**Total**
3	2 bed houses	79	£6,000	£474,000	£1,422,000
4	3 bed houses	100	£6,000	£600,000	£2,400,000
1	4 bed houses	130	£6,000	£780,000	£780,000
1	2 bed houses	79	£3,300	£260,700	£260,700
2	3 bed houses	100	£3,300	£330,000	£660,000
1	4 bed houses	130	£3,300	£429,000	£429,000
12		**767**	**£6,000**	**£383,500**	**£4,602,000**

Residual value of £1,820,630 indicated by appraisal.

DIFFERENCE IN RLV = COMMUTED SUM = £2,371,418 - £1,820,630 = £550,788

Equivalent to £45,899 per (market) unit

Equivalent to £137,697 per AH unit that would have been provided on site

100-unit scheme – current methodology

100-unit scheme, nil AH					
Number of units	**Type**	**Floor area (m2)**	**Market Value (£/m²)**	**Market Value/Unit**	**Total**
5	1 bed flats	46	£6,000	£276,000	£1,380,000
5	2 bed flats	64	£6,000	£384,000	£1,920,000
20	2 bed houses	68	£6,000	£408,000	£8,160,000
50	3 bed houses	100	£6,000	£600,000	£30,000,000
15	4 bed houses	125	£6,000	£750,000	£11,250,000
5	5 bed houses	145	£6,000	£870,000	£4,350,000
100		**9510**	**£6,000**	**£570,600**	**£57,060,000**

Residual value of £19,148,412 indicated by appraisal.

100-unit scheme, 35% on site					
Number of units	**Type**	**Floor area (m2)**	**Market Value (£/m²)**	**Market Value/Unit**	**Total**
3	1 bed flats	46	£6,000	£276,000	£828,000
2	2 bed flats	64	£6,000	£384,000	£768,000
10	2 bed houses	68	£6,000	£408,000	£4,080,000
30	3 bed houses	100	£6,000	£600,000	£18,000,000
15	4 bed houses	125	£6,000	£750,000	£11,250,000
5	5 bed houses	145	£6,000	£870,000	£4,350,000
2	1 bed flats	46	£3,300	£151,800	£303,600
3	2 bed flats	64	£3,300	£211,200	£633,600
10	2 bed houses	68	£3,300	£224,400	£2,244,000
20	3 bed houses	100	£3,300	£330,000	£6,600,000
100		**6546**	**£6,000**	**£392,760**	**£39,276,000**

Residual value of £15,217,337 indicated by appraisal.

DIFFERENCE IN RLV = COMMUTED SUM = £19,148,412 - £15,217,337 = £3,931,075

Equivalent to £39,310 per (market) unit

Equivalent to £112,316 per AH unit that would have been provided on site

3. Summary of review and suggested next steps

3.6.1 The above sets out a range of suggested approaches to the calculation of a financial contribution for affordable housing – i.e. in-lieu of and therefore broadly reflecting the cost to developers of the Council's usual on-site AH policy, which will need to continue to be the main AH delivery theme. Options A, B and C all have certain pros and cons and their suitability may in part depend on when (in what circumstances) commuted sums are likely to arise.

3.6.2 However, both options B and C are approaches DSP has advised on and suggested for other Local Authority clients with the latter being most recently recommended for Worthing Borough and Chichester District Councils.

3.6.3 The benefit of option C is that, once the background modelling has been set up and completed, it can be applied to applications on a fairly easy to use £ per unit / £ per sq. m basis. It may also be possible to vary the amounts by affordable housing policy proportion (site type), unit type (flats or houses) and location if considered appropriate.

3.6.4 Part of any choice will be whether the Council would prefer to use a standard rate (per unit / per sq. m) or utilise an approach calculated separately for each application. If the latter then it may be that Option B would be more suitable. Again, with Option B, the RLV percentage of GDV could potentially be varied across the Borough, albeit that this reduces simplicity. The GDV would vary by individual scheme.

3.6.5 Our initial research into values in Runnymede suggests that it might be possible to consider three value areas (low, medium, high) within the borough and apply different rates for each. As noted above this would have to be considered carefully to ensure that there is sufficient justification for a 'differential' approach. Any differentiation will by its nature mean that there are fairly arbitrary 'cutoffs', for example at a ward boundary or similar, which may not reflect the actual scheme characteristics. In addition, consideration will have to be given to whether such an approach would contradict the general approach to AH within the Local Plan, which does not differentiate by location. Overall, consistency with the LP approach, and avoiding revisiting that in devising and calculating these contributions, is key. We stress again, for example, that whichever approach is explored or progressed (and the resulting figures) do not include or amount to further viability assessment; this is about broadly translating those established requirements into a payment in lieu or part in lieu approach.

3.6.6 Another option, of course, is to retain the current methodology which allows an accurate assessment of the equivalent amount – however is resource-intensive and can lead to uncertainty / delay, particularly for schemes which are otherwise viable but where a commuted sum route of contributing towards AH needs is accepted. When viability is considered an issue, then in our experience the commuted sum calculation can be expected to have set the full expected amount payable and scheme-specific viability assessment / review would then normally test and consider in detail what should be supported, just as it is in the case of on-site AH.

3.6.7 In either case, next steps would be to update this preliminary (hence 'draft') report to further review and provide calculations to support whichever route is chosen following discussion with the Council.

DSP draft report ends