



**Utilisation of commuted sums policy
(Medway Council's Affordable Housing Delivery Fund)
June 2018**

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1. Introduction

The aim of Medway Councils Affordable Housing Planning Policies and guidance is to ensure the development of balanced and integrated communities and to deliver good quality affordable housing.

Affordable housing will be sought on residential developments of 25 or more dwellings, or developments with a gross site area of 1 hectare or more in urban areas. It will also be sought on developments of 15 or more dwellings on developments with a gross site area of 0.5 hectare or more in rural settlements with a population of 3,000 or less.

Medway Council's target is to seek a minimum of 25% of homes with a tenure mix of 60% affordable rent and 40% shared ownership. to be affordable homes on any site meeting the Local Authority size thresholds. The target will be the baseline for negotiations for affordable housing on suitable housing sites. When affordable Housing cannot be delivered on site a commuted sum or payment in lieu of affordable housing will be sought.

2. Definition of Affordable Housing

The NPPF Annex 2 defines Affordable Housing as

Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition

above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing

3. Definition of Commuted Sum

A commuted sum is an amount of money, paid by a developer to Medway Council, where the size or scale of a development triggers a requirement for affordable housing, but it is not possible to deliver affordable housing on site. The sum will be used to provide affordable housing on an alternative site in the local authority. It is therefore appropriate that the level of the payment in lieu will relate to how much it will cost a Registered Provider to provide the policy compliant mix of homes on another site in the borough.

A Commuted sum in lieu of affordable housing will only be agreed by Medway Council if the applicant can provide robust justification why units cannot be provided on-site.

Examples are as follows:

- Delivery of on site affordable housing in an area where there is already a dominance of a particular tenure of affordable housing
- The location of the proposed development is not in a sustainable suitable location. (in relation to access to local services e.g. health, education and public transport).
- Where the applicant can demonstrate that no registered provider is interested in purchasing the proposed affordable housing element.
- It can be demonstrated by the applicant that delivery is not possible because of viability constraints (an accompanying viability assessment will be required).

The Council will seek independent scrutiny of all sums to satisfy itself that the assumptions within it can be agreed in terms of the payment. Payment for such advice will be funded by the developer. In all cases, the decision on whether to accept a financial contribution rather than on site provision will be the Council's.

The principles applied in the collection and use of commuted sums will be the same as those for other financial planning obligations, in that they will be secured and dealt with under a Section 106 agreement for the site. The payments will be due when triggers and obligations on the specific planning permission are met.

4. Legal Framework

The requirement for a commuted sum to be paid in lieu of on-site delivery of affordable housing is secured within a S106 legal agreement. It is necessary to adhere to any specific constraints such as a time limit for the sum to be spent, or restrictions around locality for alternative provision.

5. How will the Commuted sum be calculated

On sites where the Council has decided to take a financial contribution the Council will calculate the payment to be made. The formula used to work out the commuted sum is summarised as follows:

- Market value of each unit in the development is determined (by reference of comparable evidence)
- The equivalent open market value of a unit of an equivalent size to an affordable housing unit is calculated (size standards are taken from the nationally described space standards). If for example, a 4 bed unit is 173 square metres and an equivalent affordable 4 bed unit is 100 square metres, the market value on a per square metre basis would be applied to a 100 square metre unit
- A 'residual value' or 'plot value' is determined by taking 30% of the 'open market value' of an affordable-sized unit. This is multiplied by the amount of affordable units to be delivered.
- Site acquisition and servicing costs are determined by taking 15% of the 'residual value' or 'plot value' This is multiplied by the amount of affordable units to be delivered.
- Build costs are calculated by taking the equivalent affordable unit sqm and multiplying by the current average build cost.
- 2% is added to the build cost to cover additional build costs and 8% to cover design and professional fees.
- The average s106 payment per unit multiplied by the amount of affordable units is added. This gives a figure of what the cost to provide the affordable housing units off site will be. This figure is then subtracted from the average registered providers borrowing rate to give the commuted sum figure.

5. Worked Example

The following is an example of how the commuted sum has been calculated. The scheme comprises of 40x3 bed houses. The Affordable Housing element to be delivered on this site equates to 10x3 beds

- The open market value of the properties £350,000 is divided by the size of the market properties 100sqm and multiplied by the comparative size of the affordable unit 96sqm this provides the market value for the 10 affordable units equals £336,435.
- Plot/Land Value is calculated as 30% of the open market value of an affordable unit as calculated above equals £105,000
- Site acquisition and site servicing costs are calculated as 15% of the above Value of an affordable unit equals £15,750
- Plot/Land Value plus Site acquisition costs multiplied by 10 equals £1,207,500
- Build cost at 1,800sqm for the 10 units equals £1,728,000
- Additional Build costs at 2% of build cost equals £34,560
- Design and Professional costs at 8% of build cost equals £138,240
- S106 Contributions average £9,676 x 10 equals £96,760 (this figure is a guide the true S106 figure would be set at planning)
- Maximum Register Provider borrowing for the Shared Ownership units of 80% of there open market value and 35% for Affordable Rented units equals £1,783,104

Commuted sum plot/land value plus site acquisition costs multiplied by 10 equals £1,207,500 plus Build cost at 1,800sqm for the 10 units at £1,728,000 plus additional build costs at 2% £34,560 plus design and Professional costs 8% £138,240 plus S106 fees at £96,760 equals £3,205,060 minus Maximum prudential Register Provider borrowing £1,783,104

Equals a commuted sum of £1,421,956

6. Payment Schedule

The Council understands that a large payment at the commencement of a development may cause issues. As such, the Council will negotiate and accept a staged payment when a large commuted sum has been negotiated. This will be secured as part of the S106 agreement and will usually be payable inline with the delivery of the market units at set trigger point percentages.

7. How will the Commuted Sums be spent

Medway Council and Government policy is for affordable housing to be provided on site to meet housing need and create mixed communities. Where it has been robustly tested and proven that affordable housing cannot be delivered onsite as set out previously. A commuted sum may be accepted subject to it being of a value that contributes towards meeting Medway's housing need.

The Local Authority will use financial commuted sums in a number of ways and will require the flexibility to do so to be reflected in its approach and in the s.106 agreement. Where the contributions are accepted they will be held in Medway Councils Affordable Homes Delivery Fund. Where they will be used to provide an additional affordable housing enabling tool. Commuted sums will be earmarked to enable the provision of affordable housing through a variety of means such as

- To support the new build development of affordable housing or create additional, larger or a different tenure mix within the existing stock
- To provide Gap Funding on schemes in order to make it possible for a higher proportion of affordable homes
- To fund extra units of affordable housing on alternative sites or additional units outside of those secured under the S106 agreement
- To contribute to forward funding / kick-starting of schemes or to reducing funding gaps within pipeline / current affordable housing schemes and other similar initiatives according to scheme circumstances and the funding climate

To assess the viability of each bid for funding Medway Council will provide a bid proforma. The proforma is to be filled out by all applicants to assess the proposed affordable housing delivery against Medway Council's objectives and financial viability.

In determining the success of bids for this funding the Council will balance the merits of each individual proposal against its ability to meet housing need in Medway.

Where the Council feels that a potential proposal does not provide sufficient value it reserves the right to not allocate any funds

8. Monitoring and Management

The final sum agreed will be at the discretion of the Council. A record will be kept and monitored of all commuted sums received and how they have been spent. The Council will use commuted sums to develop affordable housing within five years from the date a sum was received. The Council will return un-spent commuted sums, with accrued interest, to the developer, if they are not spent for the purposes for which they were sought within a five-year period from the date the money is paid to the Council.

The payment is to be index-linked from the date of the Agreement, to the date the money is due to be paid to the Council. The Council will normally aggregate financial contributions from different sites and will spend contributions in the way that best achieves the Council's and local communities' priorities for affordable housing. The number of units resulting from expenditure may be more or less than the units used to calculate the contribution as dwelling types, tenure, specifications and other aspects will vary from scheme to scheme.