Affordable Housing Commuted Sums Position Statement

This statement aims to provide guidance to developers, including Housing Associations and other Registered Providers on the Council’s approach to how and when commuted payments in lieu of on-site affordable housing will be considered.

It should be emphasised that the Council views payment of a financial contribution in lieu of on-site affordable housing as the **least preferable option.** The overwhelming preference is for on-site provision of affordable housing, as supported by the NPPF and Canterbury District Local Plan. This is because financial contributions are considered an inefficient and resource-intensive method of providing affordable housing in the district and the Council will only agree to the provision of affordable housing by way of a financial contribution in exceptional circumstances.

## Background

1.1 The Canterbury district exhibits overall, high property prices, particularly when considered in the wider context of the price range seen within East Kent. This results in a high level of need for affordable housing in the Canterbury district with affordability being an issue for even those on above average incomes.

1.2 The requirement for affordable housing will be applied in accordance with the provisions of policy HD2 of the adopted Local Plan 2017. The Council will seek provision of 30% affordable housing on all residential developments consisting of 11 or more units, or which have a combined gross floor area of more than 1,000 square metres, other than on sites in the Area of Outstanding Natural Beauty where commuted sums will be sought on developments capable of providing between 6 to 10 units.

## Financial Contributions in lieu of accommodation (commuted sum)

2.1 The Council acknowledges that on some developments there can be difficulties in delivering on-site provision of affordable housing. Therefore accepting a financial contribution equivalent to the provision of 30% affordable housing on-site may be considered. **This will be in exceptional circumstances, where it is demonstrated to the Council’s satisfaction that on-site provision, in accordance with policy HD2, is not feasible.**

2.2 It is strongly recommended that pre-application advice is sought if an applicant considers a commuted sum to be appropriate.

2.3 Any financial contribution would then be used to enable the equivalent off-site provision of affordable housing within the District.

2.4 The financial contribution sought in lieu of affordable housing will represent the land, servicing and purchasing costs which the Council or Registered Provider would need to pay to buy plots on the open market in order to develop equivalent affordable housing on another site. Land costs (including servicing and purchasing costs) typically represent 30% of the open market value of housing.

2.5 It is expected that the developer profit is 17.5% and that the affordable housing contribution should not be reduced (below 30%) to allow a larger profit than this.

2.6 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.

2.7 The expectation is that the commuted sum will be payable on commencement of the

development. However, on a site by site basis, the Council may agree to an alternative trigger or phasing.

## Commuted sum formula

**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% 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.

## Summary of Overall Methodology - Worked Examples:

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| **Assume that you are proposing to carry out a development of twelve identical units, with an anticipated sale price of £500,000 per unit** |
| Step 1: Calculate the Gross Development Value (GDV) of the development (12 x £500k) | £6,000,000.00 |
| Step 2: Find the residual land value of the development (£6m x 30%) | £1,800,000.00 |
| Step 3: Apply the percentage contribution required under the Affordable Housing policy HD2 (normally 30%) to the estimated cost of providing the equivalent serviced land to the proposed development (£1,800,000 x 30%) | Commuted sum: **£540,000.00** |

## Monitoring

5.1 Monitoring will be on a site-by-site basis. Funds collected will be used within ten years, or as agreed in the S.106 agreement. After this time any unspent money will be refunded with interest.

5.2 The Council will record and report where funds have been allocated and spent. This information will be made available on request and will be published on an annual basis. Through the S.106 Agreement the Council will expect to index the agreed financial contribution from the date of the agreement to the date of payment. The index applied will be the Land Registry House Price Index.