

For: Bath & North East Somerset Council

**Bath & North East
Somerset Council**

Improving People's Lives

Affordable Housing Commuted Sums Methodology Review

Report (v010)

**August 2026
DSP26967**



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1. Introduction

1.1 Introduction, Background and Purpose

- 1.1.1 This report is intended for Bath & North East Somerset Council (BANES) 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 BANES's current policy¹ sets out a method of calculating such contributions, however the Council is seeking to update this methodology, aligning with emerging Local Plan policies and current LP viability work, as well as introducing a simpler and more straightforward method which will continue to provide clarity on the expectations while allowing for easier and faster identification of the sum required by policy.
- 1.1.3 BANES Housing and Planning officers have specified that they are seeking an approach reflecting updated circumstances and assumptions, and that can be:
- Accessible for planning applicants, developers and others so it is clear what they will have to pay as affordable housing commuted sums (and in which areas of the district, if there will be varying requirements for different geographical areas).
 - Readily adjusted annually by Council officers to account for inflation using freely accessible information
- 1.1.4 This report considers various principles and approaches that DSP is aware are in use around the country for calculating or setting affordable housing commuted sums, also known as 'affordable housing financial contributions (AHFCs)' or 'payments in lieu of affordable housing', and tests various approaches, making recommendations for updated fixed commuted sum levels/rates and their indexing.

¹ As set out in the 2015 BANES Planning Obligations SPD

1.2 Overall approach to AH - Emerging BANES Local Plan

- 1.2.1. BANES' Draft Policy on Affordable Housing within the emerging Local Plan sets out the requirements for affordable housing. The draft policy wording (at the point of running this review sets out that:

'The Affordable Housing tenure split informed by need is for 79% of homes to be for rent and 21% to be for affordable home ownership). The Council's priority is for social rent and shared ownership tenures.'

'Further supporting explanation in relation to this Affordable Housing Policy is set out in the Council's Planning Obligations Supplementary Planning Document Interim Update February 2026 and other guidance.'

- 1.2.2. The emerging policy sets out that affordable housing will be required as on-site provision in developments of 10 dwellings or more or 0.5 hectare and above' and that the affordable homes will be provided without public subsidy.
- 1.2.3. Small sites of 2 to 9 dwellings within the Cotswold National Landscape, Mendip Hills National Landscape and designated rural areas must also provide on-site provision (or a suitable financial contribution, if agreed by the Council).
- 1.2.4. DSP has been working on the Local Plan Viability Assessment (LPVA) with the Council – and is completing this related AH commuted sums review work at the same time as the write up for the LPVA Stage, having reported on the LPVA Stage 1 in September 2025 and continued the two-way reviewing and policy development dialogue subsequently. Based on the LPVA work the following AH policy recommendations have been made:
- A policy headline 40% affordable housing district-wide; except:
 - 30% AH in the Somer Valley (comprising Midsomer Norton Westfield Radstock, Paulton, Farrington Gurney and Peasedown St John).
 - A reduced target of 20% for flatted only development (schemes where the residential comprises all flats) on previously developed land – which policy layer we expect to also cover older persons housing schemes.

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- A target of 20% affordable housing where relevant - as above - on small sites of 5 to 9 dwellings, to be provided either on-site or via financial contribution.
- Purpose Built Student Accommodation (PBSA) - an off-site commuted sum equivalent to 20% affordable housing ' from schemes which are cluster units or a mix of cluster and studio units. Nil AH required from schemes which are 100% studio units.
- Co-living – AH commuted sums equivalent to 20% affordable housing.
- Build to Rent (BtR) – Current viability evidence indicates that scope to support on site affordable housing is shown only in the most favourable scenarios/locations. An option to follow the national position (in the PPG) of seeking 20% Affordable Private Rent (subject to individual scheme viability).

Sales values in the BANES area

- 1.2.5. The LPVA considers the influence of market housing sales values on the strength of viability, typically, by testing across a wide range of 'value levels' (VLs), ranging from £4,000/m² (broadly representing the lower end of the typical Somer Valley values range) up to £7,500/m² (with the higher values above £5,500/m² predominantly supported in Bath City rather than being more widespread).
- 1.2.6. Within this overall range, the key broad relativities within the general pattern of housing sales values for the district are:
- Bath City – typically highest values – approximately £5,500/m² to £6,750/m²
 - Somer Valley – typically lower to mid values - £4,250/m² to £5,500/m².
 - Other areas - £4,500/m² to £5,250/m²
- 1.2.7. The significant difference in sales values between the three broad sets of circumstances (Bath City, Somer Valley, and other areas) have informed the above-noted recommendations for a differential approach in affordable housing policy requirements.

1.3 Current BANES methodology for calculating commuted sums (Planning Obligations SPD 2015)

- 1.3.1. Currently the Council sets out an approach to the commuted sum levels, the basis of which dates back to April 2015 (Appendix 1 of the Council's Planning Obligations SPD).
- 1.3.2. The approach currently in use relies on commuted sums per affordable housing unit varying by scheme type and location. The figures originally set in April 2015 have been updated annually, with the latest figures being as follows:

Scheme Density	Low Density	Medium Density	High Density
Density Definition	At least 80% houses or bungalows	Mix of houses and flats	At Least 80% flats
Bath Prime High Value Area 1 - (40% affordable housing)	£238,171	£195,706	£150,419
Bath Rural High Value Area 1 - (40% affordable housing)	£193,486	£158,813	£121,777
Bath North and East High Value Area 1 - (40% affordable housing)	£161,804	£132,946	£102,176
Area 2 Areas Low Value Area (30% affordable housing)	£113,839	£90,942	£68,113

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1.3.3. The SPD sets out two worked examples:

Example 1 - A scheme of 10 houses in Bath Rural post code areas, the calculation would be as follows:

$10 \times 40\% = 4$ units. Scheme Type is 100% Houses = Low Density

The commuted sum figure per unit for Low Density in Bath Rural Post Code area is. £193,486 (See column 2, row 4 in Table 1 above)

The Commuted Sum Calculation is $4 \times £193,486 = £773,943$

Example 2 - A scheme of 15 houses and flats in Area 2 post code areas, the calculation would be as follows:

$15 \times 30\% = 4.5$ units.

Scheme Type is a mix of houses and flats = Medium Density.

The commuted sum figure per units for mix of houses and flats houses in Area 2 Post Code area is £90,942 (See column 3, row 6 in Table 1 above)

The Commuted Sum Calculation is $4.5 \times £90,942 = £409,239$

- 1.3.4. It should be noted that regardless of the selected methodology used to calculate the level of contributions due, in a parallel to the planning application stage considerations where on-site AH is provided, the commuted sum amount payable could still potentially need to reviewed (and may be reduced) due to overall viability considerations for the specific development, where those are fully justified, explored and also reviewed by the Council.
- 1.3.5. Any methodology should reflect a requirement for the commuted sum to be broadly similar to the cost of providing affordable housing on-site – i.e. there should be broad equivalence to a developer when comparing between on-site AH provision and the provision of a financial contribution.
- 1.3.6. Our aim in running this review and providing this 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 setting out commuted sums that reflects good practice whilst also being at a level that does not mean this is either unduly punitive or might become too attractive to planning applicants in comparison with the key policy expectation of on-site AH provision in most cases.

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

2.1 Introduction – review of contribution mechanisms

- 2.1.1 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. At the time of writing, we understand that the Government has recently commissioned a review to develop guidance on calculating commuted sums, but there has been no indication of the timescales for this or how it will be implemented in terms of national policy. The very recently amended NPPF (17 August 2026) did not provide any update on this. Nor was there any updated information on the approach to viability assessment, with the Government wishing to take more time to consider suitable approaches and potential standardised assumptions.
- 2.1.2 The following sets out examples of approaches to commuted sums that we are aware of and that have been used in other Local Authority areas, some of which have either been recommended by DSP or are based on approaches taken by DSP for other Councils.
- 2.1.3 We have included in our review the approaches used by neighbouring authorities and across the wider region. A summary is provided below indicating our understanding of approaches used.
- 2.1.4 In our experience no matter the methodology chosen/implemented, there will be occasions where the site/scheme and particular circumstances will not align with the chosen method of calculating/setting contributions. For example, calculations which assess the value of on-site provision and seek an equivalent may deliver skewed results if a scheme has not been designed to include any affordable housing (all or most proposed dwellings could be larger than is typically workable as affordable homes). Similarly, calculations which focus on the difference between the market value of a dwelling and its value as an affordable home may

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deliver unbalanced/distorted results where sales values in general are very low or very high. Calculations which focus on residual land value tend to ignore what can be significant changes in scheme profit once affordable housing is removed from the mix on a site. And, looking at the other side of the equation, commuted sums collected by Councils are often insufficient to enable a similar level of provision off-site, therefore whilst leaving the developer in broadly the same position, might leave the Council at a disadvantage in terms of achieving the same contribution towards meeting affordable housing need.

- 2.1.5 Whilst site and scheme specifics will inevitably vary, an overarching approach is needed to effectively guide this across a range of circumstances. Therefore a balance has to be found which provides a reasonable basis for being aware of and agreeing commuted sums – albeit whilst having to acknowledge that overall scheme viability considerations could potentially come into play as well. The policy positions that form the context for this work have been tested through the LPVA, however, so that as where viability in planning addresses on-site AH provision, a reduction in what can be viability supported would need to be fully explained and investigated.
- 2.1.6 It should be noted that the approaches currently in place and discussed below were typically set up to deal with situations where the developer subsidy that would be secured to reflect a small number of AH dwellings (or in some cases part dwellings as a top-up/equivalent) needs to be broadly replicated via a commuted sum approach. For example, they have been used primarily when assessing small sites with a handful of dwellings in total, and/or when viability or practical delivery (or expected management/take up) issues mean that single or small numbers of affordable homes are most appropriately provided via a commuted sum.
- 2.1.7 Over the past two or three years, a problem has arisen in some local authority areas where Registered Providers are unwilling/unable to take on affordable homes agreed via section 106 – often where a scheme is viable but the developer has been unable to find a suitable RP to take on the homes. This can result in significant numbers of affordable homes being replaced by equivalent commuted sums, and therefore some very large sums being considered. At scale, a relatively small change in rates (for example £ per m² commuted sums, or sales values per m² going into a commuted sum calculation) can result in

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significant differences to the overall commuted sum that is calculated. Hopefully the current difficulties in the market which are causing this unusual situation will be resolved soon and this will be a temporary blip rather than a commonly recurring issue. Nonetheless the approach to guiding commuted sums also needs to as appropriate as possible to a situation where potentially most or all of the affordable housing on a larger scheme is having to be considered for substitution by a commuted sum.

2.1.8 The following section offers our brief review of approaches currently in place.

2.2 Review of LA approaches - neighbouring local authorities

Bristol

- 2.2.1. Bristol City Council's Policy DM3 makes provision for financial contributions from smaller sites of 10 to 14 dwellings, and for larger developments where a site is unable to suitably provide affordable housing or where AH policy results in a fraction of a dwelling. The calculation is based on the difference between the amount a Registered Provider of AH (RP) would pay for the relevant affordable home and the market value of that.
- 2.2.2. Affordable homes are expected to be a mix of social rented and First Homes. BCC's policy assumes that RPs will offer 40% of market value in Inner East and Inner West Bristol, and 50% of MV in all other areas of the city. The policy also allows for actual offers from RPs to be taken into account if evidence is provided. For First Homes a value of 70% MV is assumed.

DSP commentary: This approach has the advantage of being fairly simple. It does however rely on an accurate assessment of the scheme or unit value.

North Somerset

- 2.2.3. North Somerset Council uses a similar method to Bristol's, but with more detail going into the two figures being compared.
- 2.2.4. The calculation takes into account the 'Total Scheme Cost' (including all land, fees, build cost etc) or GDV.
- 2.2.5. Full details are not published but this appears to be based on the approach produced by consultancy BPC for Royal Borough of Windsor and Maidenhead², in which 'Total Scheme Cost' is the value of the unit(s) less a 20% profit allowance.
- 2.2.6. This is then compared with the affordable housing transfer value (i.e. likely purchase price by an RP), which is assessed by capitalising the annual rental income.
- 2.2.7. The 'Total Scheme Cost' minus the RP transfer value = the commuted sum.

² RBWM have published guidance on commuted sum calculations, provided by BPC and dated November 2024.

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DSP commentary: Useful because the accompanying spreadsheet allows flexibility for the Council to specify what a suitable AH mix would be in the circumstances. Either via units selected from the proposed scheme, or in extreme circumstances where the scheme design is not suitable, via assuming a notional affordable housing mix of standard property sizes.

As with Bristol's approach, this is relatively simple but relies on an accurate assessment of scheme value and agreement of the relevant housing mix and rent levels.

South Gloucestershire

- 2.2.8. Commuted sums are not the default approach for South Gloucestershire; on-site delivery is heavily prioritised. However, in exceptional circumstances, if off-site contributions are proposed, developers must submit an open-book viability assessment to calculate the equivalent financial value (typically based on the difference between market value and the RP transfer price).

Wiltshire

- 2.2.9. Wiltshire Council's Commuted Sum methodology uses average open market values for the council area to calculate a commuted sum. Officers have taken a bespoke approach on specific sites which differ significantly from typical house types, where it is felt that average values are unlikely to reflect the open market value of the proposed dwellings; in such cases the Council has suggested calculating a commuted sum based on open market values provided and evidenced by the applicant, stating that *'this should be either the mean average of three valuations of the Open Market Value obtained from three local estate agents, or one valuation by a qualified RICS chartered surveyor with a knowledge of local house sales'*. The relevant open market value is compared with RP transfer value. The precise method of calculating the latter is not published.

2.3 Review of LA approaches - other nearby local authorities

Dorset

- 2.3.1. Dorset Council's commuted sums policy uses a calculator implemented in June 2025³ although it is stated to be for use only for sites of 9 dwellings or fewer. The policy requires applicants to submit the scheme details (housing and tenure mix, size of properties, policy requirement for AH) and then apply fixed assumptions ('default values') on sales values from the policy, based on figures from the Local Plan Viability Study and adjusted via HPI. The calculator allows applicants to submit their own values assumptions which differ from the default assumptions, but if these are lower than the default then the difference will need to be robustly justified by the agent/applicant, also with third party review costs being met by the agent/applicant. The policy also states specific profit assumptions for different tenure types, and specific assumptions for affordable housing values (again, both of these can be challenged by the applicant). The submitted information is then used by the Housing Enabling Team to calculate the relevant commuted sum.

DSP commentary: This approach allows for adjustment to the specific site and relevant affordable housing provision. However it appears to require significant officer input and also has the potential to cause difficulties or delays/lack of certainty due to the potential for applicants to challenge the inputs to the calculation. The details of the calculation itself are not published.

Exeter

- 2.3.2. Exeter City Council uses a formula set out in Table 1 of Appendix 3 of its SPD, which considers 'typical build costs' on a £/m² basis (indexed and updated quarterly) plus an average plot value.

DSP commentary: This approach is dated. It was put in place in 2014. The advantage is that it relates to the actual cost of providing affordable housing off site, however it does not take into account other aspects such as other policy costs, sales values etc.

³ <https://www.dorsetcouncil.gov.uk/w/dorset-council-wide-affordable-housing-commuted-sum-calculator-1>

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Plymouth

- 2.3.3. Plymouth City Council uses the approach of comparing the market value of units with the RP transfer value (based on what is considered to be a suitable AH mix). The RP purchase price is based on evidence supplied by developers and RPs within viability assessments undertaken within the previous 12 months.

DSP commentary: A fairly straightforward calculation but relies on input from RPs and judgement on what the relevant RP purchase price is.

2.4 Review of LA approaches – elsewhere in the South of England

Surrey Heath

- 2.4.1. Surrey Heath BC follows a methodology used by several of the Surrey local authorities. Its 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

- 2.4.2. 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.

- 2.4.3. 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 fewer than 10 dwellings.

Runnymede

- 2.4.4. Runnymede BC's formula for calculating commuted sums was prepared by BPS surveyors and is set out in Appendix 3 of their SPD⁴. The methodology involves carrying out a residual appraisal of a 100% market housing scheme and comparing this with an appraisal of the same scheme including affordable housing. The difference between the land value outputs is the commuted sum.

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

$$(A - (B+C)) = RV1 - RV2 = (D - (B+C))$$

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

RV1 = 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.

- 2.4.5. BPS tested this method using development typologies, and their 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'*.

⁴ Update: Following this review of LA commuted sums approaches we have learned that Runnymede BC recently adopted its new commuted sums calculation which sets a fixed rate applied on a £/m² basis to scheme GIA following the recommendations of a similar AH Financial Contributions study provided by DSP. We understand that this has been working well, with applicants so far appreciating the reduced time taken to agree contributions and certainty over costs, and our Council officer contacts noting satisfaction with the process and level of contributions being agreed.

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- 2.4.6. These test appraisals indicated that as well as the cost of providing affordable housing dwellings, the contributions resulting from the formula allowed for between £82,777 and £492,474 per plot in land purchase costs (on a market search and value basis and depending on the location within the borough) with the typical rate being £100k and £150k.
- 2.4.7. The appraisals assumed different sales values for different areas of the borough, and assumed a flat rate build cost for market and affordable housing across the borough.
- 2.4.8. Other assumptions (based on the LP viability assessment typology testing) included professional fees, marketing, finance and profit.
- 2.4.9. The Local Plan study also tested against Benchmark Land Values. However, for the purposes of setting the commuted sums approach with reference to the AH policy, this exercise did not revisit viability (which is consistent with the approach DSP has typically taken where this has been tested recently for a Local Plan). 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.

DSP commentary: The above exercise is carried out on a site-specific basis to assess the relevant commuted sum. This is viewed by many viability consultants as providing the most 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. It also makes it harder for planning officers and planning applicants to readily know/see what the outcomes will be at an early stage.

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Guildford

- 2.4.10. Appendix 7 of Guildford BC's planning contributions SPD sets out the following calculation, which requires an assessment of the market value of the proposed home, and then assumes a blended 55% of market value as the RP transfer value (based on a mix of 65% market housing and 35% affordable housing).

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					

DSP commentary: This is a simple approach, and easy to calculate once the inputs are clear, but requires agreement on/assessment of the relevant market values in each case, which may not be straightforward. It does not take into account any difference in profit assumptions (e.g. risk involved in transferring affordable homes to an RP versus market sale).

Maidstone

2.4.11. Maidstone Borough Council's adopted Affordable and Local Needs Housing Supplementary Planning Document SPD (2020) follows a similar approach, and provides some explanation for the adoption of this method, and the rationale regarding profit:

7.7 The MBC Local plan says that to support community integration, affordable housing will be provided on-site, and alternative provision will not be accepted unless there are exceptional circumstances that justify it. Any proposals for off-site or financial provision must be made at the time of the application.

14.2 Reasons for accepting an off-site contribution could include:

- Existing provision
- Where a site is unable to offer housing that meets the requirements of a Neighbourhood Plan or Supplementary Planning Document.
- Where the council has an overriding need to safeguard or provide affordable housing elsewhere in the borough to meet other strategic housing objectives or Neighbourhood Plans.
- Where the scheme design, such as studio flats would make the site unsuitable for affordable housing.

14.3 Following the initial consultation with stakeholders it is apparent that the Council's current methodology for calculating off-site contributions is too complicated and needs simplification.

14.4 Should the Council agree that the affordable housing requirement is best provided as an off-site financial contribution the financial contribution should be calculated as if the units were to be provided on site.

14.5 The amount should equate to 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.

14.6 The market value of the units would be established and verified on a site by site basis.

14.7 The applicant would need to demonstrate with evidence from market research and advice from local estate agents the open market values.

14.8 If necessary, the Council will engage an independent consultant to check that the open market values are fair and reasonable. The cost of this service would be expected to be met by the applicant.

14.9 This amount is then multiplied by the number of units sought (whole or fraction) based on the policy target percentage.

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14.10 An example of how this would work in practice is shown below

14.11 Site in Maidstone Broad Rental Market

No of units in total			20 x two-bed houses
Affordable housing requirement:	30%	=	6 x two-bed houses
Tenure split	70/30	=	4.2 rent and 1.8 intermediate

Assuming a market value for the 2 bed units of, say £240,000, this equates to a total GDV for the open market units of £1,440,000

If the units had been provided on site, then the transfer value assumed would be:

Rent -	£121,485 x 4.2 = £510,237
Intermediate -	£156,000 x 1.8 = £280,800
TOTAL -	= £791,037

Difference between open market value and transfer price = £648,963

14.12 Many Council's 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.

14.13 However, 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.

14.14 The commuted sum calculation spreadsheet will be updated to incorporate the above methodology.

14.15 The rental levels used in the calculation sheet will be the latest Local Housing Allowance rates - <https://lha-direct.voa.gov.uk/>

Epsom and Ewell

2.4.12. 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).

2.4.13. This is very similar to the approach taken by North Somerset and discussed in 2.2.3, above.

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Crawley

- 2.4.14. 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 c. £80,000 per AH unit required by policy.

East Hampshire

- 2.4.15. East Hampshire District Council's SPD 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:



Step 1: Establish the cumulative Gross Internal Area (GIA) of the development proposed. This is the whole development, not just the affordable housing.



Step 2: Multiply the cumulative Gross Internal Area (GIA) by the commuted sum rate detailed in Table 2 that relates to the Parish where the development is located.



Step 3: If some provision is being made on site, so the calculation relates to part off site contribution, the amount established in Step 2 is proportioned accordingly. The same proportioned approach is applied when the figure is not a whole number.

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) indexed¹	£229.92	£387.99	£510.14	£646.65

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- 2.4.16. It is not clear how the above rates were originally set. Likely following a similar exercise to this one for BANES, comparing residual values of schemes in different areas of the district.

Winchester

- 2.4.17. 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.

Chichester

- 2.4.18. 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 m² be applied to the total floor area of schemes in the South area, and £500 per m² 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).

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Worthing

- 2.4.19. DSP 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

- 2.4.20. Worthing BC has drafted an SPD seeking these sums 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.

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Southend

- 2.4.21. Following a report by BNP Paribas in 2015, an approach was recommended which 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.

Ashford

- 2.4.22. This Borough's 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"*

- 2.4.23. However, this policy has not been updated since 2009 and it is not clear whether a more up to date approach is now used.

Wealden

- 2.4.24. 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.

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

2.4.26. The rate of 38% of open market value was proposed by Peter Brett Associates as part of Local Plan viability work.

2.5 Review/discussion of methods

- 2.5.1 We have reviewed the above examples and distilled these to six main approaches which can be used at planning application stage and that share characteristics:
1. £ amount per unit of AH not being provided on site
 2. Assumed plot value plus acquisition costs/on-costs
 3. £/m² rate linked to GIA of subject scheme
 4. Comparison of market value of units with value as affordable housing
 5. Assessment of 'typical build costs' for affordable housing
 6. Comparison of residual value appraisals (difference in land value output between appraisal of a scheme with affordable housing and one without).
- 2.5.2 The table on the following page summarises these and considers how rates can be set, how these can be varied and in our view what the potential advantages/disadvantages are of each approach.
- 2.5.3 We will then look at these in more detail and explain how they might work in practice in the BANES context; testing the outcomes of some different methods using some example appraisals from our DSP's Local Plan VA work.
- 2.5.4 Most of the options require the setting of an initial level (£ sum per dwelling or similar) or rate/rates, which are then updated or indexed. Variation can also be introduced at the point that rates are set, for example by geography or scheme type (as with the current BANES commuted sums methodology). Alternatively, some of the inputs can be assessed on a scheme by scheme basis at planning application stage.
- 2.5.5 Considering inputs related to the specific site requires an assessment for each scheme, which is a more intensive exercise at planning application stage, but which allows a more bespoke approach to setting commuted sums that is more closely linked to the individual scheme. This however increases the likelihood of disagreement and can result in time-consuming negotiations around inputs and outcomes; and does not provide certainty for the Council/applicant, or necessarily support a ready view of the amounts required, therefore.

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- 2.5.6 As can be seen above, approaches vary widely in terms of how much flexibility is allowed at planning application stage, how commuted sum rates are initially set (if they are set at plan-making stage) and how they are applied (i.e. to what degree rates vary according to development type and location). We have summarised the main approaches in the table below:

Methods of calculating commuted sums currently in use - SUMMARY				
	Basis of calculation	Details/options	Advantages	Disadvantages
A	£ amount per unit of AH not being provided on site	Initial work carried out (typically at Local Plan stage) which considers a suitable commuted sum. There are various ways to set the sums initially; these then need to be refreshed or indexed. Further adjustment/complexity can be introduced to reflect different scheme types/geographical areas.	Once the commuted sums have been set, a clear set of rates is available which enables planning officers and applicants to easily calculate the relevant contributions.	Rates can be indexed, but over time can become a less realistic representation of what is occurring in practice, due to changes in the policy environment and the market generally. Individual schemes may vary from the typologies or schemes used to set the rates in the first place.
B	Based on assumed plot value plus acquisition costs/on-costs	Typically based on a % of scheme value, although could also be fixed at the outset (and varied by scheme type/area).	Typical approach means that plot value remains linked to sales values therefore does not need indexing/updating.	If inputs are based on the specific scheme, requires agreement on the scheme value. Does not take into account changes in scheme costs or land values therefore over time is likely to become a less accurate representation. Individual schemes/sites may vary from the typologies or schemes used to set the initial assumptions for plot value.

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C	£/m ² rate linked to GIA of subject scheme	Essentially the same approach as Option A but does not require consideration of what the on-site AH provision would be - it simply applies a £/m ² rate to the scheme GIA (or to an agreed% of the GIA, representing the % of AH required by policy). Initial work carried out (typically at Local Plan stage) which considers a suitable commuted sum. There are various ways to set the sums initially; these then need to be refreshed or indexed.	Once the commuted sums have been set, a clear set of rates is available which enables planning officers and applicants to easily calculate the relevant contributions. Based on residential GIA so can be applied to any scheme and the relevant policy % of AH is then applied to the GIA.	Might not take into account variations in scheme design, and can deliver distorted results, for example in a scheme of very large dwellings which if providing AH on site would provide the AH as smaller units (and therefore lower floor area). Some Councils' policies overcome this by suggesting standard floor areas for affordable housing.
D	Comparison of market value of unit(s) (or market value less profit) with value as affordable housing	Can be based on set market and AH values (varied by area/scheme type if necessary) or based on an assessment of the specific scheme at planning application stage.	Can be assessed on a site specific basis, but then requires agreement on inputs. A relatively simple approach that does not require full appraisal. However if carried out at application stage, requires agreement on inputs (market value, profit, affordable housing RP transfer value).	The simplicity of the approach, based on GDV only, does not take into account factors such as build costs.

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E	Assessment of AH 'typical build costs' plus plot value	Considers the cost of providing affordable housing.	May better represent the cost to the Council and its partners of providing AH elsewhere.	Might not accurately represent an equivalent position when comparing schemes with/without AH. Also likely to be inaccurate in that actual build costs can vary significantly from scheme to scheme therefore 'typical build costs' may not reflect the particular circumstances. Not directly related to the proposed scheme itself; the NPPF/PPG expect planning obligations to be related to the development that is providing them.
F	Comparison of residual value appraisals	This requires full appraisals of the relevant scheme with and without affordable housing. Residual land value outputs are then compared, with the difference being the commuted sum.	This would be carried out on a site specific basis, and will therefore most accurately reflect the circumstances.	Can be difficult to implement (or deliver skewed results) where a scheme has not been designed to include affordable housing. Is also complex and might involve external input. Can result in lengthy discussions around what the appraisal inputs should be.

- 2.5.7 Applying each of the above potential principles / methods requires different inputs and assumptions / judgments. These examples illustrate the types of calculation approaches, which can be used either to set commuted sums at the outset, which can then be included in policy and indexed, or can be used on a site by site basis at planning application stage. 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. As can be seen from the commentary in the table above, all methods are imperfect both in terms of setting and applying rates that will work across all potential developments, and/or in terms of the process at application stage. This is similar to Local Plan viability testing which also relies on finding a balance overall and setting generally appropriate policy positions.
- 2.5.8 Therefore, in the context that no methodology is likely to provide a fully work-free basis and single accurate answer at planning application stage, we recommend that in renewing its approach the Council considers adopting a methodology which is as simple as possible to implement and to update/index, and which sets fixed amounts which are broadly equivalent to the financial effects of on-site AH provision (rather than basing this upon or allowing detailed site-specific assessment of commuted sums in each case that arises).
- 2.5.9 As noted above it is possible to introduce some input on a site specific basis, for example on sales values, however this 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. If the required contributions are making a scheme unviable, planning applicants have the option to consider overall scheme viability at planning application stage and make a case for reduced contributions through a full justification for the Council to review as part of its decision making processes.

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- 2.5.10 In terms of the broad common threads, we also note that when it comes to setting commuted sums levels/rates, there are three main underpinning approaches:
- i. Carrying out development appraisals and comparing the residual land value (RLV) of a scheme with on-site affordable housing with the RLV of the same scheme as 100% market housing
 - ii. A straight comparison of market sales values and affordable housing transfer values
 - iii. An assessment of plot and/or build costs for the relevant AH units (therefore considering the cost of provision elsewhere).

2.5.11 We discuss these three approaches in more detail below.

Commuted Sums Approach 1: Residual Value Comparison

- 2.5.12 The basic premise of this approach is to compare the RLV of a scheme with a policy compliant level of affordable housing with one that has nil affordable housing applied. The difference in RLV is the effective equivalent financial effect of including/removing the affordable housing and therefore a reasonable pointer to the potential broadly equivalent financial contribution that could be secured.
- 2.5.13 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 area-wide without the need to undertake time consuming and potentially difficult to settle site specific calculations.
- 2.5.14 BANES current commuted sums levels were set via a similar exercise, fixed but with differentiation according to location and scheme density, with reference to the previous Local Plan viability testing. In the initial stages of this study DSP were asked to consider whether the calculation inputs could be updated, but in our view this would not be a suitable approach due to the level of change in values, build costs and policy requirements/development standards since that exercise was undertaken; we consider that a more comprehensively refreshed approach will be better, and which can then be consistent with the current Local Plan viability testing. We will however consider how the outputs of our testing on this basis compare with the sum levels currently in place in BANES.

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- 2.5.15 As noted above, although this method can be applied on a site by site basis that requires the parties to agree on suitable input assumptions to both the 100% market and AH policy compliant appraisals. This can contribute to delays in the planning process whilst a suitable contribution is considered.
- 2.5.16 Inevitably using this method to set fixed rates produces a variety of potential AHFC levels or rates, so from that point a judgement needs to be made on a single or small number of per dwelling 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.

Likely advantages:

- From experience, this methodology tends to be preferred by those operating it – both the LPA officers and developers/planning applicants and their agents from an accessibility/simplicity point of view. Whilst this method will often tend to result in lower financial contributions than some of the other approaches, it is felt to most accurately represent an equivalent cost to the developer, taking into account risk/profit, and other aspects that vary when affordable housing is added or removed from a site. As another example of the nuance involved, CIL payments vary as on-site AH and market housing tenure switches – CIL cost is typically borne by the market sale element and not paid in respect of the affordable homes.
- When used to set commuted sums, this uses the same principles and methodology as applied in the LPVA, and as tested here, can refer appropriately to the tested scheme typologies and assumptions for overall consistency of approach.

Potential Cons/Aspects to consider:

- Inherent in the residual value approach and reflecting the market sale risk as normal within that, the outcomes reflect higher profit assumptions in appraisals without physical affordable housing provision, therefore the resulting commuted sums may not fully reflect the benefit to the applicant of increased profit in £ amounts. Similarly, the calculation does not reflect any of the less tangible potential commercial/marketing/delivery benefits of schemes being 100% market housing (for example potential ease of marketing units for sale, design/layout not having to include affordable housing, ease of

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setting service charges, having potentially different specifications, and so on). Conversely, removing the affordable housing construction and sale has a disadvantage to developers because it removes the forward funding and guaranteed sale of a proportion of units on site, which can help smooth cashflow and delivery activity when the sale market is more challenging – as reflects in the above noted profit scenario.

Commuted Sums Approach 2: Market sales value versus Affordable housing value

- 2.5.17 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.
- 2.5.18 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.

Likely advantages:

- Derived from on-site affordable housing thinking;
- Relates to the specific site being considered, and the relevant sales values
- 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.

Potential Cons/Aspects to consider:

- Potentially some criticism because it does not reflect the above note nuances sufficiently in considering overall scheme finances;
- Possible delay at application stage as the values inputs to the calculation may be debated;
- Requires an estimate of sales values for the particular scheme, and although should be more specific compared with taking an area wide overview is still

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opinion rather than direct sales evidence based, if provided at an early stage might not reflect the values closely in any event.

Commuted Sums Approach 3: Land/build costs

- 2.5.19 Similar to the 'land subsidy' method used by Surrey Heath BC, Elmbridge, Sevenoaks, Woking, Wealden and others. 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. Canterbury DC uses a similar, if slightly simpler version of this approach. Requires a means of setting plot value/land subsidy.
- 2.5.20 As noted in the examples above, some LAs have introduced an element of differentiation by location to the above approach.

Likely advantages:

- 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.

Potential Cons/Aspects to consider:

- Needs guiding and updating
- Needs to be carefully judged re: impact.
- Might be viewed as complex by some.
- Site by site calculation.
- Requires gathering of less readily accessible information and officer and applicant team time to prepare and agree suitable assumptions.

Conclusion on the three main approaches

- 2.5.21 Noting the potential or likely advantages and disadvantages of each method, in carrying out our testing, we will consider all three of the above approaches, which will allow us to consider the results and settle on a suitable overall rate or rates.

2.6 Other approaches ruled out

2.6.1. 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 funding⁵.
- 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 BANES 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

⁵ There is pressure on the Government to change the rules on this; at the time of writing we have a new Prime Minister who is considering how affordable housing delivery could be increased. 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.

being accepted by a Planning Inspector this has been acknowledged during a Local Plan EiP as difficult to relate back to LP stage assumptions.

2.7 Method of testing the different approaches to setting commuted sums

- 2.7.1. As noted above, in our view the most straightforward approach to commuted sums is to carry out testing initially which sets fixed sums, rather than applying one of the above formulas each time a commuted sum has to be agreed (which then involves significant input from officers and applicants, potential disagreement and debate, and possibly involvement of external consultants to verify or discuss submitted assumptions).
- 2.7.2. Taking ‘Approach 1’ (comparison of appraisal residual values) as our base approach, we have also considered ‘Approach 2’ (market sale value vs AH value) and ‘Approach 3’ (land and build cost) to show the difference in the resulting sums and use as part of our overview.
- 2.7.3. To test the different approaches in the BANES context, we have considered the following scheme/site typologies (selected from DSP’s Local Plan viability testing):

Number of units	Typology	Site type
1	SINGLE UNIT HYPOTHETICAL EXAMPLE (NB not 100% accurate due to AH blended mix, M4(3) requirements etc)	-
1	SINGLE UNIT HYPOTHETICAL EXAMPLE (NB not 100% accurate due to AH blended mix, M4(3) requirements etc)	-
5	Houses	GF
15	Houses	GF
15	Houses	GF
50	Mixed houses and flats	GF
50	Mixed houses and flats	GF
50	Mixed houses and flats (NB different housing types on PDL sites compared to GF assumptions)	PDL
50	Mixed houses and flats	PDL
75	Flats	PDL
200	Build to Rent flats	PDL
300	Co-Living dwellings	PDL
300	Purpose-built student beds	PDL

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- 2.7.4. Taking an appropriate overview consistent with the LPVA and the characteristics and values patterns identified at a suitable level, we have tested outcomes across three geographical areas (unless otherwise specified), based on the following average sales values:

City: £6,000/m²

Somer Valley: £4,000/m²

Rest of district: £4,750/m²

- 2.7.5. It should be noted that each approach has its flaws, and that any general policy/methodology is unlikely to perfectly suit every eventuality at a site specific level. As noted earlier, this is particularly noticeable when, for example, schemes are proposed with designs that include only very large dwellings for market sale, and affordable dwellings (or those of a suitable size/type to be affordable housing) are not included within the scheme design.
- 2.7.6. Given our recommendations for affordable housing policy within the emerging Local Plan, we have tested the most likely applicable AH% policy position for each typology - although noting that breaking the results down into £ per AH dwelling makes the actual % being tested less of an influence on the results, particularly as in the case of commuted sums we are considering relative positions (with and without affordable housing) rather than viability per se. Therefore, when testing '50 mixed houses and flats' and '15 houses' we have tested a 30% affordable housing provision in the Somer Valley area, and a 40% provision in the other two value areas ('City' and 'Rest of District').
- 2.7.7. The Council does not intend to require on-site affordable housing provision from Co-living schemes, or purpose-built student accommodation, therefore a slightly different approach has been considered when assessing a suitable commuted sum in those scenarios. For Build to Rent (BtR) the Council intends for policy to follow the Government guidelines requiring 20% affordable housing on site (subject to viability). Our approach to these tenure types is explained further below.
- 2.7.8. We have also tested a hypothetical single dwelling development, comparing residual appraisals. This forms an extra check in terms of the difference per unit resulting from this method compared with a straight comparison of market sales value/affordable housing transfer value.

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- 2.7.9. Where it forms part of the calculation, the proposed policy requirement (as shared with DSP during work in progress) of 79% social rented and 21% shared ownership (or similar – this may be rounded marginally we understand) has been assumed. Affordable housing revenue has been assumed as follows:

Social rented - £2,137.50/m²

Shared ownership – 70% of the market value being tested

- 2.7.10. 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.

- 2.7.11. To recap further, it should be noted that when comparing residual land value appraisals, the removal of AH means an increase in CIL payments, and a higher profit also has to be allowed for as a cost (representing the greater risk involved in selling properties on the open market) as well as higher sales/marketing costs.

Co-living, Purpose-Built Student Accommodation (PBSA), and Build to Rent

Co-living

- 2.7.12. In the case of Co-living housing, the Council's draft policy is to seek financial contributions towards affordable housing in the district generally rather than on-site affordable provision. To reach a suitable level of contribution we have first considered the current policy which divides the net internal floor area by 37 m² (representing a 1-bed, 1pp dwelling) to establish the relevant equivalent number of units in terms of affordable housing policy, and have then assumed 20% of these units to be affordable housing. Dividing the floor area in this way results in a requirement for 35 units of affordable housing from our 200-unit Co-living typology, to equate to 20% affordable housing (rather than 20% by unit numbers which would be 40 units). For the purposes of comparing residual land values as per 2.5.10 (i) above, we have tested the following provision of affordable housing at rents discounted 20% from the market rate:

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Assumed Co-living AH mix		
Market	1-bed (smaller units)	49
Market	1-bed (larger units)	91
Market	2-bed	25
Sub-total Market		165
Affordable	1-bed (smaller units)	11
Affordable	1-bed (larger units)	19
Affordable	2-bed	5
Sub-total AH		35
Total units Co-living		200

PBSA

- 2.7.13. For purpose-built student housing, our initial viability testing indicated that student housing made up entirely of studio accommodation could not viably provide a contribution to affordable housing. The more traditional 'cluster' type accommodation does however show strong viability prospects and the Council intends to require contributions from this type of accommodation. As with Co-living, the intention is to seek financial contributions rather than on-site provision. With our PBSA typology of mainly cluster bed spaces being closest to Co-living in scheme type we have taken a starting point of 20% affordable housing for the purposes of our comparative exercise (noting also the proposed policy requirement for 20% affordable housing on all flatted development, and the Government's guidelines (PPG) on Build to Rent which recommend a starting point of 20% affordable housing).
- 2.7.14. It would not be practical to provide general needs affordable housing on site, due to the different nature of that accommodation. The Council has advised that BANES' current policy when calculating student accommodation contributions to overall housing supply is to use a ratio of 2.4 student bedspaces to 1 equivalent dwelling. This aligns with the adjustment used by the Government and set out in the MHCLG housing delivery test⁶ which assumes that for the purposes of assessing housing delivery numbers, 2.4 student bedspaces are the equivalent of one C3 dwelling.

⁶ The Housing Delivery Test Measurement Rule Book (MHCLG, 2024)
<https://www.gov.uk/government/publications/housing-delivery-test-measurement-rule-book/housing-delivery-test-measurement-rule-book>

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2.7.15. Therefore, we have used the following adjustment when assessing the 300 bedspace student typology:

Divide the number of bed spaces by 2.4 = $300/2.4 = 125$ equivalent units,
then apply 20% AH = 25 units of affordable housing required.

2.7.16. In terms of the rent level of this affordable housing equivalent, we have assumed a 20% discount from market rent, on the basis that the current CIL charging schedule, which states that any '*affordable student units*' will be exempt from CIL if they are at '*no more than 80% of market rent*'.

2.7.17. Therefore for the purposes of establishing a suitable commuted sum we have compared an appraisal with 25 affordable student units at 20% discount from market rent with a 100% student housing appraisal. As per the CIL charging schedule we have assumed that the 25 affordable student units will be exempt from CIL.

Build to Rent

2.7.18. For Build to Rent the Council's intention is to reflect government guidance with the PPG and seek 20% affordable housing on site (as Affordable Private Rent), subject to viability. Therefore, we have assumed 20% APR in our comparative exercise here, to establish a suitable per unit commuted sum. It should be noted, however, that the using all the stated assumptions the LPVA results for BTR suggest generally challenged viability at this time and in the majority of the scenarios tested, 20% AH would not be supported. This appears to reflect our wider experience of this sector of the market in the recent period, although it has been seen to go through much stronger cycles of activity on new developments. Whilst the commuted sum calculation can be used to set the policy requirement, any provision (whether on site or via a commuted sum) we need to acknowledge that in the short term at least, should proposals come forward they may well need viability testing at application stage, and will therefore be dependent on the particular scheme characteristics and location, as well as where we are in the economic cycle when the scheme comes forward.

3. Results of testing and recommendations

- 3.1.1 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.
- 3.1.2 It is also important context that whilst currently there is an issue with Registered Providers in some cases being unable or unwilling purchase s106 affordable housing from developers, and in some cases significant numbers of affordable homes being converted to affordable housing commuted sums, the typical scenario for the use of commuted sums is for a small number of units.
- 3.1.3 The results for each location vary to a degree that we consider it appropriate to put forward three value areas (Bath City, Somer Valley, rest of district) with different commuted sum levels applicable for each. 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. Again this is inherent in policy making, however, and it is not considered critical to the overall approach of setting out clear expectations to work with.
- 3.1.4 The results of our testing are summarised in Appendix 1, which shows first of all the difference in residual values between a scheme with 100% market housing and one with affordable housing included (‘Approach 1’, above) for each of the value areas above – and expressed as £ per affordable dwelling which is to be replaced by a financial contribution.
- 3.1.5 The next set of columns (‘Approach 2’, above) show the per dwelling amounts derived from the simpler calculation of market value versus AH value (based on a notional 93 m² dwelling).
- 3.1.6 The final column (‘Approach 3’, above) shows the amounts resulting from a calculation of build and land cost per equivalent AH unit (therefore relating more to the cost of providing a similar unit off site rather than to the impact on a development of providing affordable housing). This latter calculation assumes

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build costs based on LPVA assumptions, and also adds a fixed £60,000 land cost to represent a typical development plot for an affordable home.

Standard C3 housing typologies

- 3.1.7 The residual value comparison tests for the various standard housing typologies indicate the following:

Schemes of houses, or a mix of houses and flats	Flats only
City £180,944 to £215,550 (Average £202,543)	City £98,887
Somer Valley £58,792 to 83,487 (Average £71,001)	Somer Valley £42,292
Rest of District £112,171 to £131,354 (Average £123,944)	Rest of District £61,836

- 3.1.8 This suggests that differentiation should also apply to schemes comprising flats only. This is as expected, and represents a proportionate approach.
- 3.1.9 The less complex method of comparing market value and AH values results in amounts ranging from c. £160,000 in the Somer Valley up to c. £320,000 in the City. This has been tested by considering a typical house, which indicates similar results – and it can be assumed that if following this method the amount for a flat the indicated sum would be lower (as per the relative size of flats and the land area occupied, so likely to be 50 to 60% of the above figures).
- 3.1.10 Finally, the third option, based on the cost of providing an affordable dwelling elsewhere, indicates c. £230,000 for flats and c. £300,000 for houses (or a mix of houses and flats).

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- 3.1.11 **Conclusion – general needs housing:** Reviewing the above commentary and calculations our recommendation is to fix commuted sums at the amounts set out in the table below, based on the residual valuation comparison method. This makes use of Local Plan viability assumptions, and will be easy to calculate and implement. If there are circumstances which mean that a site cannot viably deliver the relevant commuted sum, there remains the option for a site-specific viability assessment.

General needs housing

Schemes of houses, or a mix of houses and flats	Flats only
City £200k	City £100k
Somer Valley £70k	Somer Valley £40k
Rest of District £120k	Rest of District £60k

- 3.1.12 In our view the above figures are pitched at a point which is broadly equivalent to the cost to the developer of providing on site affordable housing, will not make this an unduly lenient option for developers and will make a meaningful contribution to funding affordable housing where opportunities arise.
- 3.1.13 For comparison, the existing indexed commuted sums range from £150,419 to £238,171 in 'Bath Prime' and £68,113 to £193,486 elsewhere. The figures proposed above are at a lower level – this is not unexpected because since the original commuted sums were set, plus the original sums have been indexed upwards whilst there has been an increase in the overall cost of development standards planning policies/obligations on developers and over the recent period when overall scheme viability has often come under pressure (with costs generally increasing but values – at least for the past year or so – remaining broadly similar).

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Conclusion - Build to Rent

- 3.1.14 Based on our commuted sum testing, a rate of circa £40,000 per equivalent 'Affordable Private Rent' unit is indicated.

Conclusion – Co-living dwellings

- 3.1.15 Based on our commuted sum testing, a rate of circa £30,000 per equivalent 'Affordable Private Rent' unit is indicated.

Conclusion – Purpose-built student housing (excluding developments which are solely studio flats)

- 3.1.16 Based on our commuted sum testing, a rate of circa £25,000 per equivalent 'Affordable Private Rent' unit is indicated.

4. Summary and recommended commuted sums

- 4.1.1 Again, we note that there is no perfect approach to determining AH commuted sums. Even if taking a potentially significantly more involved approach at application stage, the resulting commuted sums (arrived at through whichever approach) might not reflect the amounts needed to provide affordable housing off site very closely as site specifics are so variable. Furthermore, a more involved approach to this undoubtedly introduces delay and uncertainty as inputs/calculations are settled or perhaps debated (all within a moving picture in terms of assumptions which change over time).
- 4.1.2 On balance, we recommend that the Council adopts the sums set out in the tables below, applying the £ amount to any affordable dwelling equivalent being provided by way of a commuted sum rather than on site:

Commuted sum per equivalent affordable housing dwelling

Schemes of houses, or a mix of houses and flats	Flats only	Build to Rent	Co-Living	Purpose-built student housing (excluding schemes of solely self-contained studio flats)
City £200k	City £100k	All areas of the district £40k	All areas of the district £30k	All areas of the district £25k
Somer Valley £70k	Somer Valley £40k			
Rest of District £120k	Rest of District £60k			

Indexation

- 4.1.3 To ensure that contributions do not fall behind in the broad equivalence of providing affordable homes, we recommend that BANES considers indexing the commuted sums. For future updating, reflecting market movements, the suggested rates could be indexed; for example aligning with CIL indexing which updates according to the BCIS Tender Price Inflation index related to scheme costs – with the indexing rate now published annually by the RICS here: https://bcis.co.uk/insight/cil_index/.
- 4.1.4 The RICS rate is updated annually on 1 November, therefore if adopting this method of indexation we suggest that the base position be the relevant rate at the time the updated commuted sums policy is implemented, and that the rates be updated annually, applying the relevant RICS rate at the time of updating.
- 4.1.5 We understand that BANES intends to update rates on 1 April each year, therefore the relevant rate will be the rate from November of the previous year. (Due to the timing of the RICS updates, this means that if the commuted sums policy is implemented between 1 November and 31 March there will be no change at the first updating point of 1 April).

DSP report ends

August 2026

Appendix 1 – Summary of appraisal testing results

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Abbreviations	Meaning
AH	Affordable Housing
AHFC	Affordable Housing Finance Contributions
APR	Affordable Private Rent
BANES	Bath & North East Somerset Council
BCIS	Building Cost Information Service
BLV	Benchmark Land Value
BtR	Build to Rent
CIL	Community Infrastructure Levy
EUV / EUV+	Existing Use Value / Existing Use Value plus premium
FENA	Future Economic Needs Assessment
GDV	Gross Development Value
GF	Greenfield
GIA	Gross Internal Area
LP	Local Plan
LPVA	Local Plan Viability Assessment
NDSS	Nationally Described Space Standard
NPPF	National Planning Policy Framework
ONS	Office for National Statistics
PBSA	Purposely Built Student Accommodations
PDL	Previously Developed Land
PPG	Planning Practice Guidance
RICS	RICS – Royal Institution of Chartered Surveyors
RHG	Retirement Housing Group
RLV	Residual Land Value
RP	Registered Provider(s)
S106	Section 106 agreements
SNCI	Site of Nature Conservation Interest
SPD	Supplementary Planning Document
SSSI	Site of Special Scientific Interest
VA	Viability Assessment
VOA	Valuation Office Agency