

APPENDIX 2: FINANCIAL CONTRIBUTIONS CALCULATION METHODOLOGY

1. This technical note provides the detailed workings behind the standard financial contributions set out in **Figure 5** of the Affordable Housing SPD. The figures in Figure 5 and Table D below will in future be altered on 1 April each year in line with the BCIS All-in Tender Price Indices rounded to the nearest whole pound. The in lieu financial contribution rate will be kept under review to reflect the changing cost of affordable housing provision.
2. In accordance with Policy SD28, a meaningful financial contribution is sought from residential developments of 3 homes. Residential development proposals of 4 or more dwellings will be expected to provide affordable housing on-site. Exceptionally, and where it has been robustly demonstrated that on-site provision is unviable, financial contributions in lieu of on-site affordable housing will be accepted in line with paragraph 7.70 of the SDLP.
3. A financial contribution will only be applicable to developments of 3 homes or where delivery onsite is demonstrated to be unviable and/or is agreed by the Authority. The Authority's approach to calculating an offsite financial contribution, also known as a 'commuted sum', is to base the calculation on the cost of providing affordable housing on another site without additional subsidy. The Authority will use the following methodology to calculate the commuted sum payments:

$$\mathbf{A} \text{ [Cost of land + Build Cost]} - \mathbf{B} \text{ [Revenue of Selling to Housing Association or other Registered Provider]} = \text{Off site financial contribution}$$

4. The assumptions and figures used in this methodology reflect the Local Plan and Affordable Housing Viability Assessment (the 'Viability Report').²¹ This was prepared in 2017 by BNP Paribas Real Estate, on behalf of the SDNPA, as evidence to support the Local Plan.

A) Cost to build affordable housing offsite

5. The cost of land is based on a benchmark greenfield land value. Most sites coming forward for development in the National Park will be greenfield sites on the edge of settlements. It is therefore considered appropriate to assume offsite affordable housing would be delivered on a greenfield site. The Viability Report adopted a greenfield benchmark land value of £300,000 per gross hectare. This figure is adopted for the purposes of the financial contribution methodology. Greenfield development is assumed to comprise houses at a density of 15 dwellings per hectare. This reflects the requirements for landscape-led development, ecosystem services and on-site green infrastructure (including public open space) which typically means that a significant portion of a site won't be used for built development.
6. **Table A** sets out the component parts of the total build cost. The build cost is based on costs sourced from the RICS Building Cost Information Service (BCIS) as reported in the SDNPA Viability Report. Upper quartile BCIS costs are used to reflect the high benchmark set by policies such as Local Plan Policy SD5. Separate BCIS costs are used for flats and semi-detached dwellings to reflect the higher build cost of flats. The Viability Report also applied a local adjustment factor of 120 (i.e. 20% uplift on nationally derived base build costs) which is used in this methodology. A further 23% uplift on base build costs is applied to account for external works, landscaping and climate change mitigation measures. As with the Viability Report, an additional allowance of £15,000 per unit is made for the provision of utilities infrastructure on greenfield sites.

²¹ Local Plan and Affordable Housing Viability Assessment (BNP Paribas Real Estate, August 2017). See Local Plan Evidence pages at www.southdowns.gov.uk/localplan

7. BCIS figures are periodically updated to reflect changes to build costs as a result of inflation. These updates may feed into an annual review of standard financial contributions as set out in paragraph 2.29 of the Affordable Housing SPD.

Table A: Build Cost of affordable housing units

Cost component	Notes	Cost per unit
Cost of land	Using benchmark land value of £300k and benchmark density of 15dph. Applies to all unit types.	£20,000
BCIS upper quartile base build cost (as of May 2017)	Flats	£1,454 per m ²
	Houses – semi detached	£1,397 per m ²
Local adjustment factor of 120 applied to base build costs	Flats	£1,745 per m ²
	Houses – semi detached	£1,676 per m ²
23% uplift allowance for external works, landscaping and climate change mitigation	Flats	£2,146 per m ²
	Houses – semi detached	£2,061 per m ²
Installation of utilities infrastructure	On greenfield sites allowance is made for site roads, ground works and other associated costs. Applies to all unit types.	£15,000

8. A figure for gross internal floor area is needed to calculate the build cost by unit size. This is taken from the Government’s published ‘Technical housing standards – nationally described space standard’ (DCLG, March 2015), which sets out requirements for the Gross Internal (floor) Area of new dwellings at a defined level of occupancy and is set out in **Table B**.

Table B: Nationally described space standards

Unit size	1 bed flat	2 bed house	3 bed house	4/5 bed house
Gross internal floor area (sqm)	58	79	102	128

9. In calculating floor area, account is taken of the strategic mix of homes specified in Local Plan Policy SD27: Mix of Homes. The unit mix for affordable homes is used. This unit mix is then multiplied by the unit sizes shown in Table 2. For example a notional floor area for a 1 unit scheme is calculated as follows:

$$\text{Floor area for 1 unit} = [0.35 \times 58] + [0.35 \times 79] + [0.25 \times 102] + [0.05 \times 128] = 79.85$$

10. **Table C** gives the cost/ m² to build new homes by dwelling size. This cost/ m² incorporates the land cost and build costs detailed above. It is assumed a 1 bed unit would be built as a flat and the

build cost for flats are used accordingly. The build costs for semi-detached houses are used for 2 – 4/5 bed units.

Table C: Total Build Cost by Unit size

Unit size	Build cost/ m ²
1 bed	£2,750
2 bed	£2,504
3 bed	£2,404
4/5 bed	£2,334

B) Gross development value of affordable units

11. The Gross Development Value (GDV) of the affordable units is the amount it is assumed would be paid for the affordable units by a housing association or other Registered Provider. To calculate this, Land Registry sales data is used to establish the median per square metre Open Market Sales Value (OMV). Table 5.7.1 of the Viability Report gives sales data by settlement and house type. The median figure for flats (£3,460 per m²) is used for 1 bed units and the median figure for semi-detached houses (£3,838 per sqm) is used for 2-5 bed units. This figure is multiplied by the floor space as shown in **Table B** according to the mix of units required by Policy SD27.
12. The next step in establishing the GDV is to factor in the amount a housing association or other Registered Provider (RP) will pay for the affordable units as a proportion of the OMV. It is expected that any offsite affordable housing would be delivered on a relatively small site given the availability of sites within the National Park. The SDLP sets a strategic tenure mix which favours social rented or affordable rented tenure, reflecting evidence of need. In addition, smaller sites can be more challenging for a housing association or RP with a higher associated risk. This additional risk is likely to be factored into the amount offered by an RP for affordable housing units. The Viability Report (paragraph 5.17) found that RPs would pay an average of £1,475 per sqm to acquire completed affordable rented units, which is equivalent to 42% or 38% of the typical median open market value of a flat or house respectively. It is therefore assumed that an RP would pay 40% of the market value for all affordable units, and a multiplier of 0.4 is therefore used to calculate the expected revenue for the affordable units.
13. The methodology as set out above and detailed in the worked example in **Box I** is repeated to calculate the in lieu financial contribution for 2 , 3 or 4 affordable homes as set out in **Table D**. In the case of 2 or more affordable homes, the median open market sale value for semi-detached dwellings is used as it is assumed 2 or more affordable homes would be delivered as semi-detached dwellings.

Table D: Affordable housing in lieu financial contribution payment table

Development size	Affordable housing requirement	Off-site financial contribution
3 homes	Meaningful financial contribution	£46,832 (which is equivalent to half of an affordable home, and subject to site specific circumstances)
4-5 homes	1 affordable home	£93,664
6-7 homes	2 affordable homes	£163,181
8 – 9 homes	3 affordable homes	£244,772
10 homes	4 affordable homes	£326,363

Box 1: Worked example calculating the in lieu financial contribution for 1 affordable home

A proposal consists of 4 units – it has been demonstrated that there are exceptional circumstances such that onsite affordable housing cannot be delivered. A financial contribution equivalent to the delivery of 1 affordable unit offsite is calculated as follows.

A) Cost to build 1 affordable unit

Step 1 – Calculate the floor area

The floor area is calculated according to mix of units required by SD27 and using **Table A: Nationally described space standards**

$$\text{Floor area} = [0.35 \times 58] + [0.35 \times 79] + [0.25 \times 102] + [0.05 \times 128] = 79.85$$

Step 2 – Calculate the build cost

As with floor area, the strategic mix of homes is factored into build cost and using **Table B: Build Cost by Unit Size**

$$\text{Build Cost} = [0.35 \times 2750] + [0.35 \times 2504] + [0.25 \times 2404] + [0.05 \times 2334] = 2557 \text{ per m}^2$$

Step 3 – Calculate total build cost

The notional floor area for one unit is multiplied by the build cost, i.e. 79.85×2557 :

$$\text{Total build cost} = \boxed{\pounds 204,176}$$

B) Gross Development Value

Step 4 Calculate the Open Market Sales Value

Multiply median sales figure for flats by floor area (incorporating policy SD27 mix):

$$\text{OMSV} = 3,460^\dagger \times ([0.35 \times 58] + [0.35 \times 79] + [0.25 \times 102] + [0.05 \times 128]) = \pounds 276,281$$

[†]see paragraph 11 of this Appendix

Step 5 Calculate revenue from Registered Provider

RP expected to pay 40% of open market value

$$\text{RP revenue} = \boxed{\pounds 110,512} \text{ (i.e. } \pounds 276,281 \times 0.4)$$

Off site Financial Contribution

Step 6 Calculate cost of development

A [Cost of land + Build Cost] – **B** [Revenue of Selling to Housing Association or other Registered Provider]

$$204,176 - 110,512 = \pounds 93,664$$