

London Borough of Merton

Explanatory Note on calculating s106 Affordable Housing
Contributions for developments of 1 - 9 dwellings

February 2014

1.0 Purpose of this Explanatory Note

- 1.1 The purpose of this note is to provide guidance on how affordable housing requirements for schemes of 1-9 units residential set out in policy CS8 (Housing Choice) of Merton's Core Strategy will be implemented.

2.0 Background

- 2.1 Merton's Core Strategy is underpinned by a robust evidence base including an Affordable Housing Viability Study undertaken by Adams Integra in 2010. This study assessed a range of different affordable housing target requirements on schemes of 1-9 residential units and their impacts on viability. The study supports the introduction of an affordable housing requirement concerning schemes below 10 units as viable. It also includes a formula to assist with calculations of financial contributions from schemes of 1-9 units.
- 2.2 Merton's Core Strategy was the subject of extensive consultation throughout its preparation and an Independent Examination in February 2011. In June 2011 the council received the Inspector's binding Report which found Merton's Core Strategy sound.

3.0 Policy Context

Policy CS8 (Housing Choice) states as follows:

We will:

- a. Require proposals for new homes including new build schemes and redevelopment proposals to be well designed and located to create socially mixed and sustainable neighbourhoods.
- b. Seek the provision of a mix of housing types sizes and tenures at a local level to meet the needs of all sectors of the community. This includes the provision of family sized and smaller housing units and provision for those unable to compete financially in the housing market sector and those with special needs. All new housing will be built to lifetime home standards and 10% of new housing will be wheelchair accessible or easily adaptable for residents who are wheelchair users.
- c. Aim for the borough-wide affordable housing target of 40% which is equivalent to the numerical target of 1,920 affordable homes in Merton for the period 2011- 2026
- d. We will expect the following level of affordable housing units to be provided on individual sites:

<u>Affordable housing requirements for Merton</u>			
<u>Threshold</u>	<u>Affordable Housing Target (Units)</u>	<u>Affordable Housing Tenure Split</u>	<u>Provision Requirement</u>
<u>10 units or more</u>	<u>40%</u>	<u>60% Social Rented and 40% Intermediate</u>	<u>On-Site</u> - <u>Only in exceptional circumstances will the council consider the provision of affordable housing off-site or financial contributions in lieu of provision on-site and this must be justified.</u>
<u>1-9 units</u>	<u>20%</u>	<u>60% Social Rented and 40% Intermediate</u>	<u>Provision of an affordable housing equivalent to that provided on-site as a financial contribution.</u>

- e. In seeking affordable housing provision we will have regard to site characteristics such as site size, site suitability and economics of provision such as financial viability issues and other planning contributions.

4.0 Application of the policy

- 4.1 All sites capable of providing between 1-9 units will be required to include affordable housing provision equivalent to that provided on-site as a financial contribution. This includes residential conversions and also mixed use schemes involving an element of residential.
- 4.2 Section 6 of this note sets out the formula used to calculate the expected amount of financial contributions from schemes capable of providing between 1-9 units and provides examples of the application of the formula. The term 'affordable housing provision equivalent' means contributions equivalent to the provision of affordable housing

on-site which includes the costs of land, building and servicing. The justification supporting this approach is set out in detail in Merton's Affordable Housing Viability Study (2010) which can be viewed on Merton Council's website here:

[http://www.merton.gov.uk/environment/planning/planningpolicy/ldf/lb_merton - viability study final report 2010.pdf](http://www.merton.gov.uk/environment/planning/planningpolicy/ldf/lb_merton_-_viability_study_final_report_2010.pdf)

- 4.3 The requirement to pay a financial contribution is subject to viability. If it is not viable to provide the contribution indicated in Table 1, Section 6, the onus will lie with the developer to demonstrate through the submission of a viability appraisal the level of contribution that is viable. Through an open book approach, applicants will be required to submit all the inputs and assumptions used to assess viability of the proposed scheme. Where it is deemed appropriate the Council will subject proposals and applicants' submitted residual land value viability assessment(s) to independent examination and may seek payments from applicants for the costs of the independent examination.

5.0 Justification

- 5.1 The requirement for schemes below 10 units to contribute to the provision of affordable housing in the borough reflects the fact that the majority of housing delivery in the borough both historically and proposed future provision in Merton is sourced from smaller sites and the need to maximise the opportunities this can contribute to affordable housing provision in Merton.
- 5.2 The Core Strategy and accompanying supporting evidence, including Merton's Affordable Housing Viability Study 2011 were found sound by the Planning Inspector.

6.0 Calculation of affordable housing financial contribution on schemes of less than 10 units

- 6.1 Table 1 below sets out indicative per dwelling equivalent financial contributions payments generated by applying the following steps:

(**A** Open market value or relevant or comparative property) x (**B** residual land value percentage which is 38.6%) + (**C** 15% site acquisition and preparation / servicing costs = **D** per unit sum). Per unit sum (**D**) x 20% = Financial contribution payable.

- 6.2 The examples set out in table 1 below are based upon open market values (value point 4) set out in Merton's Affordable Housing Viability Study 2010. All financial contribution payments will be secured by a s106 obligation. Applicants may also find it helpful to utilise the online calculator located here:

<http://www.merton.gov.uk/environment/planning/s106-agreements.htm>

Table 1: Examples applying the formula (value point 4) to identify indicative per dwelling equivalent financial contributions payments.

Type of Unit	¹ Open market value (Borough average – value point 4) (A)	(A x B)	C	Per unit sum (D) (A x B) + C	Expected financial contribution payable (Indicative)
1 bed flat	£237,500	237,500 x 38.6% = 91,675	91,675 x 15% = 13,751	91,675 + 13,751 = 105,426	105,426 x 20% = £21,085
2 bed flat	£318,250	318,250 x 38.6% = 122,844	122,844 x 15% = 18,426	122,844 + 18,426 = 141,271	141,271 x 20% = £28,254
3 bed flat	£427,500	427,500 x 38.6% = 165,015	165,015 x 15% = 24,752	165,015 + 24,752 = 189,767	189,767 x 20% = £37,953
2 bed house	£356,250	356,250 x 38.6% = 137,512	137,512 x 15% = 20,626	137,512 + 20,626 = 158,139	158,139 x 20% = £31,627
3 bed house	£403,750	403,750 x 38.6% = 155,847	155,847 x 15% = 23,377	155,847 + 23,377 = 179,224	179,224 x 20% = £35,845
4 bed house	£475,000	475,000 x 38.6% = 183,350	183,350 x 15% = 27,502	183,350 + 27,502 = 210,852	210,852 x 20% = £42,170

7.0 Indications on what the financial contributions will be used for

7.1 Options the Council will utilise for using financial contributions for the delivery of additional affordable homes include:

- Purchases on the open market
- Joint partnership with the Homes and Communities Agency (HCA)

¹ Please note that the Open Market Values used in these examples are point in time (Aug 2009) and derived from Merton's Affordable Housing Viability Study (2010).

- Joint partnership with Merton Priory Homes (MPH) or other Registered Housing Provider
- Development of Council Owned Sites
- Subsidising developments of 10 homes or more to provide above the 40% affordable housing target.