

Appendix 1 – Calculation of the commuted sum

- i. The revenue from a scheme varies with the amount of affordable housing and reduces as the proportion of affordable housing increases. This relationship is also affected by the type of affordable housing in a scheme (e.g. social rent versus shared ownership etc). The costs of building a market unit and an affordable unit are similar (for the same type and size of unit). Build costs, fees and the cost of finance do not differ significantly. However, market housing has additional costs (return, marketing & CIL) that do not apply to affordable housing.
- ii. Using the above principles, the commuted sum calculation is as follows:

Steps in calculation	Abbreviations
$CS = RV (M) - RV (AH)$	CS = commuted sum RV (M) =residual value market housing RV (AH) = residual value affordable housing
$RV (M)= Rev (M) - C (M)$	RV (M) = residual value market housing Rev (M) = revenue for market housing C (M) = costs of market housing
$C (M) = \text{Basic costs} + DR\% + \text{Marketing}\%$	C (M) = costs of market housing Basic costs = costs of building, fees and interest DR% = developer return as % revenue Marketing % = marketing fee as % revenue
$RV (AH)= Rev (AH) - C (AH)$	RV (AH) = residual value affordable housing Rev (AH) = revenue for affordable housing C (AH) = costs of affordable housing
$C (AH) = \text{Basic costs}$	C (AH) = costs of affordable housing Basic costs = costs of building, fees and interest (Note – Basic costs are same for market and affordable housing for same type /size of unit)

So that the out-turn commuted sum is calculated as follows:

$$CS = ((\text{Rev}(M) - (\text{Basic costs} + DR\% + \text{Marketing } \%)) - ((\text{Rev} (AH\%)- \text{Basic costs}))$$

$$CS = \text{Rev}(M) - (DR\% + \text{Marketing } \%) - \text{Rev}(AH)$$