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REPORT

Cllr Noeken Cabinet Member for Planning and Economic Development

Revision of Commuted Maintenance payments in respect of Policy R2

1.0 Report Summary:

- 1.1 The purpose of this report is to consider a revised method of calculating Commuted Maintenance sums requested in association with Recreation Policy R2 of the Salisbury District Local Plan.

2.0 Introduction

- 2.1 Recreation Policy R2 of the Salisbury District Local Plan requires contributions from developers towards the provision of outdoor recreation facilities in association with new residential development. For smaller developments commuted sums are collected and spent in line with parish demands for recreational improvement's.
- 2.2 On larger developments, where 10 or more dwellings are proposed, equipped children's play areas are normally expected to be provided on-site along with a commuted maintenance sum handed over to the party required to maintain the site - generally the local authority or parish council. This approach is supported by PPG17 Companion Guide paragraph 6.19 "Good planning requires that new open spaces and facilities are provided where they are needed and financially and environmentally sustainable. The payment of a commuted maintenance sum is appropriate when a developer hands over title and responsibility for the long term maintenance of on-site provision to a local authority or a third party such as a parish council or trust".
- 2.3 Consequently, via Section 106 Agreements, where a need has been identified, a commuted maintenance sum has been obtained from developers.
- 2.4 Commuted sums requested by the Council, should be a sufficient sum to earn enough interest, after inflation, to pay for the maintenance costs of the designated site over a 20 year period. Within Salisbury City, at the end of the 20 year period the remaining sum, which should be in line with the initial commuted sum, is then used by the District Council for assistance with maintenance of the site into perpetuity. If the development is within a Parish the commuted maintenance sum is handed over to the Parish Council once the development has commenced in order for the Parish to maintain the site from establishment, in perpetuity.
- 2.5 The commuted maintenance sum has historically been calculated by estimating the initial annual maintenance cost and multiplying this by a multiplier. The original multiplier was calculated to be 14. This multiplier was

derived from a net present value calculation that was performed a number of years ago using the interest rate and inflation rate at the time. The multiplier has not been changed since its inception. Due to a fall in both interest rates and inflation rates over the last few years the multiplier is neither sufficient to maintain the annual cashflow required in order to meet the annual maintenance costs, nor to provide a sum at the end of the period to assist Parish Councils and in the case of Salisbury City, the Parks Manager, with maintenance into perpetuity.

- 2.6 Officers have therefore addressed the shortfall and recalculated the multiplier in order to ascertain a level of commuted sum required from developers and would recommend the following procedure to be put in place in order to satisfy the future requirements of R2 maintenance provision.

3.0 The proposal – calculation of the multiplier

- 3.1 It is proposed that the multiplier be calculated using a historical average inflation rate and interest rate over the previous 10 year periods on a rolling basis. The Bank of England base rate should be used to determine the historical average interest rate. The Retail Price Index should be used to determine the historical average rate of inflation.
- 3.2 Calculation of historical average interest and inflation rates

Historical Average Inflation and Interest rates - 10 Years to 31st March 2003

<i>Year to 31st March</i>	<i>Inflation Rate¹ at period end</i>	<i>Rise per Year (%)</i>	<i>Average Interest Rate² (Bank of England Base Rate) (%)</i>
1 Year to 31 st March 1993	139.3		
1 Year to 31 st March 1994	142.5	2.3%	5.8%
1 Year to 31 st March 1995	147.5	3.5%	5.8%
1 Year to 31 st March 1996	151.5	2.7%	6.6%
1 Year to 31 st March 1997	155.4	2.6%	5.9%
1 Year to 31 st March 1998	160.8	3.5%	6.9%
1 Year to 31 st March 1999	164.1	2.1%	6.9%
1 Year to 31 st March 2000	168.4	2.6%	5.4%
1 Year to 31 st March 2001	172.2	2.3%	6.0%
1 Year to 31 st March 2002	174.5	1.3%	4.7%
1 Year to 31 st March 2003	179.9	3.1%	4.0%
Annual Average % increase to 31 st March 2003		2.6%	5.8%

¹ The Retail Price Index (RPI) - all Items. It is defined as an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the UK. It is compiled and published monthly. Once published it is never revised. The base year of the current Retail Price Index in the United Kingdom was January 1987. The base value of the Retail Price Index is 100.

² The Bank of England Base Rate - average figure during the year

3.3 Calculation of Multiplier

A spreadsheet has been devised to assist in calculating the multiplier. This takes the average inflation rate and interest rate over the preceding 10 year period (as shown in paragraph 3.2) together with the initial annual maintenance sum that is supplied by the Parks Section based on the area and complexity of the site. This determines the proposed multiplier required to ensure the target remaining sum at the end of the 20 year period is met. This is demonstrated in the example below;

3.4 Proposed multiplier and annual maintenance sum

10 year average annual inflation rate to 31st March 2003

10 year average annual interest rate to 31st March 2003

Interest earned on balance of commuted sum during the annual period

Annual Maintenance is assumed to be paid at the end of the annual period

The annual maintenance cost increases each year in line with inflation – here assumed to be 2.6%

Balance of commuted sum at the beginning of the period

Balance of the commuted sum increases / decreases by the difference between the annual interest earned during the previous year and the annual maintenance cost incurred during the previous year

Year	Annual Maintenance	Annual Interest	Balance of Commuted Sum
1	£1,000	£1,218	£21,000
2	£1,026	£1,231	£21,218
3	£1,053	£1,243	£21,423
4	£1,080	£1,254	£21,612
5	£1,108	£1,264	£21,786
6	£1,137	£1,273	£21,941
7	£1,166	£1,280	£22,077
8	£1,197	£1,287	£22,191
9	£1,228	£1,292	£22,281
10	£1,260	£1,296	£22,346
11	£1,293	£1,298	£22,382
12	£1,326	£1,298	£22,387
13	£1,361	£1,297	£22,360
14	£1,396	£1,293	£22,296
15	£1,432	£1,287	£22,193
16	£1,470	£1,279	£22,048
17	£1,508	£1,268	£21,857
18	£1,547	£1,254	£21,617
19	£1,587	£1,237	£21,323
20	£1,629	£1,216	£20,973

3.5 Therefore using an average inflation rate of 2.6% and an annualised interest rate of 5.8%, it is proposed that the commuted sum requested initially uses a multiplier of 21x the annual initial maintenance charge. This assumes a relatively constant interest rate and inflation rate over the following 20 years and that the maintenance payment is made at the end of each annual period.

3.6 It is further proposed that

- The multiplier be updated on 1 year rolling periods to 31st March
- If it becomes apparent that this method of calculation is not producing the required revenue over time Officers will again review the procedure for calculating commuted sums.
- The commuted maintenance sum for a site be taken from the corresponding maintenance account

4.0 Recommendation to Cabinet

It is recommended that

1. the revised method of calculating the multiplier and commuted maintenance sums be accepted
2. the initial multiplier for the year 2003/2004 be 21
3. the multiplier be updated on 1 year rolling periods to 31st March
4. officers review the procedure for calculating commuted maintenance sums if the method again proves to not be producing the required sums

Background Papers:

PPG17 Companion Guide

Implications:

Legal: Contained in report

Financial: By switching to this formal methodology of calculating commuted maintenance payments the financial risk to the Council is significantly reduced

Personnel: None

Environmental: None

Human Rights: None at this stage

Council's Core values: Excellent Service; Fairness and Equality; open, learning Council and a willing partner; communicating with the public; supporting the disadvantaged.

Consultation Undertaken: This proposal is being put forward by Officers

Parish Affected: All