Community Infrastructure Levy

Explanatory Document

September 2012

Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

What is the Community Infrastructure Levy?

The Community Infrastructure Levy (CIL) is a standardised local levy on new development. Its purpose is to help fund infrastructure to support that new development. In contrast to Section 106 undertakings, it is non-negotiable, cannot be challenged through the planning appeal process, and once collected can be used flexibly by the Council (the 'charging authority') as it chooses subject to it being used to provide new infrastructure.

CIL will not replace all Section 106 undertakings, which will still have an important role to play in securing critical infrastructure needed to release a development site (for instance a new road connection), and for on-site infrastructure (for instance play areas). Where CIL will be particularly helpful is in responding to the cumulative impact of many different developments; and also securing infrastructure contributions from smaller development schemes.

CIL is not intended as an additional charge to Section 106 undertakings. The regulations include provisions to prevent double charging taking place. A charging authority has to publish a list of infrastructure on which it intends to spend CIL receipts, and is not able to seek Section 106 contributions towards the types of infrastructure on that list. There is also a requirement to publish an annual statement setting out what CIL receipts have been collected, and where they have been spent.

How is CIL introduced in the borough?

The Council as charging authority for the borough is required to justify introducing CIL by demonstrating that there is a gap between the amount of infrastructure required to support new development, and the funding available to provide that infrastructure.

The Council is also required to demonstrate that CIL will not put the overall development of its area at risk. In practice, this means that levy rates should be set so as not to prejudice the delivery of development plan aspirations, and that most schemes will continue to be viable irrespective of CIL charges.

What is the potential infrastructure funding gap?

As part of the work to support the Council's draft Core Strategy, an assessment of infrastructure requirements has been carried out for a wide range of services provided by both the Council and other infrastructure providers. The assessment has been drawn together in an Infrastructure Delivery Plan, which identifies where deficiencies exist, what additional infrastructure is required to support new development, and estimates of cost and means of funding.

Detailed schedules are included in the Infrastructure Delivery Plan[1]. For the purpose of assessing the infrastructure funding gap, assigned costs and funding have been assumed where no cost information exists or has been provided by the infrastructure provider. Table 1 (below) sets out the total infrastructure requirements and funding over the plan period, up to 2026.

[1] Reigate and Banstead Borough Council Infrastructure Delivery Plan, September 2012

Table 1: Infrastructure requirements and funding

Infrastructure requirements	£218 million
Identified funding	£143 million
Infrastructure funding gap	£75 million

These totals take into account identified or anticipated Section 106 funding (primarily associated with the planned strategic housing sites in Horley) and recent funding allocations, such as Local Sustainable Transport Fund for Redhill town centre.

While the costs estimates are necessarily broad, particularly for service provision up to 15 years ahead, it is clear that there is a significant infrastructure funding gap, which justifies the need for CIL.

How has economic viability been assessed?

National CIL guidance advises that a charging authority should carry out a broad test of viability as the evidence base to underpin its charge. The authority should take a strategic view, and not focus on the potential implications of introducing CIL for individual sites.

That advice needs to be caveated in circumstances where non-delivery of a single site might have implications for an authority's development plan, such as is the case with this Council and the Horley North West sector. In this case, the Section 106 undertaking for the North West sector is expected to be signed before CIL is introduced. If circumstances should change, the situation will be reviewed.

To assess the economic effect of varying levels of charge on development viability, a detailed study has been carried out[2]. This work aligns with existing viability assessment work undertaken for policy purposes including the Strategic Housing Land Availability Assessment (SHLAA) and affordable housing viability assessment.

The study appraises a range of typical residential and commercial development schemes taking into account local market evidence and development costs, including those arising from other policy requirements such as the draft Core Strategy policy on affordable housing. The main conclusions of the study are summarised below.

Use Class C3 - Residential

The viability of residential development varies significantly across the Borough. Whilst the regulations allow differential CIL rates for different spatial locations, this approach has to be justified through viability evidence. The viability assessment work indicates that there is no clear

[2] Reigate and Banstead Borough Council CIL Viability Assessment Report, June 2012

spatial pattern of viability in the borough. There is more variation within towns than between them, and within towns differential zones are ill defined, with variations at a micro level rather than by broad locality.

For these reasons, the evidence points towards setting a single residential tariff for the Borough.

High value schemes have continued to be profitable throughout the recession and could support a levy charge up to £250/sqm. However, these are less common and the bulk of residential development, likely to come forward is in mid and low value locations; particularly in respect of the Council's regeneration areas in Merstham, Preston and Redhill. In these areas viability is not as strong and the evidence indicates that the level of charge which could be sustained ranges from £0 per square metre up to a ceiling of £150 per square metre. Some schemes in low value areas remain unviable irrespective of whether there is a CIL charge or not.

Use Classes B1, B2, B8 - Office, Industrial and Warehouse

In the current market, there is little if any viability in office, industrial or warehouse development. Viability testing returned land values which are negative or insufficient to motivate development, even without the imposition of a CIL charge. The assessment is supported by the lack of activity in these development sectors in the borough. Based on the market evidence, there is currently no scope to levy a charge on such developments. The viability of these and other sectors of the market will be kept under review, and may prompt a revision of the charging schedule if there is significant improvement in economic viability.

Use Classes A1-A5 - Retail

Retail development demonstrates some degree of viability, although even within this use type there is considerable variation. Large convenience retail (supermarket) schemes are strongly viable and could support a CIL charge up to £350 per square metre. However, the viability of small scale local convenience (neighbourhood shops) is not as strong and in most cases the maximum charge which could be sustained is £100, per square metre.

Comparison retail in town centres is also found to have more limited confidence in viability and again the maximum CIL charge which could be sustained by such development would be £100 per square metre. Large out-of-town comparison retail (retail warehouses) demonstrates greater viability and could support a CIL charge up to a ceiling of £200 per square metre. However the Council's planning policies generally resist out-of-town retail development and therefore it is unlikely that much development of this type will come forward.

Other development

A range of other development types has been assessed including hotels, leisure uses and residential care homes. Such developments operate in specialist markets, but based on current market conditions return land values which are negative or insufficient to motivate development. As such, there is insufficient scope to level a charge on such developments at this time.

Other specific uses such as cafes, restaurants and public houses have not been expressly appraised but are considered to be captured by appraisals covering other broader use categories. This is because these uses will typically be located within town/local centres and as such compete for the same premises as other retail uses; thus experiencing the same viability. In most cases, they will reuse existing premises without an increase in floor space, and therefore not attract CIL.

It is necessary to set a standard 'base' charge for all uses that do not fall within other categories for which a levy rate is set. These uses include development such as new schools, hospital extensions, and community facilities which generate no profit. This charge is typically set at a rate which the least viable types of development can sustain, in essence the lowest common denominator. The evidence indicates a standard 'base' charge of £0 per square metre.

How has the charge been set?

The CIL regulations require that a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between:

- the desirability of funding infrastructure from CIL, and
- the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area

The gap between the need for new infrastructure and current, identified funding sources is significant. This provides clear justification for setting a CIL charge to help fund new infrastructure to support new development in the Borough.

So long as the levy set does not prejudice the overall delivery of new development in an area, it is at the discretion of the charging authority as to where to pitch the levy rate. The Council recognises that the introduction of CIL may put some potential developments at risk but wishes to minimise this so far as it is possible. It has therefore avoided setting levy rates near the 'ceiling' of viability to ensure that charge rates remain viable across the borough and can accommodate fluctuations in the development economy.

It has also decided that the evidence does not justify setting spatially defined charging zones and therefore the rates will apply throughout the borough. Lastly, since this is a new system that will impact on a broader range of development than has previously been the case with S106 undertakings, the Council wants it to be simple to understand and easy to apply. This approach is reflected in the preliminary draft charging schedule.

Having regard to the available evidence and the need to strike an appropriate balance between the need to fund infrastructure whilst ensuring development viability is not prejudiced, the Council has published a preliminary draft charging schedule[3], whose proposed levy rates are set out in Table 2 for convenience:

Table 2: Proposed levy rates (the preliminary charging schedule)

Land Use	CIL Charge
Residential	£125/sqm

[3] Reigate and Banstead Borough Council CIL Preliminary Draft Charging Schedule, September 2012

Retail (large convenience)	£250/sqm
All other retail	£50/sqm
All other development	£0/sqm

Potential CIL Income

By far the largest category of development in the Borough is residential. In practice, irrespective of the rates adopted, relatively small amounts of CIL are likely to be secured from all other categories of development. Table 3 summarises the potential revenue which could be secured by levying a borough-wide residential CIL charge as, proposed in the preliminary draft charging schedule.

Table 3: Potential CIL revenue (2014-2026)

Residential CIL Charge	Potential Revenue 2014 -2026
£125/sqm	£28,331,250

This estimate is based on the draft Core Strategy housing target. It excludes housing to be delivered in the Horley North West sector as planning benefits associated with this site are expected to be secured through a Section 106 undertaking prior to introduction of CIL. A further 30% reduction is applied to account for the relief available to affordable housing and to reflect that some residential developments will come forward on sites with some level of existing floor space.

How does CIL compare with existing charges?

The Council currently runs two local tariff systems: a simple charge per unit irrespective of size in the Horley Master Plan area; and a graduated charge based on the number of bedrooms in the remainder of the borough (Planning Infrastructure Contributions or PIC). Since infrastructure associated with the Horley Master Plan is expected to be secured through Section 106 undertakings. The more comparable system is PIC as used in the rest of the borough.

Table 4 provides comparative figures for the current PIC and the recommended levy charge level.

Table 4: Comparison of PIC and CIL

House Size		PIC	CIL
Beds	sqm	(max)	£125/sqm
1 bed	50	£7,712	£6,250

2 bed	70	£10,363	£8,750
3 bed	90	£14,777	£11,250
4 bed	120	£16,838	£15,000
5+ bed	150	£21,958	£18,750

It should be noted that for the last 3-4 years the maximum PIC totals shown in Table 4 have rarely been achieved in practice, because of challenges on appeal and the lack of evidence in individual cases to justify charging certain categories of infrastructure.

The comparison demonstrates that CIL charges would be lower than maximum PIC charges, although in practice CIL is expected to secure more total contributions because the charges are non-negotiable and secured across a wider range of developments. Since PIC has not stifled new development in the Borough, it provides further confirmation that CIL is unlikely to significantly affect the viability of residential development in the borough.

How does the preliminary draft charging schedule compare with other authorities' charges?

CIL is a new power, and only a handful of authorities have so far adopted charging schedules, although more have reached the preliminary draft charging schedule stage. Some similarities and common outcomes are starting to emerge from these front runners, which is helpful in providing a crosscheck with this Council's proposed levy rates.

In all cases it has been found that the infrastructure funding gap exceeds expected CIL receipts, and it is therefore viability that sets the limit on levy rates.

Levy rates vary considerably around the country. For shire and city authorities (excluding London boroughs where a different twin charging approach is applied) charges fall within the ranges shown in Table 5:

Table 5: Comparison with other authorities' CIL charges

Land use	Average	Range
Residential	£90/sqm	£0-£210/sqm
Retail (large/convenience)	£150/sqm	£0-£240/sqm
Retail (small/comparison)	£35/sqm	£0-£120/sqm
Office	<£5/sqm	£0-£30/sqm

Industrial/warehouse	<£5/sqm	£0-£64/sqm

The levy charges recommended for this Council's charging schedule lie within the above ranges. They are also above the averages for the rest of the country, reflecting the generally greater confidence in the viability of development in the south east when compared to the national picture.

The large majority of authorities have set a nil rate for office, industrial and warehouse uses. Those few who do or are intending to charge have set a nominal rate related to the particular circumstances of their areas. A few authorities have set levy rates for hotels, leisure uses and student accommodation; however, this again reflects their particular circumstances rather than wider trends and the type of development they expect to come forward in the future. In this borough, we do not anticipate any significant new build schemes in either hotel or leisure development, over and above that already permitted. Student accommodation is a form of development specific to those authorities accommodating universities and/or residential colleges.

How will CIL be calculated?

CIL is calculated as pounds per square metre on net gross internal floor area. 'Net gross internal floor area' means the difference in floorspace between proposed new buildings and any existing buildings that are to be demolished on the same site, measured using the inside of the external walls.

The method of calculation of the chargeable amount is set out in regulations[4]. A summary of the method of calculation, definitions and relevant formulae is contained in the preliminary draft charging schedule. Charges are index linked, to account for inflation between the charge being set and receipts collected.

Exemptions and relief apply in certain cases. Mandatory exemptions apply where the gross internal area of new build will be less than 100sqm, and where the development is for charitable purposes. Relief is applied for social housing. Further details are included in the regulations, and summarised in the preliminary draft charging schedule. There are also provisions within the regulations that allow the Council to apply discretionary relief to certain other charitable development or in certain exceptional circumstances. The Council will decide whether to enable discretionary relief prior to introducing CIL.

How will CIL be collected and spent?

Reigate and Banstead Borough Council will have responsibility for collecting CIL receipts from new development. Levy charges become due on commencement of development, or in phases as may be agreed by the collecting authority. The Council will set out its instalment policy prior to introducing CIL. Up to 5% of CIL receipts can be used to cover administration costs. The scheme is therefore expected to be self-financing.

[4] The Community Infrastructure Levy Regulations 2010 (as amended)

The Council will also be responsible for spending CIL receipts. CIL will only form part of the funding necessary to deliver the infrastructure required to support new development. It will be necessary to act in partnership with other infrastructure providers, in particular Surrey County Council, to identify other funding sources and priorities for spending. The Localism Act includes a duty to pass a proportion of CIL receipts to local councils subject to certain restrictions[5]. This duty has yet to be enabled.

What are the next steps?

The preliminary draft charging schedule will be published for consultation for a period of six weeks between 14 September and 26 October 2012.

Subsequent stages are dependent on the progress of the Council's Core Strategy, which is expected to be adopted in early Autumn 2013.

Responses to the preliminary draft charging schedule, any significant changes in funding or economic viability, and any changes in regulation will help shape a final draft charging schedule, which will be subject to a four week consultation period in Autumn 2013. The draft charging schedule will be examined by an independent examiner, and assuming it is found sound, will be adopted in early 2014. These stages are summarised in Table 6:

Table 6: Stages towards adoption of CIL charging schedule

Stage	Date
Consultation on preliminary draft charging schedule	September – October 2012
Consultation on draft charging schedule	Autumn 2013
Examination	Winter 2013/14
Adoption	Spring 2014

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– درکار خدمت
کریں رابطہ پر 01737 276000 لائن ہیلپ ہماری کرم براہ تو ہو ہے

[5] The Localism Act 2011, section 115 and draft Community Infrastructure Levy (Amendment) Regulations 2012

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