Community Infrastructure Levy

Raising funds for infrastructure delivery:

Draft Charging Schedule Background Document

October 2012

Purpose of this document

This document provides background and context to the Draft Charging Schedule and rates proposed within it. It explains the rationale behind the rates proposed and summarises the evidence that supports the rates. The Draft Charging Schedule can be read at www.waveney.gov.uk/ldf.

Contents

1. Introduction

What is CIL?

1.1 The Community Infrastructure Levy (CIL) is a new standard charge which local authorities in England and Wales can charge on most types of new development in their area. CIL charges will be based on the size, type and location of the development proposed. The money raised will be used to pay for infrastructure required to support development in a district.

1.2 CIL is a fair and transparent way in which new development can contribute to infrastructure provision. Most development has some impact on the need for infrastructure and services, or benefits from them. Therefore it is appropriate that such development pays a share of the cost. The Government considers that those who benefit financially when planning permission is given should share some of that gain with the local community. By paying a contribution, developers will help fund the infrastructure that is needed to make their development acceptable and sustainable.

What is a Charging Schedule?

1.3 A Charging Schedule sets out the rates of CIL a Local Authority (known as a Charging Authority for the purposes of CIL) will charge on development in its area. It sets out a rate per square metre for all qualifying development. A Charging Schedule can set different rates for different types of development and different rates for different areas of a district.

1.4 Before coming into force, a Charging Schedule must be subject to two rounds of public consultation and an examination conducted by an independent person. The Council consulted on the first draft of the Charging Schedule, known as the 'Preliminary Draft Charging Schedule' in Spring 2012. The comments received and the Council's response to those comments can be viewed at www.waveney.gov.uk/ldf. The Council is now consulting on the final draft of the Charging Schedule known as the 'Draft Charging Schedule'. Following this consultation the Council will submit the Charging Schedule for independent examination. Providing an examiner recommends that the Charging Schedule provides an appropriate basis for the collection of the levy in the District, the Council will be able to approve the Charging Schedule and bring it in to force.

Benefits of CIL

1.5 New development needs to be supported by new infrastructure. CIL provides a funding stream for this infrastructure, and a mechanism for ensuring that new development bears a proportion of the cost of new infrastructure that will serve the District.

1.6 CIL is a simple, highly transparent charge that provides certainty to communities and developers as to how much development will contribute to infrastructure. As CIL is mandatory once introduced, it can avoid the sometimes long negotiations that are associated with Section 106 planning obligations. CIL may have the potential to generate more funds for infrastructure from development than the current system of Section 106 planning obligations as more development is likely to be liable. It will also avoid some developments having to pay a disproportionate contribution to infrastructure because other developments in close proximity have already used up available capacity without contributing. Reforms coming through from Government will require Waveney District Council to hand a proportion of CIL funds back to Parish and Town Councils when development occurs in their areas. This will enable Parish and Town Councils to have greater control on how to mitigate the impacts of development in their areas.

Relationship to Section 106 Planning Obligations

1.7 The CIL Regulations introduced in April 2010 and amended in April 2011 contain measures to reduce the use of Section 106 Planning Obligations to fund infrastructure. The first measure (Regulation 122) which came into force on the 6th April 2010 requires Planning Obligations to meet the following tests:

- necessary to make the development acceptable in planning terms;
- directly related to the development; and
- fairly and reasonably related in scale and kind to the development.

1.8 A second measure introduced in the regulations restricts the use of Section 106 Planning Obligations to secure funding for pooled contributions towards infrastructure. The regulations only allow for a maximum of five Section 106 Planning Obligations to contribute to a certain infrastructure project or type of infrastructure. For example, only five planning permissions for development will be able to have Section 106 Planning Obligations that secure financial contributions to off-site open space in the District. After this no more pooled contributions towards off-site open space provision would be allowed in the District. This power will come into force in April 2014 or when a local charging schedule comes into force if sooner. However, any Section 106 Planning Obligations entered into from April 2010 will count towards the limit of five. Where a charging schedule is in place, a Section 106 Planning Obligation cannot be used to secure funding for a piece of infrastructure that is listed as being funded by CIL.

1.9 The above restrictions mean that it will not be possible for the Council to pool developer contributions towards infrastructure provision through the use of Section 106 Planning Obligations.

1.10 Therefore once a CIL is in place Section 106 Planning Obligations will no longer be used to fund off-site infrastructure that requires contributions from a number of developments such as schools, opens spaces and libraries. CIL will be the main source of developer funding for these types of infrastructure. Section 106 Planning Obligations will still be used for the provision of affordable housing (both onsite and offsite). Section 106 Planning Obligations may also be used in some circumstances for site specific onsite and offsite infrastructure provision where it is needed to make the development acceptable in planning terms such as access improvements, or a primary school which will normally be on the site as part of a larger scheme. However, given the small scale nature of most of the development proposed in the District, the vast majority of developments will pay no financial contributions for infrastructure through Section 106 Planning Obligations once CIL is adopted locally. Table 1.1 below shows what may be covered by Section 106 Planning Obligations and CIL once CIL is adopted locally.

Table 1.1 – Relationship of Section 106 to CIL

Contribution	Present Mechanisms	Future Mechanisms
Indicative site specific onsite/offsite infrastructure that may be needed to make a development acceptable. • Onsite School • Onsite Open Space • Onsite Health/Community facilities • Site-specific highway improvements • Electricity connection • Site specific sewage upgrades • Renewable energy/decentralised energy • Affordable Housing • Onsite public transport • Flood protection/surface water management • Archaeology • Fire hydrants • Landscaping • Onsite Public art	Section 106 / Planning Conditions	Section 106 / Planning Conditions
Pooled contributions for infrastructure such as: • Open space • Schools • Libraries • Health • Community facilities • Heritage / museums • Waste • Flood protection/surface water management • Strategic highway/transport improvements • Police infrastructure • Environmental improvements • Fire services • Other infrastructure not mentioned above	Section 106	Community Infrastructure Levy
Pooled offsite contributions for: • Affordable Housing	Section 106	Section 106

2. Evidence

2.1 The regulations governing the introduction of a local CIL require Local Authorities to have evidence to support a charging schedule and must ensure that the rates of CIL set in a Charging Schedule aim to strike an appropriate balance between the desirability of funding infrastructure through CIL and the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

2.2 Government guidance requires Charging Schedules to demonstrate this by being supported by evidence of infrastructure need and evidence of the financial viability of development with respect to proposed rates.

Infrastructure Need

2.3 An infrastructure study[1] has been prepared which identifies and costs all the infrastructure needed to support development planned in Waveney as set out in the District's Local Development Framework to 2025. The study also examines whether there are any existing or future funding streams for infrastructure and calculates an aggregate funding gap that CIL will need to help address.

2.4 The study identifies a funding gap of between **£11,612,877** and **£14,839,027** that CIL will need to help address. This funding gap helps demonstrate why a CIL is needed in Waveney. It should be noted that most of the funding gap is related to Lowestoft as this is where most of the growth is proposed in the Council's Local Development Framework.

2.5 It should be noted that the Infrastructure Study represents an assessment of infrastructure need, cost and funding opportunities at a point in time. Priorities may change over time and new funding sources may arise. Therefore just because a project is mentioned in the Infrastructure Study does not commit the Council to spending future CIL receipts on it. Similarly the absence of a project or type of infrastructure from the Infrastructure Study does not preclude the Council from spending CIL receipts on it. Once CIL is introduced the Council will publish a list of infrastructure projects and types of infrastructure on its website which it intends to spend CIL receipts on. This list is known as a Regulation 123 and whilst it will be informed by the Infrastructure Study, it will not be dictated by it.

Financial Viability

2.6 The rate of CIL for an area cannot just be set at a rate which closes the funding gap. This rate for all types of development is unlikely to be viable and lead to development not coming forward in the District. Therefore, Waveney commissioned BNP Paribas Real Estate to prepare a study[2] examining the maximum viable rates of CIL that different types of development in different areas of the District can afford to viably pay.

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[1] Waveney Community Infrastructure Levy – Infrastructure Study 2012 – 2025 (March 2012)
[2] Waveney Community Infrastructure Levy – Viability Study (March 2012)

2.7 For residential development the study identified seven market areas across the District and therefore recommended differential rates for different areas as set out in Table 2.1 below. The CIL Viability Study suggested the Charging Schedule should provide for a buffer below maximum viable rates to allow for a contingency. As such the study recommended rates within a range of between 20% and 30% below the maximum viable rates for each area. For commercial development the study only identified a single market and the rates recommended are in Table 2.2 . These recommendations also allow for a contingency buffer below the maximum viable rates. It is important to note that the rates of CIL only need to be informed by viability evidence, they do not need to be dictated by the evidence.

Table 2.1 – Residential Viability

Market Area(s)	Recommended Rates
Inner Lowestoft	£42 - £48 per square metre
Suburban Lowestoft (including Kessingland, Carlton Colville, Corton and surrounding rural areas)	£56 - £64 per square metre
Beccles (including surrounding rural area)	£56 - £64 per square metre
Bungay (including surrounding rural area)	£84 - £96 per square metre
Halesworth (including surrounding rural area)	£140 - £160 per square metre
Reydon (including surrounding rural area)	£140 - £160 per square metre
Southwold (including surrounding rural area)	£140 - £160 per square metre

Table 2.2 – Commercial Viability

Type of Development	Recommended Rates
Hotels	£0 per square metre
Offices	£0 per square metre
Town centre non-food retail and local centre retail (<280sqm)	£0 per square metre
Supermarkets and superstores and retail warehouses (>=280sqm)	£100 - £130 per square metre
Industrial and warehousing	£0 per square metre
Residential Care Homes	<=£100 per square metre
Holiday lets	Between £42 and £160 per square metre, discounted by 30%
D1 and D2 Development	£0 per square metre
Sui Generis (car showrooms)	£0 per square metre

2.8 The viability study also examined the viability of three strategic sites in the Lake Lothing and Outer Harbour Area Action Plan Area (Policy SSP2 Peto Square and South Quay, Policy SSP3 Kirkley Waterfront and Sustainable Urban Neighbourhood, and Policy SSP7 Oswalds Boatyard). The results suggest that viability will remain challenging for the delivery of these sites due to the costs associated with flood mitigation and that the Council may choose to set a lower rate for these sites.

3. Rationale for Rates

Rationale for Residential Rates

3.1 Residential zones and rates have been set with reference to the recommended rates for different market areas set out in the CIL Viability Study and following consideration of the response received during the Preliminary Draft Charging Schedule consultation. As explained above, the CIL Viability Study suggested the Charging Schedule should provide for a buffer below maximum viable rates to allow for a contingency. As such the study recommended rates within a range of between 20% and 30% below the maximum viable rates for each area. The Draft Charging Schedule has taken the mid-point of the range recommended.

3.2 The CIL Viability Study suggested that for the strategic sites in the Lowestoft and Outer Harbour Area Action Plan a lower rate of CIL may be needed as in the current market there was very little scope for even a small CIL charge. The main reason for the lack of viability was down to abnormal costs associated with flood mitigation and site preparation (remediation and demolition). As such it is proposed to have a separate charging zone covering an area closely resembling the flood zone (Flood Zone 2 with climate change assumptions, amended around existing property for practical purposes) surrounding Lake Lothing, where a zero CIL rate will be applied. The flood zone also covers most of the areas of the sites where extensive remediation and demolition would be required. This zone constitutes Zone 1 in the Charging Schedule. The entire Kirkley Waterfront and Sustainable Urban Neighbourhood site is located in this zone. Small parts of this site are outside the flood zone, but given the high Section 106 Planning Obligation costs associated with the entire site it is unlikely to be able to support a CIL charge in addition.

3.3 Zone 2 covers inner Lowestoft and the boundaries are based on those shown in the CIL Viability Study. The CIL Viability Study found that residential developments in this zone should be able to support the proposed £45 per square metre charge.

3.4 Zone 3 combines the market areas of outer Lowestoft, Beccles, Bungay and Halesworth and the rural parishes. Zone 4 covers the parishes of Southwold and Reydon.

3.5 The CIL Viability Study recommended higher rates for the market areas of Bungay and Halesworth compared to those suggested for Outer Lowestoft and Beccles. Concerns were raised in the responses to the Preliminary Draft Charging Schedule that Beccles, Bungay and Halesworth all have similar markets and sales values. Some evidence of sales values for the towns was submitted with detailed evidence of a specific scheme submitted for Halesworth. A closer examination of the evidence that supported the assumed sales values in the CIL Viability Study identified that in the case of Bungay and Halesworth, higher values from properties in the rural areas surrounding the two towns had skewed the averages for these places. Given that most of the development proposed in Bungay and Halesworth will be in the towns it was considered appropriate to apply greater weight to the values found within the towns. Closer examination of the evidence, together with the evidence submitted by respondents to the Preliminary Draft Charging Schedule consultation, revealed that Beccles, Bungay and Halesworth all have similar sales values around the £2000 per square metre mark. As such it is proposed to have a single zone covering all of Outer Lowestoft, Beccles, Bungay and Halesworth areas with a charge of £60 per square metre. The CIL Viability Study shows that a CIL charge of £60 per square metre will be viable at sales values of just under £2000 per square metre on residential development.

3.6 The Draft Charing Schedule places all of the rural parishes within Zone 3. The market areas identified in the CIL Viability Study indicated that all rural parishes will be able to support a £60 per square metre rate and that some rural parishes may be able to support higher rates up to the £150 per square metre rate of Zone 4. However, given the lack of transactional sales value data in the rural areas, the boundaries in the rural areas between the market areas in the CIL Viability Study are only subjectively defined. Some concerns were raised about this matter in the responses to the Preliminary Draft Charging Schedule. No development is planned in the rural parishes in the Local Development Framework, however, there is potential for some infill development within villages which will help maintain their sustainability. Therefore it is important that the rate of CIL set will not put at risk the viability of this type of development. Therefore, in order to keep a simple Charging Schedule with a minimal number of zones, with more defensible boundaries, it was decided to restrict the higher rate of £150 per square metre to the parishes of Southwold and Reydon where there is plenty of evidence of higher sales values that can support the £150 per square metre charge. This results in all the rural parishes being included in Zone 3 where there is certainty that residential development can viably support the CIL charge of £60 per square metre.

Rationale for Other Rates

3.7 The CIL Viability Study suggested that residential care homes could absorb a CIL of up to £100 per square metre. However, the study suggests a substantial buffer should be applied to allow for differences in developments. The study suggests that a buffer of 35% should be adequate in the majority of circumstances. Therefore the rate proposed is £65 per square metre for this type of development.

3.8 Holiday lets, for the purposes of the charging schedule, are permanent buildings for the purposes of tourist accommodation, restricted for permanent residential use by condition. The CIL Viability Study suggested that similar rates could be applied to holiday lets as to residential, but due to uncertain void periods a reduction of 30% should be applied. In order to keep the Charging Schedule simple, it is proposed that an approximate 30% reduction to the proposed Zone 3 rate (the lowest residential rate where this type of development is likely to occur) is applied to holiday lets across the District resulting in a charge of £40 per square metre.

3.9 The CIL Viability Study recommends that for retail warehouses, supermarkets and superstores a £200 per square metre charge could be levied. The study recommends a buffer below this maximum viable rate to allow for site specific issues resulting in a proposed charge of £130 per square metre.

4. Projected CIL Income

4.1 The Strategic Housing Land Availability Assessment Consultation Draft (2012) projects that over the period between 2013 and 2025 1,908[3] new homes will be completed, in the charging area of the District, (excludes Broads Authority areas) that do not already have the benefit of planning permission. It is also expected that within the plan period there will be a new supermarket of up to 2000 square metre constructed in Halesworth.

4.2 Based on these projected levels of development it is likely that the rates proposed in the Draft Charging Schedule will raise **£2.44 million** over the period to 2025 (£2.18 million from residential development and £260,000 from supermarket development).

[3] Note, this figure is slightly less than that referred to in Table 2.1.1 of the Infrastructure Study (2012) as this figure is based on a more up to date assessment of housing supply over the plan period.

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