

## Community Infrastructure Levy: Draft Charging Schedule



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## **Community Infrastructure Levy Draft Charging Schedule**

### **1. Introduction**

- 1.1 This consultation document sets out the Council's approach to setting a Community Infrastructure Levy (CIL) charge. It contains the proposed CIL charging schedule, sets out the general principle of CIL and the method and evidence used to identify the proposed charging rates.
- 1.2 The Draft Charging Schedule has been issued, approved and published in accordance with Part 11 of the Planning Act 2008 (as amended) and the Community Infrastructure Regulations 2010 (as amended).

### ***What is CIL?***

- 1.3 A CIL allows local authorities to raise funds from new local development to pay for local infrastructure or strategic cross boundary infrastructure projects where numerous local authorities may contribute.
- 1.4 The levy is a standardised, non-negotiable charge. The rates are expressed as pounds per square metre, and are charged on the net additional floorspace generated by a development. Mandatory exemptions include development which is less than 100sqm (internal gross new build) except for new dwellings, affordable housing and developments occupied wholly or mainly for the purpose of charitable activity by a registered charity. CIL is imposed upon the granting of planning permission and paid in accordance with any instalments policy.

### ***How will CIL relate to section 106 payments?***

- 1.5 Currently financial contributions from new development are obtained through legal agreements, known as S106 agreements. From April 2014, it will no longer be possible to raise financial contributions through legal agreements as the Government intends CIL to be the mechanism through which such contributions are sought. However, developers will still be expected to pay, through a section 106 agreement, for the provision of site specific infrastructure necessary for the development to take place (such as access to the highway network), and for affordable housing. Developers will not be double charged for infrastructure as CIL monies cannot be spent on site specific infrastructure or affordable housing.
- 1.6 The Council has produced a 'draft' Regulation 123 List which sets out the infrastructure 'types' which are proposed to be funded from CIL. This list also identifies specific examples of site specific infrastructure which the Council will seek to secure through Section 106 agreements.

## **2. Background to how the proposed CIL rates have been calculated**

- 2.1 In July / August 2013 the Council consulted on a Preliminary Draft Charging Schedule. Following consideration of the comments received on this document, the Council has concluded that the rates set out in this Draft Charging Schedule are appropriate.
- 2.2 In setting a CIL rate, the charging authority (the Council) has to strike a balance between the need for CIL to fund the infrastructure necessary to support the development of its area, and the potential impact of the imposition of CIL on the economic viability of development. Below is a brief summary as to how the Council has considered these issues.

### ***Identifying the need for CIL within the Borough***

- 2.3 The Council considers there is justification for charging a CIL on new development within the Borough, as there is a significant infrastructure funding gap as evidenced through the Infrastructure Delivery Plan (IDP). The IDP essentially reviews the current types and levels of infrastructure provision within the Borough and assesses what is likely to be needed to support the levels of new development as set out in the Core Strategy<sup>1</sup>.
- 2.4 In line with the Core Strategy, 2167 housing units are expected to be delivered in the Borough between 2012 and 2026. Using an average 'persons per household' figure, which is given as 2.52 for the Borough in the 2011 Census, this number of dwellings can be expected to yield an additional population of 5,422. This population will place a demand on the local infrastructure.
- 2.5 Following a review of the local infrastructure provision, numerous schemes have been identified which will help expand the capacity of the Borough's infrastructure. The IDP sets out a summary of identified infrastructure schemes and where possible costs and any existing funding sources that have been identified. This provides a good overview of the types of infrastructure improvements that are needed to support future planned-for growth and its resulting population. The total anticipated cost of delivery of these schemes is approximately £43 million (excluding specific funding sources which have already been identified), which is the infrastructure funding gap.
- 2.6 It should be noted that the IDP is a 'living' document which will be updated as and when new infrastructure demands arise or projects are identified. Therefore it is likely that over the plan period the infrastructure funding gap will be likely to increase, particularly as it is difficult to identify projects in latter stages of the plan period.
- 2.7 CIL cannot be expected to pay for all of the infrastructure required, but can be expected to make a significant contribution towards meeting the funding gap. The funds raised will be used to reduce the gap between the cost of providing the required infrastructure and the amount of money available from other mainstream sources such as from central government.

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<sup>1</sup> The Core Strategy sets out the Borough's housing target which is to deliver, on average, 181 new dwellings per annum

### ***Impact on viability of development***

2.8 The 2012 CIL Guidance states that ‘in proposing a levy rate(s) charging authorities should show that the proposed rate (or rates) would not threaten delivery of the relevant Plan as a whole.’ To provide such evidence the Council appointed Peter Brett Associates to carry out a viability assessment. The Community Infrastructure Levy Viability Assessment report is the resulting assessment which sets out the methodology and the findings in detail. A summary of the various findings and decisions is outlined below.

#### Residential

2.9 The ability of residential schemes to make CIL contributions does not vary significantly between areas within the Borough and therefore a single charge for residential development is being proposed across the Borough. As the CIL Guidance states that ‘charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area’, a cautious approach has been taken and the Council is suggesting that a rate of £125 per square metre be adopted.

#### Office, Industrial and Warehousing

2.9 The evidence indicates that the potential for office schemes to be viably delivered will be limited in current market conditions. Therefore, no charge is proposed for such developments.

#### Retail

2.10 The appraisal of convenience<sup>2</sup> retail indicated a greater degree of viability in contrast to comparison<sup>3</sup> retail and as such a charge of £150 per square metre is being proposed for the former, with a nil charge for the latter.

#### Other uses

2.11 Other uses which were likely to come forward in the Borough over the plan period and showed a level of viability included student accommodation and close / extra care accommodation. A charge of £30 per square metre and £20 per square metre is being proposed for these uses.

### **3. Proposed CIL rates**

3.1 The council has considered the findings of the viability assessment which has informed the proposed CIL rates as set out below. The Council is proposing the following:

<b>Development Type</b>	<b>Proposed CIL Rate (£ per square metre)</b>
Residential	£125
Convenience Retail	£150
Student Accommodation	£30
Care Home	£20
All other uses	Nil

<sup>2</sup> A convenience unit is a shop or store where the planning permission allows selling wholly or mainly everyday essential items, including food, drinks, newspapers/magazines and confectionary.

<sup>3</sup> A comparison unit is a shop or store selling wholly or mainly goods which are not everyday essential items. Such items include clothing, footwear, household and recreational goods.

#### **4. Estimated revenue to be raised through CIL**

4.1 Development which already has a planning permission cannot be charged CIL (unless the permission lapses and a new application is submitted). Therefore only future development which has not yet received permission will be CIL liable.

##### Residential

4.2 An estimate of CIL revenue can be made from the residual amount of development which is yet to gain permission which is needed to meet the Borough's housing target as set out in the Core Strategy. As of November 2012, 914 units will need to be identified and delivered to meet the housing target and will be CIL liable. However, this figure includes affordable housing which is exempt from being charged CIL. The Core Strategy contains a target that overall 35% of new dwellings should be affordable. Larger sites of 15 units+ are required to deliver 40% as affordable while sites between 5 and 14 units are to deliver 20%. Sites of below 5 units are not required to deliver any affordable units. As a range of site sizes are likely to be allocated to meet the residual 914 unit target, it is reasonable to assume that 35% will be affordable and therefore exempt from CIL. Therefore approximately 594 units would be CIL liable.

4.3 The average size of a dwelling in the Borough is estimated to be approximately 96 square metres and therefore it can be expected that CIL would be charged on:

$$594 \text{ (dwellings)} \times 96 \text{ (average sqm of new dwelling)} = 57,024 \text{ sqm}$$

At a rate of £125 per sqm this would deliver approximately £7,128,000 in CIL revenue up to 2026.

##### Retail

4.4 In Plan E (the Area Action Plan for Epsom Town Centre) the Council has identified there is capacity for up to an additional 2,466sqm of convenience retail space by 2026. Should this amount be delivered the potential yield from CIL at a rate of £150 per sqm could be £369,900 by 2026.

##### Student housing

4.5 The Council has not identified any specific targets for the delivery of student accommodation or close / extra care accommodation and therefore it is difficult to estimate the potential yield.

4.6 The CIL Regulations emphasise that it is unreasonable to set a Charging Schedule that will generate more CIL income than the funding gap. The estimates above identify that over the plan period CIL could yield approximately £7.5 million which is significantly below the estimated funding gap of £43 million. Therefore, although CIL can be expected to make a significant contribution towards local infrastructure, other sources of funding will need to be identified to bridge the funding gap.

## **5. Calculating, collecting and monitoring the chargeable amount**

- 5.1 The procedures for calculating and collecting CIL are set out in the Community Infrastructure Levy Regulations 2010 (as amended). The formula used to calculate the chargeable amount is set out in Appendix A. In simple terms, CIL will be charged on the total net additional floorspace created (measured as Gross Internal Area). The Regulations also include procedures for the monitoring of CIL monies, both those collected and spent. It also sets out the procedures for CIL relief including whether or not the Council can allow relief in exceptional circumstances.
- 5.2 Epsom & Ewell Borough Council is a second tier authority and as such, will collect CIL on behalf of other infrastructure service providers (such as Surrey County Council).

### ***Exemptions & relief***

- 5.3 The CIL Regulations (as amended) contain provisions for exemptions and relief from the levy.
- 5.4 Development which is less than 100m<sup>2</sup> (internal gross new build) except for new dwellings is exempt from CIL. Buildings into which people do not normally go or only go intermittently for the purposes of inspecting or maintaining fixed plant or machinery are also exempt. Some types of relief are mandatory, for example social housing and there are some forms of charitable relief where the development would be use wholly or mainly for charitable purposes. During September 2013, the government announced that genuine self-build housing would also be exempted from the levy, subject to parliamentary approval.
- 5.5 As the charging authority, the Council has discretionary powers, although the Council does not expect to implement any discretionary exemptions. The Council believes that the proposed charge will not prejudice development viability and will monitor the charge to ensure this remains the case.

### ***Instalments***

- 5.6 The regulations give charging authorities significant scope for introducing an instalments policy for CIL payments that better reflects the financing and income streams expected by developers and therefore better support the delivery of new development. The table below sets out the Council's proposed instalments policy:

<b>Level of CIL Payment</b>	<b>Instalment Policy</b>
Under £12,500	One payment at 90 days after commencement of development
£12,500 to £50,000	Two equal instalments at 90 and 180 days after commencement development
Greater than £50,000	Three equal instalments at 90, 180 and 270 days after commencement of development

## **6. Spending of CIL**

- 6.1 CIL will deliver additional funding for a wide range of infrastructure projects that will support growth and benefit the local community. The levy cannot be expected to pay for all of the infrastructure that is required, but is expected to make a significant contribution.
- 6.2 CIL Regulation 123 provides for charging authorities to set out lists of those projects or types of infrastructure that it intends to fund through the levy. This will be known as the 'Regulation 123 list', a draft of which the Council has prepared and is available as a supporting document.
- 6.3 Once CIL has been adopted, or after April 2014 (whichever occurs first), section 106 requirements will be scaled back to site specific matters and affordable housing. This will ensure there is no actual or perceived 'double dipping' where developers pay twice for the same item of infrastructure.
- 6.4 The CIL Regulations also state that a certain amount of CIL can be taken by the charging authority for administering the CIL charge. This should not be more than 5% of CIL raised over the first 3 years and no more than 5% per year in subsequent years. The administration cost is reflected in the CIL charge and is not in addition to it.
- 6.5 The CIL Amendment Regulations (2013) require the charging authority (the Council) to pass a quantity of the CIL funds to the local community to support the development of their area. In areas where there is no neighbourhood development plan in place (such as the Borough of Epsom & Ewell), this amount is 15%.

## **7. Monitoring and review**

- 7.1 It is important to ensure that the CIL charge remains appropriate and reflects both the funding gap set out in the Infrastructure Delivery Plan and economic viability across the Borough. The Council will use two indicators to ensure the charge remains appropriate and will report on these in its Annual Monitoring Report (AMR).
  - The level of housing and other chargeable CIL development coming forward; and
  - The funding gap for infrastructure
- 7.2 Should these indicators suggest that CIL was beginning to impact on the viability of development or if the funding circumstances faced by infrastructure providers significantly changed, or if there were significant changes to the local / national economic situation, a review of the CIL charging schedule will be carried out.
- 7.3 In addition to the above indicators, the Council will set out in its AMR:
  - The amount of CIL collected in the monitoring year
  - The total amount of CIL collected since the adoption of the charging schedule
  - How much has been spent and what infrastructure has been delivered



## Appendix A

The amount of CIL arising from development liable for CIL will be calculated in accordance with Regulation 40 of the CIL Regulations 2010 (as amended). The method of calculation set out below is subject to any subsequent amendment to the CIL Regulations.

The Collecting Authority will calculate the amount to be paid by a chargeable development in the following way:

$$\frac{R \times A \times I_P}{I_C}$$

Where:

**A** = the demand net area chargeable at rate R;

**I<sub>P</sub>** = the index figure<sup>4</sup> for the year in which planning permission was granted; and

**I<sub>C</sub>** = the index figure for the year in which the charging schedule containing rate R took effect.

The value of A (net chargeable area) is calculated by applying the following formula:

$$G_R - K_R - \left[ \frac{G_R \times E}{G} \right]$$

Where:

**G** = the gross internal area of the chargeable development;

**G<sub>R</sub>** = the gross internal area of the part of the development chargeable at rate R;

**E** = an amount equal to the aggregate of the gross internal areas of all buildings which –

- (a) on the day planning permission first permits the chargeable development, are situated on the relevant land and in lawful use; and
- (b) are to be demolished before completion of the chargeable development; and

**K<sub>R</sub>** = an amount equal to the aggregate of the gross internal area of all buildings (excluding any new build) on completion of the chargeable development which –

- (a) on the day planning permission first permits the chargeable development, are situated on the relevant land and in lawful use;
- (b) will be part of the chargeable development upon completion; and
- (c) will be chargeable at rate R.

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<sup>4</sup> The Regulations require that CIL rates are index linked to the national all in tender price index published by the Building Cost Information Service of the Royal Institute of Chartered Surveyors