WARWICK DISTRICT COUNCIL

LOCALPLAN

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Warwick District Council June 2013

Community Infrastructure Levy

Preliminary Draft Charging Schedule - June 2013

1 Introduction to the Community Infrastructure Levy

1.1 The Community Infrastructure Levy (CIL) was introduced under the Planning Act 2008 and is a new tariff system that enables local authorities to make a charge on most forms of new development to fund infrastructure needed to support development. The CIL Regulations came into effect in April 2010 and the Coalition Government, while retaining CIL, made some minor amendments to the Regulations in April 2011. Further Regulations were published during 2012.

1.2 CIL will be a charge on new development; it is charged per square metre on net additional floorspace of development. CIL is not charged on affordable housing and developments used for charitable purposes. The amount payable will be set at the time planning permission is granted and payment will be linked to the commencement of development. Larger amounts will be payable in instalments over fixed time periods.

1.3 CIL is intended to complement rather than replace other funding streams and is intended to promote development rather than hinder it. Its main advantages are that:

- It is modest representing around 2-5% of total development costs and is not charged on types of development that cannot sustain it.
- It is a fixed, non-negotiable charge and is therefore transparent and predictable.
- It is less time-consuming and complicated than Section 106 planning obligations, with less need for protracted negotiations with applicants and the drawing up of legal agreements (although these will still be required to secure affordable housing and addressing on-site mitigation).
- Local communities will be able to influence how a proportion of CIL receipts are spent in their areas, so that communities can benefit from development in their area. In areas where a Neighbourhood Plan is in place, 25% of CIL receipts arising from developments in that area will be controlled by local neighbourhoods. Elsewhere, neighbourhoods will control 15% of CIL receipts relating to developments in each area.

1.4 Unlike funding from Section106 agreements, CIL funds can be spent on a wide range of infrastructure to support development without the need for a direct geographical or functional relationship with the development. Planning obligations / Section 106 agreements will still be used, but in a more focused way to directly provide both ‘off-site’ infrastructure, through S106 contributions, and ‘on site’ improvements through planning conditions to mitigate the direct impact of the development proposed (e.g. landscaping, access roads).

1.5 Under CIL, developers can still be required to directly provide both 'off-site' infrastructure, through Section 106 contributions, and 'on site' improvements through planning conditions to mitigate the direct impact of the development proposed (e.g. landscaping, access roads).

Calculating and Charging CIL

1.6 Charging authorities firstly need to demonstrate that new or improved infrastructure is needed to mitigate the impact of planned development. They must also show that there is a 'gap' in the available funding for the necessary infrastructure that requires the use of CIL.

1.7 Charging authorities must also show that, in their judgement, the proposed levy rates would not make development proposals unviable across their areas, taken as a whole. It is not necessary to show that all developments would be viable, but that the majority of planned developments would not be made unviable by the proposed CIL level and that the scale of development identified in the relevant plan would not be threatened. The viability assessment needs to take account of the costs of other on-site requirements, including affordable housing.

1.8 The Council's proposed CIL rates will be examined by an independent examiner. This will involve an assessment of whether a charge is justified by the need for, and cost of, new or improved infrastructure, and whether the charge will have an unacceptable negative impact on the economic viability of development.

1.9 In setting its CIL rate the Council must: *"... aim to strike what appears to the charging authority to be an appropriate balance between:*

- *The desirability of funding CIL and the actual and expected costs of infrastructure required to support development and*

- *The potential effects of the imposition of CIL on the economic viability of development across its area."*

1.10 Based on this evidence the Council needs to make a reasoned judgement as to the appropriate level at which to charge CIL. The following sections outline how the Council has set what it considers to be an appropriate rate of CIL in light of the available evidence on infrastructure (needs, costs and available funding) and viability.

2 Infrastructure Needs and Delivery

2.1 The Revised Development Strategy for the Local Plan has set a target of delivering 12,300 new homes in the District between 2011 and 2029. 447 of these are completed and a further 1681 have planning permission. The remaining 10,172 homes will be built during the remainder of the Plan period as identified in the Revised Development Strategy.

2.2 One of the supporting documents for the Local Plan will be the Infrastructure Delivery Plan (IDP). This will identify all the items of new or improved infrastructure that will need to be provided to mitigate the impacts of the planned development. Much of the proposed infrastructure is included within the Revised Development Strategy document. Headlines from this include:

- Highways mitigation
- Public Transport Services
- Strategic cycle network improvements
- Green Infrastructure proposals including a country park
- Expanded education facilities
- Sports facility improvements
- Playing pitches provision
- Health facilities and services
- Emergency services

2.3 Not all these infrastructure requirements have been costed at this time. But it is likely that the total cost will be in excess of £75million. In addition it is possible to include allowances for other elements which can be paid for from CIL such as administration costs and some of the costs of operating and maintaining infrastructure.

2.4 CIL is not intended to replace mainstream funding for services. It is intended to reduce the gap between the cost of providing, operating and maintaining the infrastructure needed to support planned development and the amount of money available from other sources. The funding gap is still to be firmly established. To establish the funding gap will require an estimate of the likely contribution from other funding. The evidence used in this assessment includes:

- Long term strategic delivery plans, such as the Sustainable Community Strategy Delivery Plans
- Financial forward plans of delivery agencies; and,
- Specific evidence provided by delivery agencies on spending plans.

2.5 Funding for local services principally comes from central government as revenue and capital grants, and from local council tax. Funding can also be released from the sale of capital assets, from interest on savings and investments and from one-off grants for specific projects. Where these sources are insufficient to deliver the required infrastructure, service providers will need to finance projects through alternative means.

2.6 It is not possible to accurately predict the availability of public funding a long way into the future as this will depend, among other things, on the spending priorities of future governments. However, it is clear that in the short to medium term there is a significant gap between available funds from government and other agencies and the cost of infrastructure needed to support and mitigate planned growth. The introduction of CIL in the District will help to fill part of this funding gap.

3 Viability

3.1 In order to ensure that CIL is set at a level that will not prevent development coming forward, the Council has commissioned a viability study. The study tested the impact on the viability of development of a range of CIL charging levels, alongside the Council's other planning requirements, including affordable housing. The study considers both residential and commercial development.

3.2 The study methodology compared the residual land values of a range of hypothetical developments to a range of benchmark land values. Where a development incorporating a given level of CIL generated a higher value than the benchmark land value, then it was judged that the proposed level of CIL will be viable.

3.3 The study uses the residual land value method of calculating the value of each type of development. This involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development. This method is widely used by developers in determining the value of development proposals.

3.4 The housing and commercial property markets are inherently cyclical and the Council is testing its proposed rates of CIL at a time when values have fallen below their peak. Whilst values are likely to recover over the medium term, there is also a risk that values could fall in the short term. This has been allowed for by running a sensitivity analysis which reduces sales values by 5%. This analysis is indicative only and provides an indication of the levels of CIL that are viable in today's terms and the impact of market changes on viability.

3.5 The results of the study reflect current market conditions which are likely to improve over the medium term. The Council will closely monitor changes in market conditions on a continual basis, so that levels of CIL can be reviewed in response to future changes (positive and negative). There are clearly many factors that have an impact on development and the Council will carefully consider the impact of CIL alongside these other factors.

4 Proposed CIL Charging Rates

4.1 The Council's proposed charging rates are set out in Table 1 below. A map indicating the boundaries of the four residential zones is attached as Appendix A. A map showing the 'Prime Leamington Spa' retail zone is attached as Appendix B.

4.2 The Council recognises that strategic sites will need to absorb a higher amount of on-site community infrastructure. For this reason, lower rates are proposed on such sites to ensure they will remain viable. The CIL for these sites is set at between 50% and 60% of the rates proposed for other sites.

4.3 The Viability Study (May 2013) has suggested that there are variations in land values and development viability across the District. The highest land values tend to be in much of the rural area (Zone D), with most of Leamington Spa and its urban fringes (Zone A) only marginally less viable. Kenilworth and its urban fringes (Zone C) also shows high land value and strong development viability. Only in Warwick and the eastern side of Leamington (Zone B) are land values significantly lower with consequent impacts on residential viability.

4.4 As a result, residential viability varies across the District, but assuming the Council's policy of 40% affordable housing on all sites over 10 units, then the Viability Study suggests CIL rates per square metre would be viable within the following ranges:
Zone A (Residential): £0-£250
Zone A (Strategic Sites): £0-£60
Zone B (Residential): £240-£250
Zone B (Strategic Sites): £120-£250
Zone C (Residential): £160-£250
Zone C (Strategic Sites): £0-£250
Zone D (Residential): £250
Zone D (Strategic Sites): £140-£250

4.5 To set the charges at the maximum level of viability would threaten viability should market conditions change. For this reason Table 1 below recommends charges that are below the maximum level but which are both justifiable according to the evidence and are high enough to yield a significant contribution towards infrastructure costs.

4.6 For other uses, the Viability Study suggests that town centre retailing and superstores are strongly viable, as are hotels and student accommodation. Other uses are not sufficiently viable to warrant a CIL charge.

Table 1 Preliminary Draft Charging Schedule - Proposed Charges - £s per square metre

Development type	Zone A	Zone B	Zone C	Zone D
Residential	50	170	120	180
Residential – strategic sites allocated in the Local Plan	30	90	70	110
Office	Nil			
Retail – Prime Leamington Spa zone	£65			
Superstores, supermarkets and retail parks	£75			
Retail – other areas	Nil			
Industrial and warehousing	Nil			
Hotel	£80			
Student accommodation	£80			

5 Proposed Exemptions and Payment Terms

Exemptions

5.1 The CIL Regulations 2010 exempt the following types of development from liability for CIL:

- Development by registered charities for the delivery of their charitable purposes
- Those parts of a development which are to be used as affordable housing
- The conversion of any building previously used as a dwelling house to two or more dwellings
- Development of less than 100 square metres of new build floorspace, provided that it does not result in the creation of a new dwelling
- The conversion of, or works to, a building in lawful use that affects only the interior of the building
- Development of buildings and structures into which people do not normally go (eg, pylons, wind turbines, electricity sub stations)

5.2 Under the Regulations, charging authorities also have discretionary powers to provide relief on:

- Development by charitable institutions for non-charitable purposes but which forms part of the charity's investment activities; and,
- in exceptional circumstances the charging authority can also allow exemptions where:
  - the cost of complying with S106 planning obligation is greater than the chargeable amount payable by a developer;
  - there is an unacceptable impact on the economic viability of a development; and,
  - the granting of relief would not constitute state aid.

5.3 At this stage, the Council is yet to form a view on exceptional relief. Based on available evidence the Council considers the proposed charge is viable. The level of charge will be monitored to ensure it remains viable. Should market or other conditions change the viability of development, the Council will introduce a revised CIL charging schedule.

Instalments Policy

5.4 The Council is able to accept payment of CIL in instalments (under Regulation 69B of the Community Infrastructure Levy (Amendment) Regulations 2011). In order to assist developers in financing development in the District, the Council proposes to allow payment of CIL by instalments depending on the total amount of the liability. Details of the instalments policy will be determined prior to adoption of CIL.