



Community Infrastructure Levy – Initial Impact Assessment





Community Infrastructure Levy – Initial Impact Assessment

Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 020 7944 4400
Website: www.communities.gov.uk

© Crown Copyright, 2007

Copyright in the typographical arrangement rests with the Crown.

This publication, excluding logos, may be reproduced free of charge in any format or medium for research, private study or for internal circulation within an organisation. This is subject to it being reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.

Any other use of the contents of this publication would require a copyright licence. Please apply for a Click-Use Licence for core material at www.opsi.gov.uk/click-use/system/online/pLogin.asp, or by writing to the Office of Public Sector Information, Information Policy Team, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ.
Fax: 01603 723000 or email: HMSOlicensing@cabinet-office.x.gsi.gov.uk

If you require this publication in an alternative format please email alternativeformats@communities.gsi.gov.uk

Communities and Local Government Publications
PO Box 236
Wetherby
West Yorkshire
LS23 7NB
Tel: 08701 226 236
Fax: 08701 226 237
Textphone: 08701 207 405
Email: communities@twoten.com
or online via the Communities and Local Government website: www.communities.gov.uk

75% recycled
This is printed on
75% recycled paper

November 2007

Product Code: 07 COMM 04934/b

Summary: Intervention & Options

Department /Agency: Communities and Local Government	Title: Impact Assessment on powers enabling Local Authorities to apply a Community Infrastructure Levy to development	
Stage: Bill Introduction	Version: 1	Date: 27/11/2007
Related Publications: Planning Bill and Homes for the future: more affordable, more sustainable		

Available to view or download at:

<http://www.communities.gov.uk>

Contact for enquiries: Mark Bacon

Telephone: 020 7944 3978

What is the problem under consideration? Why is government intervention necessary?

To support an increase in economic growth, in particular housing, requires increased investment in infrastructure to mitigate the impact of developments and make growing communities sustainable. The infrastructure required includes public transport, roads, hospitals, schools, parks and playgrounds and other community facilities.

The Government is committed to ensuring that local communities are able to obtain the necessary resources to fund the infrastructure needed to support economic and housing growth.

What are the policy objectives and the intended effects?

The Government believes that the infrastructure needed to support the development of an area should be at least partly funded by owners of land the value of which increases when planning permission is granted for development. This should be done in a way that:

1. Preserves incentives to develop;
2. Makes the planning process simpler and more certain for developers;
3. Provides a fair means of securing contributions from a wide range of developments; and
4. Encourages local authorities and regions to plan positively for housing and economic growth.

What policy options have been considered? Please justify any preferred option.

The policy options that have been considered are:

1. Do Nothing: allow the current legislative framework for planning obligations to continue;
2. Introduce a statutory Community Infrastructure Levy (CIL); and
3. Introduce a Planning-gain Supplement (PGS)

Our preferred option is to introduce the CIL. The details of the proposal are subject to consultation with stakeholders and will be set out in secondary legislation. A further fully costed impact assessment will be carried out as the details are settled.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

5 Years after the implementation of the policy.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date: 26 November 2007

Summary: Analysis & Evidence

Policy Option: Community Infrastructure Levy (CIL)	Description: The details of the proposal are subject to consultation with stakeholders and will be set out in secondary legislation. A further fully costed impact assessment will be carried out as the details are settled.
--	--

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' A fully costed impact assessment will be carried out as the policy details are settled.
	One-off (Transition)	Yrs	
	£		
	Average Annual Cost (excluding one-off)		
	£		
Total Cost (PV)			£
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' A fully costed impact assessment will be carried out as the policy details are settled.
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
	£		
Total Benefit (PV)			£
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks
--

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
------------------------	--------------------------	-------------------------------------	---

What is the geographic coverage of the policy/option?					
On what date will the policy be implemented?					
Which organisation(s) will enforce the policy?					
What is the total annual cost of enforcement for these organisations?					£
Does enforcement comply with Hampton principles?					Yes/No
Will implementation go beyond minimum EU requirements?					Yes/No
What is the value of the proposed offsetting measure per year?					£
What is the value of changes in greenhouse gas emissions?					£
Will the proposal have a significant impact on competition?					Yes/No
Annual cost (£–£) per organisation (excluding one-off)	Micro	Small	Medium	Large	
Are any of these organisations exempt?	Yes/No	Yes/No	N/A	N/A	
Impact on Admin Burdens Baseline (2005 Prices) (Increase – Decrease)					
Increase of £	Decrease of £	Net Impact £			
Key:	Annual costs and benefits: Constant Prices			(Net) Present Value	

Evidence Base (for summary sheets)

The details of the proposal are subject to consultation with stakeholders and will be set out in secondary legislation. Further impact assessments will be carried out as the details are settled.

Infrastructure needed to support growth

Delivering the necessary supporting infrastructure is critical to sustainable economic development. Roads and public transport unlock sites and make developments viable. Successful communities require access to schools, healthcare, water, energy sources, public spaces and community facilities.

The Government in response to the 2004 Kate Barker *Review of Housing Supply* said it was committed to ensuring that housing growth is accompanied by the social, transport, and environmental infrastructure needed to deliver sustainable development at the local level.

According to the Barker Review, in the South East infrastructure shortcomings, such as the delivery and funding of transport and water services, have delayed around 40,000 dwellings¹

Option 1: Do nothing: allow the current legislative framework for planning obligations to continue

One option would be to leave the current system unchanged. The current system of planning obligations (s106 agreements) allows local authorities to seek a contribution from developments to mitigate their impact and where the requirement for a contribution meets all the tests in Government Circular 05/05 "Planning Obligations". In particular a contribution to the cost of a piece of infrastructure can only be sought if it is necessary to make a development acceptable in planning terms and has a direct relationship to a particular development.

¹ P128 http://www.hm-treasury.gov.uk/media/E/3/barker_review_report_494.pdf

Costs

In some areas, the current system of planning obligations already delivers significant benefits for local communities, through developer contributions towards local infrastructure. Research by Sheffield University estimated that in England, in 2003/04, developers delivered planning obligations worth about £1.15 billion.

However, the research suggests that in 2003/04 the current system of planning obligations did not work in a uniform manner. In particular, planning obligations were:

- only applied to around 6.9% of all permissions including:
 - 40% of major residential permissions (more than 10 dwellings); and
 - 9.2% of minor residential permissions (less than 10 dwellings);
- LPA performance in securing planning obligations varied considerably;
 - 40% of major planning permissions are accompanied by a planning obligation in the South East, whilst only 7.5% were in the North Yorkshire and the Humber region.

Planning obligations are negotiated agreements and can cause substantial delay and cost to developers and impose a significant resource burden on local planning authorities.

Benefits

The use of planning obligations is increasing and the amounts raised are growing as the current policy becomes more firmly entrenched and best practice is more widely shared.

Risks

However, current policy is unlikely to be able to obtain contributions from all developments, particularly smaller sites, in a cost effective way. This limits the contributions it would raise towards the delivery of the infrastructure necessary for the Government's ambition of a step-change in housing supply.

Option 2: Introduce a statutory CIL

The CIL was an alternative approach proposed in the Housing Green Paper to the implementation of the Planning-gain Supplement. Following consultations with industry, local government and other stakeholders the Government concluded that the best way to increase contributions towards infrastructure was the introduction of a CIL (formerly Planning Charges).

The CIL option would enable local authorities to apply a levy to all new developments (residential and commercial) in their area, subject to a low de minimis threshold. Where appropriate the local planning authority would use a CIL to supplement a negotiated agreement, which may be required for site specific matters, including affordable housing.

The CIL should be based on a costed assessment of the infrastructure requirements arising specifically out of the development contemplated by the development plan for the area, taking account of land values and potential uplifts. Standard charges would be set, which may vary from area to area and according to the nature of development proposed.

The CIL would break the current planning obligation regime's required link between a contribution and a particular development.

Sectors and Groups affected by the CIL

Private Sector

- Real estate activities – any applicant to expand and develop new premises – subject to a low de minimis threshold;
- Construction industry and services;
- Landowners;
- Individuals seeking planning permission for new developments – subject to a low de minimis threshold;
- Housing associations; and
- Legal representatives or purchasers of new developments.

Public Sector

- Local Government; and
- Other public agencies

Costs

In the private sector, some developers will face the CIL where previously a contribution through a planning obligation would not have been applied, in particular developers implementing minor planning permissions.

If local planning authorities decide to utilise the enabling powers of the CIL, the public sector would incur costs in setting up the CIL system. This would include the costs of staff time in setting charges, as well as in changing procedures.

Benefits

The CIL will help to harness the value of an increased range of planning permissions to generate additional infrastructure funding and thereby unlock housing growth. Local authorities would be able to coordinate infrastructure funding more efficiently for the wider benefit of their communities. In addition the CIL will offer:

Certainty

The introduction of the CIL could simplify the planning process and achieve a greater consistency of funding for infrastructure provision across local authorities, reducing the time taken to negotiate a planning obligation. Achieving certainty on what a developer may be required to contribute to infrastructure costs could speed up the planning application process.

Social Benefits

The Government is committed to ensuring that local communities benefit from growth and are able to obtain the necessary resources to finance the infrastructure needed to support growth. The CIL will enable local authorities to raise more funding to support growth, in particular to increase housing supply.

Risks of the CIL

If the levy raised on particular sites is too large there is a risk that it could make development of those sites uneconomic, and therefore preventing some land from coming forward for development. For example, the value uplift when planning permission is granted may be smaller on certain brownfield sites, in particular those that require substantial remediation. The CIL is to be designed to help unlock development and increase the supply of land by delivering necessary infrastructure. The Government considers regeneration of brownfield land a priority and will be working with the industry to design the CIL so that it does not have an adverse impact on brownfield sites.

Some might suggest that by imposing an additional cost on development, the price of that development on onward sale (eg the price of a new house) might be increased to cover the cost of the CIL. However, the price of housing is largely determined by the stock of existing housing, given that new supply only accounts for about 10% of housing transactions². Uplifts in land values typically occur when planning permission is granted. This 'planning gain' accrues to the landowner and so it is expected that the CIL will be passed back to the original landowner through reduced prices for land.

² Barker Review Final Report p.80

Option 3: Introduce a PGS

The PGS would be a modest levy on the increases in land values that occurs when planning permission is granted. To retain the local link between developer contributions and the planning consent, at least 70% of the PGS revenues would be recycled back to the local authority that granted the permission with the remaining going to the region in which the revenue was raised, to be spent on delivering priority infrastructure at the local, sub-regional and regional levels.

PGS would be accompanied by a scaling back of planning obligations, so that negotiated agreements would be used only to cover the costs of the immediate impacts on the development site, such as site road access, as well as affordable housing provision. PGS would apply across the whole of the United Kingdom.

Costs

Some developers would face PGS where previously a contribution through a planning obligation would not have been applied, in particular developers implementing minor planning permissions.

Her Majesty's Revenue and Customs (HMRC) would incur costs in setting up and running the PGS collection system and costs would be incurred in administering the distribution of PGS revenues.

Benefits

As the PGS charge would be proportionate to the increase in the value of the site, PGS would be unlikely to discourage marginal development.

A standardised PGS would apply in the same way in every local authority and developers will benefit from not having to conform to differing regimes in different areas.

The PGS should bring additional revenues that would reward local authorities directly for enabling growth, and which they would spend on local infrastructure priorities.

The PGS would enable a proportion of revenues to be spent in support of regional infrastructure priorities.

Risks of PGS

Consultation responses to the four consultations on PGS indicated relatively limited support for the PGS from key stakeholders including the property industry.

The planning gain would need to be assessed for each application. Developers were concerned that this could create considerable uncertainty for major or complicated developments, which could risk delays to development coming forward.

Uncertainty over the interpretation of matters acceptable within the scaling back of planning obligations could cause delay to the planning application process through dispute and negotiation between developers and local authorities, particularly during a transitional period to the PGS.

Specific Impact Tests

The precise policy details of the CIL are to be the subject of secondary legislation. Further consultation and an impact assessment will be carried out at this stage.

Competition assessment

The current system of planning obligations in practice tends to focus on larger developments (40% of major residential permissions are accompanied by a planning obligation³). It is proposed that within a local planning authority, the CIL would apply to all developments, subject to a low de minimis threshold. As a result, the advantage that smaller developments currently enjoy will diminish.

The current market structure should not be affected significantly by the new policy. It is difficult to assess the current market share of companies in the land and property development industry because a range of agents may carry out property development and improvements, while land may be made available from a wide range of sources. Potential developers include occupiers, construction firms, financial institutions and specialist developers, while land suitable for development may originate from real estate companies, other businesses and organisations as well as individuals. However, the main industries that could potentially be affected are the construction and real estate sectors.

A key factor in determining the impact of the CIL on competition is the incidence of the levy, i.e. which sector ultimately has to meet the additional cost. The CIL should be factored into land prices for development of residential and commercial property. Robust local planning authority processes and ongoing consultation with developers in their area should mitigate risks around pass-back into the land price for land transactions which are already underway when the CIL takes effect.

Small Firms' Impact Test

It is proposed that the CIL should be subject to a low de minimis threshold and the Government will be working with the industry to design the CIL in a way that minimises the administrative burdens on small firms.

³ P17 Valuing Planning Obligations in England Report – May 2006

Legal Aid Impact Test

The Government will make an assessment of whether there are any implications for legal aid following consideration on whether regulations would make provision for civil penalties or criminal sanctions for non-payment of the CIL.

Sustainable Development, Carbon Assessment, other Environment

The wider sustainable development impacts will depend on how planning policies for economic and housing growth are implemented, and should not be directly affected by the proposals for CIL.

Health Impact Assessment

The wider health impacts will depend on how planning policies for economic and housing growth are implemented, and should not be directly affected by the proposals for CIL, although additional funding for health facilities could be a benefit.

Race, Disability, Gender and Other Equality

It is not anticipated that there will be any significant disability, race relation, gender or other equality discrimination impacts resulting from CIL but we will keep this under review.

Human Rights

We do not expect a negative impact on human rights from the proposed CIL. The Government considers that to raise money from developments to contribute towards local infrastructure, the need for which arises from developments in an area, is proportionate and in the public interest.

Rural Proofing

The wider rural impacts will depend on how planning policies for economic and housing growth are implemented, and should not be directly affected by the proposals for CIL. The Government will though make an assessment of whether the introduction of the CIL has any implications for the delivery of housing in rural areas.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	Yes/No	Yes/No
Small Firms Impact Test	Yes/No	Yes/No
Legal Aid	Yes/No	Yes/No
Sustainable Development	Yes/No	Yes/No
Carbon Assessment	Yes/No	Yes/No
Other Environment	Yes/No	Yes/No
Health Impact Assessment	Yes/No	Yes/No
Race Equality	Yes/No	Yes/No
Disability Equality	Yes/No	Yes/No
Gender Equality	Yes/No	Yes/No
Human Rights	Yes/No	Yes/No
Rural Proofing	Yes/No	Yes/No