Communities and Local Government

Community Infrastructure Levy

Impact assessment

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Community Infrastructure Levy

Impact assessment

November 2008
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Summary: Intervention & Options

Department /Agency:	Title:	
Communities and Local Government	**Impact Assessment of Community Infrastructure Levy**	
Stage: Final	**Version:** 1	**Date:** 26/11/2008
Related Publications: Community Infrastructure Levy: Initial Impact Assessment		

Available to view or download at:
http://www.communities.gov.uk/publications/planningandbuilding/infrastructurelevy

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

The current system of planning obligations by which developers contribute funding for infrastructure is often slow and unpredictable, based on ad hoc negotiations conducted in private. Research shows the burden of funding is unfair, falling primarily on major developments. Only 14 per cent of residential planning permissions and 7 per cent of those for offices contributed to local infrastructure through planning obligations. Government intervention is necessary to create a simpler, fairer, more transparent and predictable system of standard charges, capable of unlocking additional funding for infrastructure that is required to deliver sustainable local communities. It will also ensure better coordination of funding for infrastructure serving more than one local authority area ('sub-regional infrastructure').

What are the policy objectives and the intended effects?

The policy objective is to better resource public authorities to deliver infrastructure, by simplifying the way contributions are made by developers, and mitigating the coordination failure that results because the cumulative impact of individual developments necessitates infrastructure, which individual developers lack the incentive or the resources to fund by themselves. The incidence of a Community Infrastructure Levy (CIL) is expected to rest with landowners ultimately. CIL provides a fairer, faster, more predictable and more transparent system of securing developer contributions which preserves incentives to develop.

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

The option of implementing a CIL has been considered. The CIL is a voluntary mechanism that will empower local authorities to levy a standard charge on most types of new development, to fund the infrastructure needed to support development in their area. The alternative would be to continue to rely solely on the current system of planning obligations for securing developer contributions. The preferred option is to implement CIL, because it offers a simpler, fairer, more transparent and predictable way of funding local infrastructure. CIL will also speed up the development process by providing greater certainty for developers, and CIL revenues will be spent on the infrastructure that authorities and developers consider is a priority to support the area's development.

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

A formal evaluation will be held five years after regulations come into force. The Government will be continuing to work closely with industry and local government to ensure CIL is embedded effectively.

Ministerial Sign-off Final:

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:

.......Margaret Beckett....... Date: 26/11/2008

Summary: Analysis & Evidence

Policy Option: **Description:**

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	10 year LA setup costs: £30m to £40m. 10 year LA ongoing costs: £50m to £70m based on assumptions regarding LA take-up. 10 year costs to those paying CIL: £4700m to £6800m Note the revenues generated are themselves a cost to those paying the charge, but a benefit to the LAs who receive CIL. In net terms, CIL therefore represents a transfer and not a net cost.
£		
Average Annual Cost (excluding one-off)		
£600 to 900 m	10	**Total Cost** (PV) £4800 to 6900m

Other key non-monetised costs by 'main affected groups' CIL will impose costs on developers of participating in the consultation process for establishing CIL charges and of submitting evidence to the public examination. But, please note the non-monetised benefits below.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	10 year revenue from CIL: £4700m to £6800m. This assumes LA take-up of CIL ranges from 36 per cent to 52 per cent of authorities. 10 Year estimated economic benefits arising from unlocking growth: £1500m to £2900m
£		
Average Annual Benefit (excluding one-off)		
£800 to 1200 m	10	**Total Benefit** (PV) £6200 to 9700m

Other key non-monetised benefits by 'main affected groups' CIL offers developers greater certainty and predictability about their potential contributions and should speed up the development process. Critically, better coordination of developer contributions will ensure funding for vital infrastructure projects that might otherwise not be delivered.

Key Assumptions/Sensitivities/Risks Estimates of CIL revenues are heavily dependent on LA take-up and the level at which LAs set a CIL. CIL will increase infrastructure funding needed to support growth, in particular to increase housing supply. By way of illustrating the resulting economic benefits, it is assumed that CIL unlocks an additional 2500–5000 dwellings per annum in net terms.

Price Base Year	Time Period Years 10	**Net Benefit Range** (NPV) **£1400 m to £2800 m**	**NET BENEFIT** (NPV Best estimate) **£2100 m**

What is the geographic coverage of the policy/option?			England & Wales	
On what date will the policy be implemented?			Not before Oct 2009	
Which organisation(s) will enforce the policy?			Charging authorities	
What is the total annual cost of enforcement for these organisations?			£ N/A until regulations	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£–£) per organisation (excluding one-off)	**Micro**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	No	No	No	No

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)

Background

The Housing Green Paper, published in July 2007, set out a number of options for reforming the existing system of developer contributions, to inform discussions with the development industry and local government. As a consequence of engagement with these parties during summer 2007, the Government announced its decision to proceed with the Community Infrastructure Levy (CIL) at the Pre Budget Report in October 2007. Part 11 of the Planning Act 2008 establishes the legislative framework for CIL, and the detail of the levy will be set out in secondary legislation, following consultation with stakeholders during 2009. CIL regulations will not come into force before October 2009.

Rationale for intervention

The current system of planning obligations (also known as section 106 agreements) allows local authorities to seek a contribution from developments to mitigate their impact. The requirement for a contribution should meet all the tests set out in Government Circular 5/05 "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. Planning obligations are negotiated agreements and can cause substantial delay and cost to developers and impose a significant resource burden on local planning authorities. The system also lacks transparency and certainty, as it is based on ad hoc negotiations conducted in private.

Research by Sheffield University[1], also shows that the burden of funding is unfair, as it is borne primarily by major developers. In 2005/06, only 14 per cent of residential planning permissions, and 7 per cent of office and light industry planning permissions made some form of contribution through planning obligations. The larger a scheme, the more likely it is to be making a developer contribution. The site-by-site negotiated nature of planning obligations means that it is also difficult to secure them from smaller sites in a cost effective way. This limits the contributions that can be raised from planning obligations to fund infrastructure delivery, despite the fact that smaller development also has impacts on local infrastructure and services.

CIL will offer several advantages over the current system of planning obligations:

- Simplicity: CIL is expected to take the form of simple standard charges, for example, pounds per square metre of floorspace or pounds per dwelling;
- Predictability: CIL charging schedules will be published, and developers will be able to readily predict the size of their potential liability, perhaps months or

[1] *Valuing Planning Obligations in England: Update Study for 2005–06* Sheffield University 2008

years in advance of development. This is important for helping developers to plan ahead for economic recovery. It will also speed up the planning process;

- Transparency: Draft CIL charging schedules will be subject to consultation with local stakeholders and developers, and they can only be adopted after an Examination in Public, involving independent testing by an examiner with appropriate qualifications and experience. The Act provides powers to require CIL charging authorities to monitor the use of CIL and provide regular reports. This will increase community involvement, and remove the problem with planning obligations of developers negotiating deals with local authorities behind closed doors; and
- Fairness: CIL will be levied on most types of new development in a local authority area, thus broadening the range of developments being asked to contribute something towards local infrastructure. The Government believes it is fair to ask those receiving a benefit from development which local authorities allow to share some of that gain with the wider community. By broadening the range of developments asked to contribute, the flow of contributions to a local authority becomes less 'lumpy' and much more predictable over time.

Infrastructure typically has the characteristics of a public good, so that if infrastructure is available for consumption by one person, it is very difficult to exclude another person from consuming the same infrastructure. This creates an incentive for consumers to try to free-ride, by not contributing any funding for infrastructure, resulting in under-provision of infrastructure without government intervention. This problem arises with planning obligations, where it is often difficult to demonstrate the cumulative impact that individual developments impose, resulting in under-funding of important sub-regional and strategic infrastructure. CIL seeks to address the co-ordination failure that is linked to the public good characteristics of strategic and sub-regional infrastructure. CIL will make it easier for charging authorities to address the cumulative impact of developments, ensuring developers cannot free-ride on others in the community, but rather make a fair contribution towards strategic and sub-regional infrastructure.

Description of the proposal

CIL will be a new charge which local authorities in England and Wales will be empowered, but not required, to charge on most types of new development in their area. CIL is a flexible instrument aimed at helping local authorities to unlock development in their areas. CIL charges will be based on simple formulae which relate the charge to the size and character of the development paying it, for example, pounds per square metre of floorspace. The proceeds of the levy will be spent on local and sub-regional infrastructure to support the development of the area.

An important feature of CIL is that, compared with planning obligations, CIL loosens the relationship between a development and the amount charged, since the charge is by definition an average cost distributed evenly across a number of developments. This loosening enables contributions to be sought to fund the development of an area, rather than to support the specific development that is seeking planning permission. CIL therefore offers local authorities a more flexible tool, helping them to secure the finances needed to deliver the infrastructure priorities set out in their development plan. CIL will make it easier for local authorities to coordinate contributions towards larger infrastructure items that contribute to the wider development of their local area, including larger sub-regional infrastructure, and which might not be provided otherwise.

Charging authorities that want to implement a CIL will need to understand the development strategy for their area, including the infrastructure planning that underpins it, because these will inform estimates of how much CIL is likely to be collected (which depends on the amount of planned development) and the quantum and type of infrastructure required, and the size of any funding shortfall for infrastructure. In preparing a draft charging schedule, charging authorities will also need to have regard to the viability of development given local constraints, and wider economic costs that developers will face, including the costs of affordable housing and planning obligations, because this will affect the level at which any CIL is set.

Charging authorities will be required to consult local stakeholders on their charging schedule, including by subjecting it to public examination by an independent examiner. The examiner would test whether the proposed charging schedule put at risk delivery of the adopted development plan for the area by making development unviable, and if necessary, will make binding recommendations requiring the charging authority to set a lower level of CIL.

Planning obligations will continue to exist after the introduction of CIL, as they can be a useful tool for mitigating the site-specific impacts of a development. Planning obligations should also continue to be used to secure affordable housing, because the provision of affordable housing in kind and on the development site is important for securing mixed communities. However, the Government is considering options for a future scaling back of planning obligations to restrict their scope solely to these issues. The Government is also considering how best to phase any reduction in scope to minimise transitional issues and over what timescale that reduction should take place.

Costs and Benefits of the Proposal

1. Costs

Landowners and Developers

Although any party interested in land will be able to assume liability for CIL, it will often be developers who pay CIL. Ultimately, however, it is expected that the incidence of CIL will fall on landowners, because developers would negotiate a discounted value for land when they buy it, to offset their CIL liability.

The process by which developers (or another interested party) may assume liability for CIL will be kept as simple and as integrated as possible with existing requirements on developers, in line with the Hampton requirement to best utilise existing procedures. It will be open to developers to participate in the consultation process for establishing CIL charges and to submit evidence to the Examination in Public, but there will be no requirement for a developer to engage in these activities, so any costs will be optional. However, any additional upfront costs on developers should be offset by the benefits associated with greater certainty and predictability about potential liability, although we have not quantified these effects in this impact assessment (beyond an illustrative estimate of the value of new development facilitated by CIL – see below), because of the absence of available data.

Depending on the current practice of individual local authorities with planning obligations, some small developers may be asked to pay more towards infrastructure than under planning obligations, because most local authorities have focussed their efforts to collect planning obligations on larger developments. However, small developments do contribute to the need for infrastructure, services and amenities, so it is only fair that they should contribute towards the cost of that infrastructure.

Local Authorities

Charging authorities that choose to introduce a CIL will incur some initial set-up costs, which will include the costs of consultation on the draft charging schedule, including a public examination. Once the system is implemented, there will be ongoing costs connected to billing, collecting, monitoring, reporting and enforcing CIL, although similar systems are already in place for other local levies. New mechanisms and systems necessary for CIL should be designed to minimise duplication with existing systems to make CIL as efficient a mechanism as possible.

The Government will be encouraging local authorities to undertake the preparation and public examination of their core strategy at the same time as the preparation and examination of their draft CIL charging schedules. Depending on how advanced local authorities are in consulting on their core strategies, some local authorities will have more scope than others to do this in the early years of CIL, but by the time local authorities revise their charging schedules in a few years time, we would expect increasing overlap between the two processes. This overlap will increase efficiency by: allowing local authorities in assessing the viability of land in their area to use the same information to underpin both processes; reducing the costs of public examinations through economies of scale; and facilitating an iterative process between the development plan and its infrastructure planning, and the CIL charging schedule.

Assumptions made in estimating costs

Set-up costs

- The costs of assessing viability of development for CIL purposes are assumed to be similar to the costs of work testing the viability of affordable housing under PPS 3. Estimates of rates charged by the Valuation Office Agency (VOA) and by consultants suggest that the costs could range between £30,000 and £100,000 depending on the complexity of the work (which will depend on the degree of variation in land values and the complexity of the charging schedule).
- The cost of consulting on a development plan document provides a proxy for the costs of publicly consulting on a charging schedule. Estimates from local planning authorities give a range of £30,000 to £50,000.
- The costs of the examination by an independent person are estimated using the daily rate currently charged by PINS for independent examination of Development Plan Documents, which is £993[2]. PINS have also provided indicative durations for the costs of undertaking public examinations of Area Action Plans (AAPs), which provides a reasonable initial proxy for the cost of a CIL public examination. The total costs of public examinations for AAPs vary between £29,790 for a 2 day hearing (30 days total duration), and £42,203 for a 5 day hearing (42.5 total duration). We expect a 2 day hearing for a CIL examination to be the norm, but a 5 day hearing might be needed for larger local authorities with more diverse land values and more complex charging schedules.
- Printing costs are minimised due to bias towards online publication. The costs for individual local authorities are assumed to be between £500 and £1500.
- For ease of modelling, we have assumed that those LAs that decide to take up CIL all do so in the first year of operation. In practice, the Government expects a phased take-up of CIL by local authorities in the first few years after regulations come into force.
- We anticipate that up to 260 local authorities may be undertaking public examinations of their core strategies in the 18 month period from October 2009, which is the earliest date CIL regulations could come into force. Based on the assumption that 52 per cent of authorities might set a CIL (using the scenario in Table 2 below of a CIL charge of £5,000 per dwelling implemented if affordable for 90 per cent of potential local sites), this could allow up to 135 combined examinations, with a 20 per cent reduction in the set-up costs for those authorities.
- For illustrative purposes, the cost estimates assume that all set-up costs recur every five years. However, the Government has not set a timescale for when charging authorities will need to update their charging schedules. The modelling takes a cautious approach and assumes the same cost saving (a 20 per cent

[2] http://www.opsi.gov.uk/si/si2006/20063227.htm

cost reduction in up to 135 authorities) arises in the first and sixth year, from a joint public examination of a local authority's core strategy and its CIL charging schedule. In practice the scope for joint examinations will increase over time.

In Table 1 below, set-up costs are calculated by taking the central estimate of per-authority costs from the ranges above. Estimates of take-up by local authorities from the revenue modelling are multiplied by per-authority costs to derive total set-up costs over the 10 years.

On-going costs

There will also be some ongoing administration costs for local authorities that implement a CIL. As noted above, the Government will be encouraging local authorities to build on existing monitoring and accounting mechanisms wherever this is practicable, to minimise costs. An Audit Commission report[3] shows that local authorities spent 1 per cent of Council Tax and National Non-domestic Business Rate receipts on administering, collecting and enforcing. Applying the same percentage to the revenues estimates for CIL (assuming a £5,000 per dwelling CIL set at a level that is affordable for 90 per cent or 95 per cent of potential local sites as shown in Table 2 below) gives a cost of £6 million to £9 million annually. This can be divided by the number of local authorities that take up CIL to give an average annual cost per authority.

Table 1 shows the discounted costs to local authorities of implementing CIL over ten years, from 2010 to 2019, for the same CIL scenarios mentioned in the paragraph above. This assumes that set up costs occur in 2010 and 2015 (ie the first and sixth years referred to above), such that annual costs in these years are larger. We have shown an illustrative range of costs in Table 1, because the costs will vary depending on the level of take-up by local authorities.

Table 1: Total NPV Costs to Charging Authorities Depending on Take-up of CIL

From revenue model			NPV of Total Costs over 10 years (£ million)		
CIL Charging Scenario	**Percentage LAs Taking Up CIL**	**No of LAs Taking Up CIL**	**Set Up Costs**	**On-Going Costs (1 per cent CIL revenues)**	**Total Costs to LAs**
£5,000 per dwelling, affordable on 90 per cent of potential sites	52 per cent	185	40	70	110
£5,000 per dwelling, affordable on 95 per cent of potential sites	36 per cent	126	30	50	80

The Government is working closely with practitioners from industry and local government in developing the detailed design of CIL and preparing for its implementation. The Government will also be seeking to introduce proportionate monitoring and reporting for local authorities, and authorities will be expected to demonstrate that they are acting lawfully in how they spend and distribute CIL.

[3] The Efficiency Challenge – The national context of revenues and benefits http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/8EA476B3-407B-44C3-9B55-C30FB27E858B/TheEfficiencyChallenge10Nov05REP.pdf

However, the Government will encourage charging authorities, as far as possible to build on their existing accounting arrangements.

2. Benefits

Developers

The decision to introduce a CIL in November 2007 followed extensive discussion with key stakeholders from the development industry, and the Government has continued to liaise closely with and listen to key developers in firming up the design of CIL, during the passage of the Planning Bill. CIL responds to the concerns that developers previously raised about the current system of planning obligations. As explained above, CIL will simplify the process of negotiating developer contributions through simple standard charges, which will speed up the development process. Critically, CIL reduces risk for developers, by providing them with up-front certainty about their potential liability. This certainty is particularly important as it will help developers to make more efficient choices in planning future development, and preparing for economic recovery. We do not quantify the benefits of increased certainty in this impact assessment, because of the absence of available data.

Local Authorities

CIL will benefit local authorities, because it provides them with a discretionary mechanism to help them to unlock additional funding to support the infrastructure that underpins the delivery of the development plan for their area. Moreover, CIL will enable local authorities to forecast better the amount of funding they expect from developer contributions, and hence better plan their infrastructure delivery.

Modelling Assumptions

Economic modelling has been used to estimate potential CIL revenues. The modelling estimates the impact of different levels of CIL on local authority take-up and the revenues that might be generated.

Development of land is usually associated with an increase in the value of land, and CIL captures part of that increase to fund local infrastructure. To model the effect of CIL we have estimated changes in land values arising from development to establish whether a certain level of charge would be viable. VOA data (for July 2008) gives average land values for local authorities, but does not provide a distribution (ie the variation) of land values within local authority areas. For residential development, distributions were therefore estimated by applying the distribution of house prices for new dwellings (from the Land Registry) to the VOA land value data. This provided a distribution of developed residential land values within a local authority area. We then deducted the value for the current use of land from the developed land value distribution. This provided an estimate of distribution of the 'available land value uplift' which is the increase in the value of land arising from development (and its associated change in land use).

The modelling then deducted wider economic costs from the available land value uplift distribution, to provide an estimate of the increase in the value of land that might be available to fund CIL. The wider costs that were deducted were: planning obligations (based on the 2005/06 figures for planning obligations on items other than affordable housing, from the latest research)[4]; Corporation Tax at 18 per cent; and landowner profits. No deduction was made for the cost of affordable housing contributions, because the VOA has already deducted an allowance for the cost of affordable housing from its data on developed residential land use values.

The modelling estimates revenues from a CIL set at £5,000 or £10,000 per dwelling where the charge is implemented if affordable on either 90 per cent or 95 per cent of potential sites within a local authority area. This approach is used to estimate the number of local authorities that might take up CIL under different scenarios. For those authorities expected to take up CIL, the revenue is estimated by multiplying the CIL charge by the number of new homes expected in the locality. The estimate of the number of new homes expected in a local authority was derived by taking the local authority's share of new housing projections from Regional Spatial Strategies, and then applying this share to a national housing trajectory (Communities and Local Government internal projections). Individual revenue estimates for local authorities expected to take up CIL, are then aggregated to give a total CIL revenue estimate under different charging scenarios.

There is no readily available data on commercial land values at local authority level. The revenue estimates from residential development were therefore scaled up by 10 per cent to reflect expected revenues from commercial development. The 10 per cent figure was chosen to reflect recent trends in the split of commercial and residential floorspace for new development. The data sources were VOA data for commercial floorspace, and the English Housing Condition Survey for residential floorspace. The modelling also makes a downward adjustment to revenues to reflect an estimate of the effect of exempting development by charities. The revenue estimates in Table 2 below take account of these two assumptions.

The Government is considering options for a future scaling-back of planning obligations which would restrict what items could be funded from planning obligations. But, in advance of future policy decisions on this issue, the revenue estimates in Table 2 below assume no increase or decrease in planning obligations as a result of the introduction of CIL by a local authority. Rather, as explained above, the modelling reflects 2005/06 figures from the latest research on planning obligations by Sheffield University, up-rated according to long-term house price inflation. The modelling results below are therefore estimates of net additional revenues for infrastructure.

Whatever the Government decides on the future scope of planning obligations, affordable housing will continue to be funded from planning obligations, because on-site provision of affordable housing is important for generating mixed communities. The Government intends there to be no reduction in the level of affordable housing as a result of the introduction of CIL. To provide adequate safeguards, the Government may also require local authorities setting a CIL charge to have regard to ensuring that the level at which CIL is set does not impede the provision of affordable housing in an area. The Government is also exploring the scope for enabling a reduced rate of CIL on affordable housing development. It will monitor the situation closely, and should monitoring reveal an adverse impact on affordable housing, the

[4] *Valuing Planning Obligations in England: Update Study for 2005–06* Sheffield University 2008

Planning Act 2008 contains provision to allow CIL regulations to permit CIL revenues to be used to fund affordable housing.

The modelling results do not take account of the potential cost of implementing a zero carbon standard, because the Government will be consulting on a proposed definition of zero carbon shortly. That consultation process will include an impact assessment.

Estimates of CIL Revenues

Table 2: Modelling Estimates for 2016 (not discounted)

CIL charge	Revenue raised, £m	Take-up rates for LAs
£10,000 per dwelling, affordable on 90 per cent of potential sites	1040	30 per cent
£10,000 per dwelling, affordable on 95 per cent of potential sites	600	18 per cent
£5,000 per dwelling, affordable on 90 per cent of potential sites	900	52 per cent
£5,000 per dwelling, affordable on 95 per cent of potential sites	620	36 per cent

Table 2 above shows the modelling results under different scenarios. If a CIL charge was set at £5,000 per dwelling and implemented if affordable for 95 per cent of potential local sites, 36 per cent of local authorities would take up CIL, generating £620m of revenues a year by 2016. If the same £5,000 per dwelling charge was implemented if affordable on 90 per cent of potential local sites, local authority take-up would increase to 52 per cent, generating revenues of £900m a year. These two scenarios for a £5,000 per dwelling charge have been taken as the basis for the cost and revenue estimates in this impact assessment.

It should be noted that the distributions of land values and of new dwellings within a local authority area are likely to be different, with development being concentrated on more valuable land. Therefore, the results in Table 2 should not be interpreted as saying that a £5,000 or £10,000 per dwelling charge set at a level that would be affordable for 95 per cent of sites, would risk rendering 5 per cent of development unviable in a local area.

We assume that any development which cannot pay CIL at the rate shown pays nothing, or does not proceed. The Government has undertaken to explore whether, for those exceptional developments that cannot afford to pay the full CIL charge, it should be open to the authority to accept a lower level of charge. If that procedure were to be adopted, it is expected that CIL revenues would rise slightly. However, the cost delay and uncertainty of such a procedure need to be considered closely.

Societal benefits

The Government is committed to ensuring that local communities benefit from development and are able to obtain the necessary resources to finance the infrastructure needed to support it. CIL will enable local authorities to raise more funding to support development. CIL is expected to generate additional housing, even after allowing for the possibility of CIL rendering a small amount of potential development unviable. In order to illustrate the magnitude of this effect, the economic benefit of facilitating 2500 to 5000 additional residential housing completions per year has been estimated. We assumed that each dwelling had the average uplift (across England in July 2008) based on the modelling above, and used that to estimate the economic value of the new development, which is £1500m to £2900m discounted over 10 years.

Risks

The main risk from introducing a CIL centres around the level at which any charge is set. Setting a CIL at too low a level may lead to much needed infrastructure projects being delayed or not going ahead, thus potentially jeopardising further development. Conversely, setting a CIL at too high a level could, at the margin, risk some land not coming forward for development, for example, some brownfield sites that require substantial remediation.

The Government has therefore built safeguards into the design of CIL. CIL is being introduced as a long-term instrument, and it is a discretionary tool – authorities will have the flexibility to choose whether, and when, it would be appropriate to implement a CIL. And, as explained above, authorities will need to subject their proposed charging schedules to a public examination by an independent examiner. The examiner will test whether the proposed charging schedule puts at risk delivery of the adopted development plan for the area by making development unviable, and if necessary, will make binding recommendations requiring the charging authority to set a lower level of CIL. The Government is also exploring the possibility of allowing local authorities to set different CIL rates, which would help local authorities that face varying economic conditions within their area, for example an area in need of brownfield regeneration.

Specific Impact Tests

Competition Assessment

We do not anticipate this policy proposal having an adverse impact upon fair and open business competition. Conversely, CIL charging schedules by making costs clear upfront will reduce the distortions associated with the existing system of planning obligations, which may be regarded as rewarding developers' ability to negotiate.

The Government has proposed that developers might be able to pay their CIL charge through in-kind contributions such as providing a school on land under their control. If this is the case, some might argue that there could be an adverse impact upon competition because a single supplier would be given the right to provide (say) a piece of infrastructure. However, it is important to note that any capacity to pay CIL in-kind would need to comply with EU procurement rules and procedures, and so respect the principles of fair and open competition.

Small Firms' Impact Test

Currently, developers and authorities negotiate individual planning obligations for each new project, and given the high associated administrative costs, only a minority of typically larger developments contribute to the infrastructure needed to support growth. Under CIL, we anticipate contributions would be extracted from a broader range of developments – including smaller sites. While it does not necessarily follow that all large developments are undertaken by big firms, it is possible that for some smaller firms, CIL might be their first experience of paying developer contributions. However, it should be noted that we would ultimately expect these costs, for small and big businesses alike, to be passed back to landowners through reduced prices for land.

The Government is committed to making the system simple and flexible to ease the burden on all businesses. For instance, CIL will be based on simple formulae which relate the size of the charge to the size and character of the development paying it. As a charge set upfront, CIL will simplify the process for developers, giving them greater certainty about their role and contribution.

Legal Aid Impact Test

There will be no adverse impact on legal aid flowing from the CIL enforcement procedures proposed in this Bill. This position has been confirmed by the Ministry of Justice.

Sustainable Development, Carbon Assessment, Other Environment

We do not anticipate that CIL will have an adverse impact on sustainable development, carbon emissions or other environmental matters. It could be argued that growth and increased development has a negative impact on the environment and increases levels of carbon emissions. However, CIL presents significant opportunities to offset this. As a tool to help local authorities create more accessible and sustainable communities, CIL could encourage more sustainable patterns of travel; for instance development could result in shorter journeys to work, which could be undertaken on foot or cycle rather than by car. Similarly, by providing additional resource for infrastructure, CIL could lead to better provision of public transport, and so reduce the need for private modes of transport. Also CIL monies could be used to support flood defences, as well as open spaces which enhance the local environment.

Health Impact Assessment

It is not anticipated that this proposal will have an adverse impact on health. We are of the view that CIL can benefit the health of residents by providing additional resources for authorities to deliver the infrastructure and services required to create sustainable communities. For instance, CIL monies might support local medical facilities, or open spaces and playgrounds, all of which enhance the health and well-being of communities.

Race, Disability, Gender and Other Equality

We do not think that CIL will have an adverse impact on any social group. By making communities more sustainable, CIL will facilitate economic growth and liveability and so create opportunity for all. The infrastructure and services that CIL will provide (such as medical facilities and transport networks) will enhance accessibility and liveability for all sectors of society.

Human Rights

This proposal will not have an adverse impact on human rights.

Rural Proofing

The infrastructure needs and economic circumstances of a small rural community are likely to differ from those of an urban borough, and it is our view that CIL, through its flexible design and discretionary nature, can be effective in rural and urban communities alike.

Because CIL is a discretionary tool, it will be for individual authorities to decide whether to introduce the charge. Therefore, important decisions, such as when to introduce the charge and which projects benefit from CIL funds, will be made locally by authorities who we believe are best placed to make decisions for their communities. In this way, decisions about CIL and infrastructure provision will reflect local needs and local economic circumstances, enabling the policy to work without bias against rural communities.

The Taylor Review of Rural Economy and Affordable Housing recommended that the Government should review with the Housing Corporation/Homes and Communities Agency, the role that CIL can have in supporting the development of community extensions, which might include forward-funding of infrastructure, and creating community funds to underpin the long-term maintenance costs of public realm. The Government is considering this recommendation.

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
Small Firms' Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

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