



## Community Infrastructure Levy

**Detailed proposals and draft regulations for the introduction of the Community Infrastructure Levy**

**Consultation**

**Partial Impact Assessment**



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July 2009

Department for Communities and Local Government

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## Summary: Intervention & Options

<b>Department/Agency:</b> <b>CLG</b>	<b>Title:</b> <b>Partial Impact Assessment of Community Infrastructure Levy</b>	
<b>Stage:</b> Consultation	<b>Version:</b> 2	<b>Date:</b> 30 July 2009
<b>Related Publications:</b> Community Infrastructure Levy: Partial Impact Assessment (December 2008) Community Infrastructure Levy: Initial Impact Assessment (November 2007)		

### Available to view or download at:

<http://www.communities.gov.uk/archived/publications/planningandbuilding/infrastructurelevy>

<http://www.communities.gov.uk/publications/planningandbuilding/communityinfrastructurelevyia>

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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. Intervention will also ensure better pooling of funding for larger items of infrastructure.

### What are the policy objectives and the intended effects?

The policy objective is to better resource public authorities to deliver infrastructure. CIL does this by simplifying the way contributions are made by developers, and mitigating the pooling 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. 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 'Do Nothing' option 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 more predictable way of funding local infrastructure. CIL will also speed up the development process by providing greater certainty for developers, and CIL revenues will fund the infrastructure that authorities and developers consider is a priority to support the area's development.

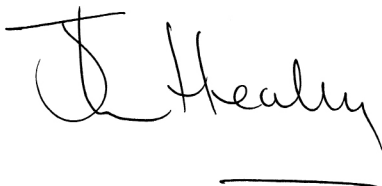
**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?**

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 implemented 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:



**Date:** 30 July 2009

## Summary: Analysis & Evidence

Policy Option:

Description: Implement CIL

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups'	
	<b>One-off (Transition)</b>	<b>Yrs</b>	10 year LA set up costs: £60m to £80m. 10 year LA ongoing costs: £50m to £80m based on assumptions regarding LA take-up. 10 year costs to those paying CIL: £5,200m to £7,600m  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.	
	£			
	<b>Average Annual Cost (excluding one-off)</b>			
	<b>£650 to 950m</b>	10	<b>Total Cost (PV)</b>	<b>£5,300 to 7,700m</b>
Other <b>key non-monetised costs</b> by 'main affected groups' CIL will impose costs on those developers that choose to participate in the consultation process for establishing CIL charges and of submitting evidence to the public examination. But, note the non-monetised benefits below.				

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups'	
	<b>One-off</b>	<b>Yrs</b>	10 year revenue from CIL: £5,200m to £7,600m. This is based on the assumption that 70 per cent to 82 per cent of authorities take up CIL.  10 Year estimated economic benefits arising from unlocking growth: £1,500m to £3,000m	
	£			
	<b>Average Annual Benefit (excluding one-off)</b>			
	<b>£800 to 1,300m</b>	10	<b>Total Benefit (PV)</b>	<b>£6,700 to 10,600m</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' CIL offers developers greater certainty and predictability about their potential contributions and should speed up the development process. Critically, increased transparency and better coordination of developer contributions will ensure funding for vital infrastructure projects for communities that might otherwise not be delivered.				

**Key Assumptions/Sensitivities/Risks**

The estimated CIL receipts reported here assume that authorities will choose to set a CIL, at £5,000 per dwelling, if 90 per cent or 95 per cent of potential sites could afford to pay that level of charge (see discussion in Evidence Base). In reality, authorities may set charges at varying levels. A key assumption is that economic benefits arise from CIL unlock an additional 2,500-5,000 dwellings per annum in net terms.

<b>Price Base Year</b> 2008	<b>Time Period Years</b> 10	<b>Net Benefit Range (NPV)</b> <b>£1,400m to 2,900m</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£2,150m</b>
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What is the geographic coverage of the policy/option?	England & Wales			
On what date will the policy be implemented?	6 April 2010			
Which organisation(s) will enforce the policy?	Charging authorities			
What is the total annual cost of enforcement for these organisations?	See Evidence Base			
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

<b>Impact on Admin Burdens Baseline (2005 Prices)</b>	<b>(Increase – Decrease)</b>		
Increase of £	Decrease of £	<b>Net Impact £</b>	

Key:	<b>Annual costs and benefits: Constant Prices</b>	<b>(Net) Present Value</b>
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## Evidence Base (for summary sheets)

### Background

The Housing Green Paper, published in July 2007<sup>1</sup>, 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. A partial Impact Assessment was published in December 2008 to accompany Royal Assent<sup>2</sup>. This partial Impact Assessment is being published as part of the consultation on draft CIL regulations. The modelling estimates have been updated to reflect the latest policy developments on CIL and latest market conditions. CIL regulations are expected to come into force on 6 April 2010.

### Rationale for intervention

The 'do nothing' option would be to continue to rely on the current system of planning obligations (also known as section 106 agreements), which allow 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 be sought only 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 usually based on ad hoc negotiations conducted in private.

Research commissioned by CLG<sup>3</sup> 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 developments also have impacts on local infrastructure and services.

<sup>1</sup> [www.communities.gov.uk/publications/housing/homesforfuture](http://www.communities.gov.uk/publications/housing/homesforfuture)

<sup>2</sup> <http://www.communities.gov.uk/publications/planningandbuilding/communityinfrastructurelevyvia>

<sup>3</sup> *Valuing Planning Obligations in England: Update Study for 2005-06* Sheffield University 2008  
[www.communities.gov.uk/publications/planningandbuilding/obligationsupdatestudy](http://www.communities.gov.uk/publications/planningandbuilding/obligationsupdatestudy)

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

- **Simplicity:** CIL is expected to take the form of simple standard charges, levied as pounds per square metre of floorspace.
- **Predictability:** CIL charging schedules will be published, and developers will be able to readily predict the size of their potential liability, perhaps months or years in advance of development. This is important for helping developers to plan ahead. 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 be adopted only after a CIL charging schedule examination, involving independent testing by an examiner with appropriate qualifications and experience. CIL charging schedules will provide greater transparency over the amount that different developers are required to pay. CIL charging authorities will also be required to monitor the use of CIL and provide regular reports to ensure that people can understand how contributions from developers are helping to make their local communities more sustainable and that developers can see how their contributions through CIL are being used to support the development of the area. These measures will increase community involvement, contrasting with planning obligations where developers and local authorities negotiate agreements behind closed doors.
- **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 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.
- **Efficiency:** 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 larger items of infrastructure. Local authorities have been seeking more legal certainty in this area to address the pooling failure that is linked to the public good characteristics of larger items of 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 larger items of 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 charges will be based on simple formulae which relate the charge to the size and character of the development paying it. The proceeds of the levy will be spent on local and sub-regional infrastructure to support the development of the area.

CIL is a new flexible instrument for local authorities, helping them to deliver better public services to support the development of their areas and promote economic growth. CIL's discretionary nature means that local authorities can decide whether or not to set a CIL depending upon their local economic circumstances. CIL is an instrument for the long term.

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 their infrastructure priorities. 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 wishing to introduce a CIL will be required to demonstrate that their proposed charges will support the development of their area. They will need to draw on the infrastructure planning that underpins the development strategy for their area, when setting their CIL rates, as that evidence will inform estimates of the quantum and type of infrastructure required, and the size of any funding shortfall for infrastructure. Alongside this evidence about the total infrastructure bill requiring funding from CIL, authorities should have regard to other sources of funding and the potential effects of the imposition of CIL upon the economic viability of development. Charging schedules may also include differential rates of CIL, where they can be justified on the basis of the economic viability of development in different parts of the authority's area.

Charging authorities will be required to consult local stakeholders on their charging schedule, including by subjecting it to a CIL charging schedule examination by an independent examiner. The examiner will be able to accept, modify or reject any proposed CIL charges to ensure that they support, and do not place at serious risk, the development of an area. The examiner's recommendations will be binding.

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 to make acceptable development which would otherwise be unacceptable in planning terms and facilitate the granting of planning permission. Planning obligations will also continue to be used to secure affordable housing contributions, 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 and ensure that CIL becomes the primary means of funding local infrastructure.

## 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 in the first instance. Ultimately, it is expected that the liability for 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) need to assume liability for CIL will be kept as simple and as integrated as possible with existing requirements on developers, in line with the requirements of the Hampton Review 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 CIL charging schedule examination, but there will be no requirement for a developer to engage in these activities, so any costs will be optional. We expect that 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, because of the absence of data.

Depending on the current practice of individual local authorities with planning obligations, some small developers may be asked to pay more towards infrastructure under CIL, because some 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 CIL charging schedule examination. Once the system is implemented, there will be ongoing costs connected with advising developers of their CIL liability, 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.

Local authorities will have the option of undertaking the preparation and public examination of their core strategy at the same time as the preparation and examination of their draft CIL charging schedules, where it is appropriate to their situation. 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. Joint working should increase efficiency, for example, by allowing local authorities in assessing the viability of land in their area to draw upon the same information to underpin both processes.

### **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 'Planning Policy Statement 3: Housing', which underpins the delivery of the Government's strategic housing policy objectives. 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. PINS have also provided indicative durations for the costs of undertaking public examinations of Area Action Plans (AAPs), which we consider provide 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 £1,500.
- 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 180 local authorities may be undertaking public examinations of their core strategies in the 18 month period from April 2010, when CIL regulations come into force. Based on the assumption that 82 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 148 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 cost saving of 20 per cent of the set-up costs for authorities undertaking combined examinations, only arises in the first year.

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 (see below) 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 in 2005<sup>4</sup>, 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 (i.e. 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 modelling			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% CIL revenues)	Total Costs to LAs
£5,000 per dwelling, affordable on 90% of potential sites	82%	290	80	80	150 <sup>5</sup>
£5,000 per dwelling, affordable on 95% of potential sites	70%	248	60	50	120

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

<sup>4</sup> [www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/TheEfficiencyChallenge10Nov05REP.pdf](http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/TheEfficiencyChallenge10Nov05REP.pdf)

<sup>5</sup> Note there are errors due to rounding.

## 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 developers in developing the design of CIL. 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 upfront certainty about their potential liability. This certainty is particularly important in the current and likely future economic circumstances, as it will help developers to make more efficient choices in planning future development, and reduces the cost of financing projects. 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. Valuation Office Agency data for January 2009 gives average land values for local authorities, but does not provide a distribution (i.e. the variation) of land values within local authority areas. For residential development, distributions are therefore estimated by applying the distribution of house prices for new dwellings (from the Land Registry) to the VOA land value data. This provides a distribution of developed residential land values within a local authority area. The model then deducts the value for the current use of land from the developed land value distribution. The



values for brownfield sites are based on mixed industrial existing use values, and those for greenfield sites are based on agricultural existing use values. This provides an estimate 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 is done on a per dwelling basis. In practice, the charge will be levied on a metre square basis.

The Government proposes that charging authorities will be able to set differential rates in their areas based on geographic variation in the economic viability of development. In the absence of data on geographic areas below the charging authority area level, the modelling includes a proxy assessment of the impact of differential rates by creating two distributions of land values within each local authority, covering greenfield and brownfield sites. The modelling assumes that where charging authorities can afford to levy a specified charge on both greenfield and brownfield sites, they will do so, but where charging authorities can afford only to levy the charge on high value sites, they will do this instead.

The modelling then deducts wider 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 other than affordable housing (based on the 2005/06 figures from the latest research)<sup>6</sup>; Capital Gains Tax at 18 per cent; and landowner profits. No deduction was made for the cost of affordable housing contributions, because the VOA estimates already allow for this where present.

The modelling results have been updated since the preparation of the last partial Impact Assessment (published December 2008). Firstly, it includes latest land value estimates from VOA, which have fallen as a result of the recession, leading to some reduction in CIL revenue estimates. Secondly, the modelling includes an estimate of the effect of allowing charging authorities to levy differential rates (as explained above), which has the effect of raising estimates of CIL revenues and take-up.

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

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<sup>6</sup> *Valuing Planning Obligations in England: Update Study for 2005-06* Sheffield University 2008  
<http://www.communities.gov.uk/publications/planningandbuilding/obligationsupdatestudy>

Regional Spatial Strategies, and then applying this share to a national housing trajectory (Communities and Local Government internal projections) which rises from current levels to 240,000 net additions in 2016.<sup>7</sup> 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.

In practice, we would expect authorities to set charges at different levels – some may set charges that are higher, or for some parts of their areas, charges that are lower. But setting assumptions at £5,000 or £10,000, and including an allowance for differential rates within areas as explained above, is a simple proxy for modelling purposes.

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, based on 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, up-rated according to long-term house price inflation. The modelling results below are therefore estimates of net additional revenues for infrastructure.

In practice, depending on the nature of the Government's proposal on scaling back planning obligations, there is likely to be some replacement of planning obligations with CIL payments. The value of agreed obligations in 2005/06 is estimated at £4bn – scaling back planning obligations would lead to some proportion of this value being captured through CIL instead. But the overall effect on revenue should be similar.

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<sup>7</sup> Given the state of the UK housing market, there are uncertainties around these estimates. A sensitivity analysis will be included in the Final Impact Assessment.

Whatever the Government decides on the future scope of planning obligations, it is intended that 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 does not anticipate a reduction in the level of affordable housing as a result of the introduction of CIL and will monitor the situation closely. Should monitoring reveal an adverse impact on affordable housing, the Planning Act 2008 contains provision to allow CIL regulations to permit CIL revenues to be used to fund affordable housing. The Government is also exploring the possibility of a reduced rate of CIL on affordable housing development.

Potential CIL revenues can be affected by regulatory costs which developers have to bear, for example costs of improving energy or water efficiency standards. The revenue estimates contained in Table 2 below take account of the costs of achieving a 25% improvement in energy efficiency building standards from 2010 but not the further changes to the requirements to take place in 2013 and 2016. The Government is committed to achieving the zero carbon standard, which means that there could be significant impact on potential CIL revenues in the period after 2016. But some elements that bear on overall cost, such as the energy efficiency requirements, remain the subject of detailed work. Decisions on the structuring of renewable energy incentives are likely to affect the net cost to developers. Progress made by industry in reducing the costs of achieving higher environmental standards between now and 2016 could further affect costs.

### Estimates of CIL Revenues

**Table 2: Modelling Estimates for 2016**

<b>CIL charge</b>	<b>Revenue raised, £m</b>	<b>Take-up rates for LAs</b>
£10,000 per dwelling, affordable on 90% of potential sites	1022	58%
£10,000 per dwelling, affordable on 95% of potential sites	661	42%
£5,000 per dwelling, affordable on 90% of potential sites	964	82%
£5,000 per dwelling, affordable on 95% of potential sites	698	70%

Table 2 above shows the modelling results under different scenarios. If a CIL charge was set at £5,000 per dwelling and at a level that would be affordable for 95 per cent of potential local sites, 70 per cent of local authorities would take up CIL, generating £698m of revenues a year by 2016. If the same £5,000 per dwelling charge was set at a level that would be affordable on 90 per cent of potential local sites, local authority take-up would increase to 82 per cent, generating revenues of £964m 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 taken to imply that a £5,000 or £10,000 per dwelling charge set at a level that would be affordable for 95 per cent of potential 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 needs to be considered closely and the Government is inviting views on this matter as part of the consultation exercise on CIL published alongside this impact assessment.

### **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, and is expected to generate additional housing, even after allowing for the possibility of CIL rendering a very 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 is associated with an uplift of £57,000 (based on the average uplift across England in July 2008 from the modelling described above), and used this per dwelling uplift to estimate the economic value of the new development, which when grossed up amounts to £1500m to £3000m 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. They can also set differential rates of CIL so that CIL is more responsive to local economic circumstances. 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 supports, and does not place at serious risk, the development of the area, and if necessary, can make binding recommendations requiring the charging authority to set a lower level of CIL.

## 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.

### **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 made by 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. There are likely to be small financial and administrative costs, of a transitional nature, in the short term. However, it should be noted that we would ultimately expect the financial liability, 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 enforcement procedures proposed under CIL. 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<sup>8</sup> 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.

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<sup>8</sup> Taylor Review [www.communities.gov.uk/publications/planningandbuilding/livingworkingcountryside](http://www.communities.gov.uk/publications/planningandbuilding/livingworkingcountryside)  
Government response to Taylor [www.communities.gov.uk/publications/planningandbuilding/responsematthewtaylor](http://www.communities.gov.uk/publications/planningandbuilding/responsematthewtaylor)

## 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.**

<b>Type of testing undertaken</b>	<b><i>Results in Evidence Base?</i></b>	<b><i>Results annexed?</i></b>
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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