Has the Community Infrastructure Levy made the planning system fairer, faster, more certain and transparent?

- Charging authorities have seen a 49% fall in the number of new residential planning consents granted in the 12 months following the implementation of CIL. This is in contrast to an increase of 32% across the whole of England, over the equivalent time period.

- Certainty over the delivery of CIL-funded infrastructure remains a primary concern for the development industry, with the exception of the London Mayoral CIL which is specifically part funding Crossrail.

- None of the Charging Authorities that have reported on CIL receipts have spent any money on the funding or procurement of infrastructure items included on their Regulation 123 lists.

- Only two Charging Authorities that have been in operation for over 12 months have CIL rates that spread the burden of infrastructure by charging a CIL rate on all development.

- The lack of available funding is the biggest problem facing Charging Authorities, as CIL will only ever make up a small proportion of the infrastructure funding gap. This reliance on forward funding by Charging Authorities is a problem, as in many cases development cannot commence until the necessary infrastructure is in place.

- On these measures, CIL is not meeting its objectives of making the planning system fairer, faster, more certain and transparent.

“On these measures, CIL is not meeting its objectives” Savills Research
How much has CIL raised?

Since the introduction of the Community Infrastructure Levy in 2010, a total of 52 Local Authorities have now implemented a Charging Schedule and are actively collecting CIL. Of these Charging Authorities, only 16 have had a CIL in place for over 12 months and have published an annual report detailing CIL income.

These indicate that just under £57m has been raised across 16 Charging Authorities in the period April 2011 to April 2014, with just under £50m raised in the last financial year.

Looking at the geographical spread of CIL receipts in 2013/14, it is clear that the London Mayoral CIL has been particularly successful, representing the majority of CIL receipts collected. In contrast, the level of CIL receipts collected outside London has remained relatively low at less than 4% of total receipts.

It should be noted that the existence of Instalments Policies suppresses CIL receipts, as they enable the payment of CIL to be staggered over the course of the development to assist financial viability.

All of the Charging Authorities included in the sample have instalment policies, to phase CIL payments over time. Consequently, the total CIL receipts received by Charging Authorities is a much lower figure than the total CIL liability that has been triggered by development.

London Mayoral CIL

The London Mayoral CIL takes a straightforward approach to CIL, charging London’s 32 Boroughs one of three flat rates at relatively low levels (£20, £35 or £50 per sq m).

This “catch all” approach has enabled the burden of infrastructure to be spread across all development. This is a factor in the success of the scheme, which is already two years ahead of schedule, projecting £300m by 2017 instead of 2019.

Graph 1

CIL Income Receipts 2013/14

- London Mayoral CIL (94%)
- Elmbridge (2%)
- Shropshire (1%)
- Barnet (<1%)
- Bristol City (<1%)
- Wycombe (<1%)
- Poole (<1%)
- East Cambridgeshire (<1%)
- Newark and Sherwood (<1%)
- Croydon (<1%)
- Fareham (<1%)

Total CIL Receipts = £49.8m

Source: Savills Research

52 Local Authorities have implemented a Charging Schedule

16 have had CIL in place for over 12 months and published a CIL report
While the London Mayoral CIL is clearly shown to be a success, Graph 1 also indicates that the total CIL receipts from other Charging Authorities has increased over time. This is illustrated in Graph 2 which shows the average total CIL receipts collected per Charging Authority increases dramatically in the second year of charging. This would suggest that it takes at least a year for the local market to adjust to the new system.

To date, none of the Charging Authorities reviewed that have published Annual CIL Reports, have spent any of the money generated by CIL, with the exception of 5% for administrative costs and the transfer of receipts to local communities. The amount transferred to Town and Parish Councils has been lower than the 15-25% mandated under the CIL Regulations. In the period April 2011 to April 2014, 44% of the Charging Authorities reviewed reported that a 'top slice' had been transferred to local communities. In total just over £345,000 was transferred equating to 12% of total CIL receipts (excluding London Mayoral CIL), suggesting that local communities are receiving a limited share of CIL.

These figures are at odds with the findings of a Freedom of Information Act request by Planning Resource, which indicated that only £92,000 of the £9.2m collected by 26 Charging Authorities in the period April 2013 to June 2014 had been passed to local communities.

This figure suggested that only 1% of CIL receipts were making their way to Town and Parish Councils. There is subsequently a continued lack of transparency over the level of CIL that is being transferred to communities.

This is no great surprise. The average amount of CIL collected across the 16 authorities that have published reports is just £300,000 (excluding the London Mayoral CIL).

Given that most projects included on a Regulation 123 List will cost significantly more than this, it is clear that Charging Authorities will struggle to deliver key strategic infrastructure projects in the short-term via CIL funding alone.

**OPERATION OF CIL**

The CIL Regulations introduced a restriction on Section 106 pooling from April 2015, irrespective of whether a CIL is in place.

This is a major new area of complexity for both Local Authorities and the development industry to tackle.

It is therefore essential that Local Authorities identify the Section 106 obligations have been collected by infrastructure type and project since 2010 to ensure that they are in conformance with Regulation 123.

To date very few, if any, Local Authorities have published such a list. This is concerning and creates further uncertainty over the Section 106 obligations that can be sought by a Local Authority.
The main aim of introducing CIL was to ensure that the cost of infrastructure was spread across all development, as highlighted by the DCLG CIL Guidance (2010), which commented that “Almost all development has some impact on the need for infrastructure, services and amenities – or benefits from it – so it is only fair that such development pays a share of the cost.” However, since its introduction, the list of exemptions, exceptions and relief from CIL has gradually increased.

The most notable change to the CIL Regulations in this respect was the decision to make self-build exempt from CIL. A policy priority for the Government, the amendment was made to assist the self build industry, which is estimated to provide approximately 8,000 new homes per year in England and Wales.

However, the potential cost of this move is significant. Assuming an average house size of 120 sq m and applying the average maximum implemented residential CIL rate (£132 per sq m) indicates a potential lost CIL income in the region of £127m per annum (£15,840 per dwelling), before considering the impact of Government intentions to expand self build volumes.

Similarly, the knock-on effect of the Regulation 14 “balance test” is that a large amount of development has been zero rated or excluded entirely from CIL on viability grounds, to ensure that it is not stifled. Similarly, regeneration proposals pay a reduced level of CIL as they have the ability to offset existing lawfully occupied floorspace against any CIL liability.

The result is that only the London Borough of Redbridge and the London Mayoral CIL have applied rates to all development, as illustrated by Graph 4 which shows the burden of infrastructure is left to fall on those developments that are most viable.

The self build exemption reflects a lost CIL income of approx. £127m per year.
HAS CIL INFLUENCED THE LEVEL OF DEVELOPMENT?

In the month before CIL is implemented, there is a sharp peak in the number of residential units granted full consent, suggesting that Local Authorities and developers are keen to get sites through before CIL.

This is followed by a sharp drop in consents once CIL is implemented, and in the 12 months following the introduction of CIL, the number of permissions granted never returns to the pre-CIL level.

This is in contrast to the national trend which has seen an increase of 32% over the same time period, as the impact of the NPPF is felt and the housing market recovers from the economic downturn.

CASE STUDY

Fareham Borough Council

Fareham Borough Council implemented CIL in May 2013. Unlike a number of Charging Authorities, the number of units being submitted in Fareham peaked three months after the introduction of CIL. However, as with a number of Local Authorities, this peak relates to a single application for 168 units that despite securing full permission, a year later, is yet to start on site.

However, unlike the majority of Local Authorities, Fareham has opted to review its Charging Schedule within a year of implementation in order to introduce a zero CIL rate for the new community at Welborne, which is set to provide up to 6,000 homes. An approach that has now been adopted by over 30 Local Authorities, all of whom are choosing to pursue "developer-led delivery" through site specific Section 106 contributions and a zero CIL rate. A move that recognises the increased cost of bringing these sites forward and the need for greater flexibility over the level of planning obligations on developments of this scale.

Such a disruption to the flow of consents in the Charging Authorities is likely to impact on their future rates of housing delivery.

Is CIL a threat to housing numbers?

To assess the true impact of CIL on housing delivery it is necessary to look at the number of units completed once CIL is in place.

In the case of the London Borough of Redbridge, in the year following the introduction of CIL, a total of 271 dwellings were delivered; approximately half of the previous year’s delivery and below the Borough target of 760 units per annum.

This trend can also be seen in a number of other Charging Authorities, as all four of the Local Authorities where CIL was implemented pre-April 2012 failed to meet their annual housing target in the year following CIL implementation.

Across the Boroughs sampled, 10 sites over 50 units (1,100 dwellings) have been granted full permission since CIL was implemented, but have yet to commence, suggesting that CIL is having a greater impact on larger residential sites than smaller scale development.

Graph 5

Number of units granted consent pre and post CIL

Source: Savills Research
IS CIL FIT FOR PURPOSE?

When CIL was introduced, its primary objective was to make the planning obligations system “fairer, faster and more certain and transparent” (CIL: An Overview, DCLG 2010). Recent figures on housing completions, planning applications and CIL receipts all suggest that this has not been achieved, with the exception of the London Mayoral CIL, which has exceeded expectations.

The key issue is ultimately that the CIL model relies on the delivery of development to raise funds. A “Catch 22” is subsequently created (see Figure 1), as in many cases development cannot commence until the necessary infrastructure is delivered. Similarly, without housing completions Charging Authorities cannot secure CIL receipts.

Given the scale of most Local Authorities’ funding gaps, CIL will only ever make up a small percentage of the shortfall. This is a point illustrated by the London Mayoral CIL which, despite its success, is only anticipated to make up 2% of the funds needed to pay for Crossrail.

Local Authorities are therefore reliant on securing alternative funding sources if they intend to pursue “Council-led delivery”, which is difficult for two reasons. Firstly, there is a limited amount of public funding available, making it necessary to prioritise certain projects. Secondly, the CIL Guidance states that Charging Authorities are prohibited from borrowing against future CIL receipts. It is therefore inherently difficult for Charging Authorities to secure funding to deliver infrastructure projects ahead of development.

However, the success of the London Mayoral CIL would suggest that CIL can be an incredibly powerful tool if it is kept simple, transparent, far-reaching and is used alongside additional sources of funding.

CIL TAKE-UP

Our forecasts show that only 26% of Local Authorities will have a CIL in place by April 2015 when the Section 106 pooling restriction takes effect.

Of the remaining Local Authorities, our research highlights that a further 19% of Local Authorities do not intend to pursue CIL, raising the question of how strategic infrastructure will be funded in these areas.

Please contact us for further information

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