

Lewisham Community Infrastructure Levy (CIL)

Preliminary Draft Charging Schedule

January 2012

Copy for Mayor and Cabinet

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1. Introduction

- 1.1 This document is the preliminary draft charging schedule for the Community Infrastructure Levy (CIL) of the London Borough of Lewisham. It contains the charging schedule itself as well as an explanation of the methodology used to calculate the CIL and the evidence used to support it. Lastly it details the public consultation procedure that accompanies this report.
- 1.2 The Community Infrastructure Levy (CIL) is a new levy that local authorities can choose to charge on new developments in their area. The money generated is to be spent upon infrastructure that is required in the local authority such as roads and other transport needs, parks, schools, sports centres and community facilities.
- 1.3 In order to charge CIL local authorities must produce a charging schedule which identifies the detail of who will pay CIL and at what rate. This is the purpose of this document. For further introductory details regarding CIL, including what it is, why we are producing one and how it will work, please see the accompanying document to this schedule called "Background paper – What is CIL?". For the purposes of this document, the London Borough of Lewisham is seeking to create a CIL that will commence in April 2014 and run to April 2019.
- 1.4 The CIL was first introduced in April 2010 and has since been adjusted several times, in part due to the change in Central Government. It is possible and indeed anticipated that the regulations which govern CIL will change further in the coming months and years prior to commencing in April 2014. Given the changeable circumstances under which this preliminary draft charging schedule has been produced, there is a reasonable chance that a further amended release may be required.

2. Methodology

2.1 The production of a CIL charging schedule is subject to considerable regulation and guidance, which has been carefully followed. In selecting a methodology to produce the schedule, there is a key binding principle in the regulations which had significant influence, that of Regulation 14:

14.(1) In setting rates (including differential rates) in a charging schedule, a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between:

- (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and
- (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

2.2 Regulation 14 determines that a charging authority, in order to levy a charge must be able to prove that (a) funding is required to support social infrastructure and (b) that charging a levy will not, on the most part, prevent development from occurring.

2.3 Of key note in Reg 14 is the phrase “an appropriate balance”. The council have made every effort to ensure that a fair and logical approach has been taken to producing a charging schedule that establishes an appropriate balance between securing funding and not hindering development. In order to achieve this, the Council has been obligated to revisit its existing Local Development Framework (LDF) evidence base and where appropriate make adjustments or new additions to it.

3. Evidence base

- 3.1 The evidence that supports this Preliminary Draft Charging Schedule is, where possible, taken from the LDF evidence base. The Lewisham LDF contains the key planning document of the Core Strategy which was adopted in June 2011 as well as four other Development Plan Documents that are due for submission for examination in the next year and adoption before the end of 2013 (Lewisham Local Development Scheme, 2010). Alongside a small number of retained local Unitary Development Plan 2004 policies and the London Plan 2011, the Council consider this to be an up to date development plan.

CIL Infrastructure Delivery Schedule

- 3.2 The CIL Infrastructure Delivery Schedule (CIL IDS) was created to inform the CIL process of the need for infrastructure provision in Lewisham during the CIL payment period that will require additional funding to be provided by CIL.
- 3.3 For a detailed explanation of the process and findings of the CIL IDS, please see the associated document “Background paper – CIL Infrastructure Delivery Schedule”.
- 3.4 Briefly, the CIL IDS is based upon the Infrastructure Delivery Plan (IDP) that details the strategic infrastructure needs of the borough and is part of the evidence base for the councils LDF process and documents. The IDP has been reviewed so that those infrastructure schemes that are not relevant to CIL as they, for example, are not due for delivery in the CIL period or do not require CIL funding, have been removed from the list. Meanwhile, the review has also discovered a number of additional schemes as well as addressing any changes in priorities, expected delivery schedules, or other minor adjustments that have been required.
- 3.5 The resulting detailed schedule and set of summaries of the individual schemes are in the CIL IDS background paper, however Table 3.1, contains a summary of the results.
- 3.6 Table 3.1 shows that in the CIL period between April 2014 and April 2019 the borough will be expected to spend over £243m on strategic infrastructure. Of this total over a £100m is to be sourced through public and third sector funding, however this still leaves a considerable funding deficit of £126.2m. This means that the maximum monetary value that the council could look to gain through CIL in the period 2014 – 2019 is £126.2m.

3. Evidence base

Table 3.1: CIL IDS Summary

Infrastructure Type	Approx Capital Cost	CIL	Other funding sources
Green infrastructure	£23.29m	£10.85m	£12.44m
Physical infrastructure	£48.84m	£32.01m	£16.83m
Education	£41.80m	£33.40m	£8.40m
Health	£5.80m	£5.80m	£0.00m
Community	£5.75m	£3.75m	£2.00m
Social infrastructure	£53.35m	£42.95m	£10.40m
Expected general continued S106 input		£15.45m	
Total requirements	£125.48m	£70.36m	£39.67m

CIL Economic Viability Study (CIL EVS)

- 3.7 The Council employed Lambert Smith and Hampton (LSH) to assist them in understanding the economic viability circumstances of development in Lewisham. Lewisham Council and LSH have worked closely together on a number of other projects related to economic viability and LSH have extensive experience on viability matters elsewhere in London and across the UK.
- 3.8 Through discussion LSH arrived at a methodology to complete the Economic Viability Study (EVS). The process used a Residual Land Value model, based on assumptions reflecting Borough wide data collection. The model then tested the impact of various CIL contributions on viability using several assumption scenarios. Finally, the results were analysed jointly by LSH and the Council to ensure they reflected reality in the borough. It should be noted that the CIL EVS provides a recommended CIL rate that is at an implementable level for Lewisham, it is NOT a maximum rate. For further detail of the process and findings of the CIL EVS, please see the associated background document “CIL Viability Appraisal”.
- 3.9 The process and the results for the borough are examined further in the following paragraphs.

4. Creating a charging schedule

Infrastructure Need vs. Viability

- 4.1 The CIL IDS demonstrates that in order to complete every identified infrastructure project that is scheduled for the CIL period, the council will need to generate through CIL the amount of:

£70.36m

- 4.2 The council have then divided £70.36m by the development floorspace (sqm) that is proposed in the borough during the charging period and will be liable for CIL. This formula calculates the required CIL rate per sqm of development in order to fund the infrastructure necessary. The rate is as follows:

£269 / sqm

- 4.3 A CIL rate will be considered unreasonable and unjustifiable if the cumulative monetary gain over the CIL period exceeds the total funding that is required to deliver infrastructure in that period. In the case of Lewisham, this will mean that a CIL rate of over £269 will be considered inappropriate.
- 4.4 The investigative work undertaken to produce the CIL EVS demonstrates clearly that a CIL rate of £269 is not achievable in Lewisham and therefore CIL will not fund all the infrastructure that it is requested to. This is not an unusual situation given that the CIL charging period is several years away. The council will consider a number of options outside of CIL to fill this gap and will need to carefully consider how projects are prioritised.

Differential rates

- 4.5 The CIL regulations (regulation 13) allow for a local authority to create a charging schedule with multiple levies. The CIL rate may be differentiated by geographical area and/or by the type of development.
- 4.6 In order to be comprehensive the EVS analysed viability of schemes across the borough utilising data that was geographically divided by postcode area. Additionally, multiple development types were assessed included Residential (C3), Retail (A1 and A1 large), Offices (B1) and Hotels (C1).

4. Creating a charging schedule

- 4.7 The results of the CIL Economic Viability Study demonstrate that in Lewisham there are some disparities between the “affordable CIL rates” for different parts of the borough and also between residential and non-residential development. It is clear that if an average CIL rate were used across the whole borough, some areas and types of building would become unviable for development, whilst other areas and building types would provide considerably less CIL contribution than they potentially could. Given this situation the council decided to seriously consider where there was the need for variable rates.
- 4.8 Whilst it has been prudent for the council to consider setting a number of differential rates for CIL, it has also been important that this was undertaken with a common sense approach. The regulations state that a CIL charging schedule should avoid being over-complex and therefore it is important that the concept of using variable rates for different areas and development types is used in moderation.

Setting a proposed rate

- 4.9 The results of the viability model meant that setting rates for commercial development was relatively simple. For non-residential uses it was found that viability did not change geographically across the borough, therefore one rate could be set for the whole borough for each development type. Additionally, the evidence demonstrated that both retail (A1) and hotel (C1) uses could afford a very similar level of CIL of £80 / sqm. The exceptions to the rule for non-residential development are business, storage and distribution uses (B1 and B8) which showed poor viability and could not afford to pay CIL. As a result of the evidence available B1 uses were given a £0 / sqm rate and all other non-residential uses were given a rate of £80 / sqm.
- 4.10 The evidence for residential development is somewhat more complicated as the viability of housing schemes is not consistent across the borough. The postcode related data highlighted a general increase in house prices from south to north through the borough and a corresponding increase in development viability levels. This meant that there was a need to explore the possibility of having multiple rates for residential development.
- 4.11 Initially the evidence suggested that three different rates of £100 / sqm in the north of the borough, £70 / sqm in the centre and £30 / sqm in the south would be appropriate. However further investigation suggested that the £30 / sqm rate could be

4. Creating a charging schedule

erroneous. Catford Town Centre was proved to hold more value than it's surrounding postcode area (SE6) and was in fact aligned with the central £70 / sqm zone. It was therefore removed from the southern zone and added to the central zone. Analysis of the remaining £30 / sqm zone following the removal of Catford town centre revealed that there were no sites of 10 or more units expected to be delivered in the CIL charging period. 10 units is the threshold under which no affordable housing provision is required to be provided. Without the commitment to supply affordable housing affecting viability, the EVS model showed that housing throughout the southern zone could afford over £70 / sqm. This eliminated the purpose for the £30 / sqm zone and it was therefore removed from the CIL schedule.

- 4.12 The resulting CIL charging schedule has two residential rates of £100 / sqm for the north of the borough, £70 / sqm for the central and southern parts of the borough and £80 / sqm for non-residential uses boroughwide (excluding B1 use which is £0 / sqm).
- 4.13 The council feel they have found an appropriate balance between the positives and negatives of using differential rates. Where there is strong viability evidence to suggest that a variable rate is necessary, the council have embraced it, but have not sought the overuse of multiple rates where the impact is modest to avoid a burdensome system.
- 4.14 The formal rates and boundaries are shown in the following section of this report.

5. The proposed CIL

The rate

- 5.1 Table 5.1 below details the CIL rates that are proposed for the London Borough of Lewisham by the council for the period 1st April 2014 – 31st March 2019.

Table 5.1: CIL rates

Geographical zones	Category A	Category B	Category C
Zone 1	£100 / sqm	£80 / sqm	£0 / sqm
Zone 2	£70 / sqm	£80 / sqm	£0 / sqm

Category A = Use class C3

Category B = Use classes A1, A2, A3, A4, A5, B2, C1, C2, C2a, C4, D1 & D2

Category C = Use classes B1 & B8

Geographical zones

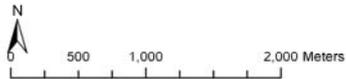
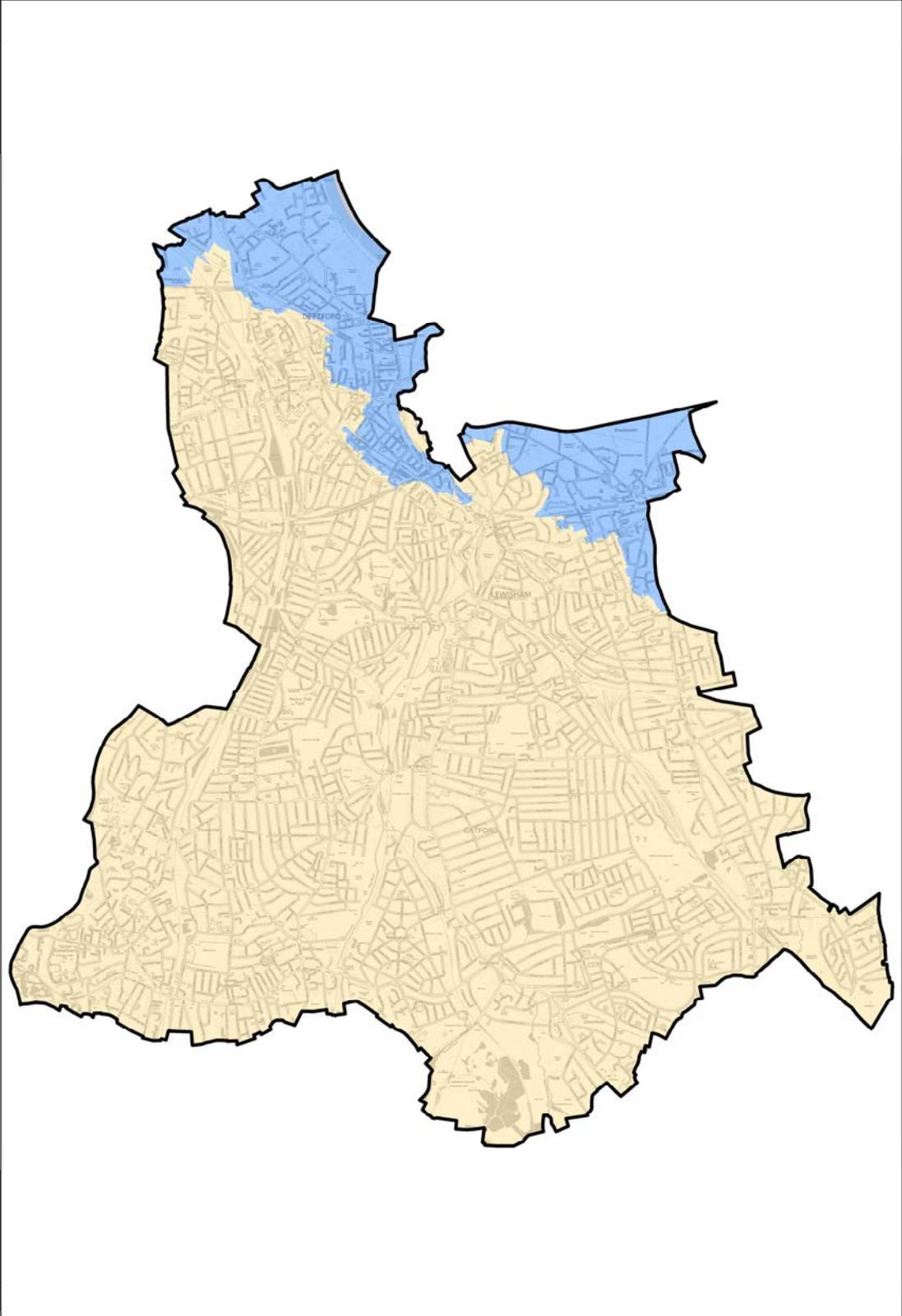
- 5.2 The two CIL payment zones have been created along current postcode boundaries in order to make use of an existing system of geographical division that is already utilised within the development industry. Table 5.2 contains the list of postcodes that are subject to the payment of CIL grouped into the two previously arranged zones and Map 5.1 illustrates the table. Please note that it is only development within the boundaries of the stated postcodes and the London Borough of Lewisham boundary that is liable for this CIL.

Table 5.2: CIL payment zones (postcodes)

Zone 1	SE3, SE8, SE10 & SE16
Zone 2	BR1, BR3, SE4, SE6, SE9, SE12, SE13, SE14, SE15, SE23 & SE26

5. The proposed CIL

Map 5.1: CIL payment zones (postcodes)



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5. The proposed CIL

Exemptions and exceptions

- 5.3 There are a number of developments that are exempt from paying CIL, as described in the Government regulations, part 6. The council have the right adopt further exceptional circumstances relief, however the setting of relief schemes is not part of the process of establishing a charging schedule. For information, the council has no current plans to adopt any relief schemes, but reserves the right to do so in the future.
- 5.4 In the charging schedule B1 and B8 uses have been granted a CIL rate of £0 / sqm, but it should be noted that this is based upon the economic viability of such developments and is not an exception to CIL.

Rates and Indexing

- 5.5 As detailed in the CIL regulations, the proposed CIL rates will be subject to adjustment on a yearly basis in line with the All-in Tender Price Index which is published from time to time by the Building Cost Information Service of the Royal Institution of Chartered Surveyors. The council will administer this adjustment on an annual basis.

Income for delivering infrastructure

- 5.6 The Council have calculated that the introduction of a CIL charge at the rates proposed in this report will produce an income of approximately £20m over the CIL charging period (2014 – 2019) to support the delivery of infrastructure in the borough. This is less than the £70m set out by the CIL IDS as required to fund infrastructure. The funding gap is an expected occurrence given the time until the implementation of the projects assessed. The council will continue to work with public, private and voluntary sources to seek funding and assistance in ensuring the delivery of all the infrastructure projects in the CIL IDS.
- 5.7 It is set out in the government regulations that authorities may use up to 5% of the CIL income to support the administration of the CIL system. The council will monitor costs and use the appropriate proportion of funding required to meet expenses outlaid.

5. The proposed CIL

Potential changes to CIL regulations

- 5.8 In November 2011 the Department for Communities and Local Government (DCLG) released a consultation paper proposing amendments to the CIL regulations. The Council will monitor any proposed or adopted changes to the CIL regulations and guidance and adjust the CIL charging schedule if / when required.

6. Testing the charging schedule

- 6.1 There are a number of key tests that need to be levied against the proposed rate to ensure it is equitable, justifiable and viable. Table 5.3 lists each required test and then a brief statement that describes how the preliminary draft charging schedule and the accompanying evidence base have tackled the requirements of each.

Table 5.3: Rate tests

Test	Response
<p>The development plan</p> <p>Is the CIL based upon an up to date development plan?</p>	<p>Yes. The Council consider that the local development plan is up to date. The Core Strategy (the central strategy for the Local Development Framework) was adopted in June 2011 and the remaining DPDs are progressing to submission for examination in public during 2012. Additionally, The London Plan was adopted in July 2011.</p>
<p>The evidence base</p> <p>Is the evidence base 1) robust, 2) appropriate and 3) proportionate?</p>	<p>1) Yes. The evidence base contains the CIL IDS which is based upon the Infrastructure Delivery Plan that was found sound in supporting the Core Strategy. Further, the economic viability evidence base has been completed using an independent respected consultancy with experience and expertise in the subject. It utilises industry standard base data and justified analysis and conclusions.</p> <p>2) Yes. The evidence uses the most appropriate sources of information that are available to the council to inform the charging schedule.</p> <p>3) Yes. Where possible the council have used existing sources of information that have previously supported it's development plan. For the economic viability evidence it was felt necessary and proportionate to seek expert advice from an external source.</p>
<p>Need</p> <p>Is there proof of a gap in funding for infrastructure in the CIL period?</p>	<p>The CIL IDS identifies a large number of projects that require partly or wholly funding by CIL across many different forms of infrastructure. The monetary value of the identified gap is sizeable, reaching over £70m.</p>

6. Testing the charging schedule

Test	Response
Does the proposed CIL rate generate more income than is required to fund the identified infrastructure requirements of the borough?	No. Funding required for infrastructure exceeds the anticipated income generated through CIL, therefore the rate of CIL is not unreasonable. Evidence shown demonstrates that a CIL rate of over £260 / sqm would be required to meet the funding gap, whereas viability ensures that the rates for Lewisham will not exceed £100 / sqm.
Viability Will the imposition of the proposed CIL unreasonably affect the viability of development (taken as a whole) across the borough?	No. The economic viability of development across the borough will, on the whole, be unaffected by the imposition of CIL. The council acknowledge that there may be occasions where individual schemes which are on the cusp of viability may be affected. However the CIL EVS undertaken has given the council full assurance that the CIL rate set is at an appropriate level and will remain robust over the CIL period. Therefore the council consider that the burden of CIL will not be detrimental to the general growth agenda of the borough, as outlined in the Core Strategy.
Viability vs. Need If need is so great, why is the CIL not higher? Is the Lewisham CIL rate different to other boroughs / authorities?	<p>The council feel that an appropriate balance has been found between the great need for infrastructure in the borough and the desire to ensure that development and the councils growth agenda are not unduly harmed.</p> <p>The rate in Lewisham is necessarily different to other boroughs and authorities in order to reflect the local circumstances. However, the suggested rates fall neatly within the range of those suggested by other London boroughs with a similar profile to that of Lewisham. The suggested rates for Lewisham are therefore considered as appropriate.</p>
State Aid Does any part of the CIL contravene state aid rules?	No. The proposed CIL rates have been selected on the basis of need and viability. No discount or 'aid' has been used in the CIL schedule. Some rates for different uses are simply lower than others (or zero) as a response to the appropriate available evidence gathered. To continue the consistent approach, boundaries for the geographical zones have been based upon postcode areas to reflect the evidence sources used to inform the economic viability testing.

7. Responding to the consultation

The Council would like you to get involved with the production of the CIL by telling us what you think of the preliminary draft charging schedule. All comments received will be considered in the development of a draft charging schedule.

How do I get involved?

Web

Ideally we would like you to provide your comments on-line against the relevant sections of this document at the following address

<http://consult.lewisham.gov.uk/portal>

OR

E-mail

planning@lewisham.gov.uk

with "CIL preliminary draft charging schedule" as the subject.

OR

Post

Planning Policy

London Borough of Lewisham

5th Floor, Laurence House

1 Catford Road

Catford

SE6 4SW

If you would like to speak to the Planning Policy Team about this report, please telephone us on 020 8314 7400.

Please send comments by: 5pm on (To be confirmed). It may not be possible to take account of comments that are received after this date.

8. Next steps

- 8.1 Following the consultation period for the preliminary draft charging schedule, the council will review the responses and produce a draft charging schedule. It is intended that this will be released for public consultation by the summer of 2012.