



RYDE TOWN COUNCIL OFFICER REPORT

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| Committee: | Place, Neighbourhood and Planning |
| Date: | 30 May 2023 |
| Report Author: | Chris Turvey |
| Report Title: | Notes on proposed Infrastructure Levy (IL) |
| Context: | Consultation on the new IL ends on the 9 th June any comments should be submitted prior to that date. These comments should address the implications to Town and Parish Councils with regard to the access to money for local public realm and infrastructure. |

1. SUMMARY

The proposed IL is intended to move from a system which seeks developer contributions to the costs of the infrastructure needed for site mitigation, related community needs and the costs of providing new affordable homes to one that taxes sales income to provide funds for infrastructure and specifically affordable housing contributions.

The existing system involves significant, and often complex, time consuming and uncertain, negotiations between local planning authorities and developers to ensure legally enforceable contributions that are both viable and policy compliant.

The result is that developer contributions can vary quite significantly relative to both the geography of development values and the relative negotiating powers of the parties to a S106 agreement. However, the existing system does guarantee a connection between the site of development and the return of development value to that site for mitigation purposes.

Unlike the choice that previously existed between S106 and Community Infrastructure Levy for local authorities, the Infrastructure Levy would be compulsory and the rate at which it is charged would be set within the Local planning strategy. (Island Planning Strategy).

The proposal is for the LPA to set a rate which would yield at least as much return as the present system but calculated through the developments floor space expressed in £'s/m². The Infrastructure Levy would include payment towards all of the elements previously calculated and negotiated separately in an effort to cut down on the lengthy negotiation process. In reality, there could be different negotiations around final property values and this could vary if the property market were particularly volatile as currently where average property prices have risen by £6,000 in just 1 month.

With respect to money being passed down from the LPA to Town and Parish Councils, there is no guidance as to any compulsory payments as were set out in the CIL or any mention of a framework for T's and P's to receive payments for Public Realm or non statutory Infrastructure.

An area of concern with this new '£'s/m²' approach is the variation in new build house value across the country. It ranges from £8,240 per m² to £2,358 per m² in the North East. This means that there could potentially be a vast difference in IL returns. This is less important with regards the affordable housing contributions as it would be at similar value/cost but for highway improvements and other non residential infrastructure the cost are similar across the country.

2. POSSIBLE FINANCIAL CALCULATIONS

The amount payable is calculated as a proportion of the difference between the expected sale revenue (commonly termed Gross Development Value) minus the minimum threshold.

The minimum threshold is the sum of the main non-land construction-related development costs (base build costs, site preparation costs, costs of external works, professional fees and contingency allowance).

The Existing Use Value is also included in the calculation of the minimum threshold. In the modelling, these values are expressed in terms of £/m² of sellable space developed.

The minimum threshold represents most of the non-land development costs. Whilst the difference between the minimum threshold and the expected sale price approximately represents the surplus available for value capture, it omits some minor costs such as land acquisition taxes and sales and marketing costs. More fundamentally, it also does not account for the developer's return and a premium to the landowner above Existing Use Value. As a result, the levy rate will not explicitly represent a proportion of the land value uplift.

The calculation is illustrated below. Making the hypothetical assumption that an IL rate is set locally at 50% and the minimum threshold is £1,500/m², in an area where the typical new build price is £4,000/m², the expected cash payment from the IL will be:

$$(\text{£}4,000 - \text{£}1,500) * 0.5 = \text{£}1,250/\text{m}^2$$

This £1,250 is then expected to be distributed between affordable housing provision and cash payments to the local authority. If say, 60% of the IL is allocated to affordable housing provision, the quantity of affordable housing that is provided will depend on the tenure mix of the affordable housing and the amounts paid by registered providers. Tenure mix will be the variable over which the local authority has some discretion and is likely to vary between local authorities.

More developments will fall viable for IL. Permitted development and prior approval residential developments will now have to pay IL.

3. CONCLUSIONS

In an attempt to simplify things and create a level playingfield, the Government may have made things for some more complicated and unclear. The transition should be slightly easier for CIL charging Local Authorities but due to the complexity of getting the charge levels right so as they are not discouraging developers and at the same time raising similar amounts to the present system the transition is going to take some time.

The existing system by which developer contributions are exacted is strongly integrated with the local plan. The amount that can be raised (and the types of public and other goods that can be secured) are governed by each LPA's local plan. This means, in practice, that developers should be able to effectively 'pass on' the costs of developer contributions to landowners so that they are reflected in reduced land values.

The proposed IL is conceptually quite different in that it sets a levy on total sales income above a threshold of existing use value and development costs and potentially gives local authorities greater flexibility as to what the proceeds can be spent on. The broader scope and remit of the IL means that what developer contributions might be used to finance could potentially grow. IL receipts could be used for affordable housing and community-based infrastructure, as in the existing system, but could also be used to finance other local services as well such as road cleaning or rubbish collection. The levy is, therefore, best understood as a partially hypothecated sales tax, where the limit on what can be raised is partly determined by the price that the landowner is prepared to accept to release their land.

On the basis of this the IL is simpler than the existing system especially for developers. The proposed levy would be mandatory in contrast to the discretionary nature of the existing system, and it would eliminate the negotiated aspect of S106 agreements. However, its introduction would be complex as the local determination of minimum thresholds and the number and specific value of levy rates (and the areas to which they each apply) may present a significant challenge to many local authorities in setting their local plans. The possibility of using planning conditions to secure site mitigation which are now secured through S106 agreements may also have significant implications.

There is also the threat that these additional services which could be covered in the IL could water down the offer towards affordable housing and infrastructure as is accepted in the existing scheme.