Planning on the Doorstep: The Big Issues – Money

Money continues to be a huge issue for councils and communities across the country; an issue that councillors face regularly on the doorsteps of their electorate. This advice note describes payments available for councils who deliver growth and details how local authorities can map these payments to inform their planning decision making.

Introduction

Building new homes, commercial space and infrastructure projects supports economic growth. And growth ultimately means more economic output. Growth relies on land and buildings being available, and **this is where planning comes in**. Local authorities, and especially local councillors, need to be aware of the direct and indirect financial returns when determining planning applications.

The government has introduced a series of payments for councils when they deliver growth: New Homes Bonus (NHB), Business Rate Retention (BRR) and the Community Infrastructure Levy (CIL). Below you can read what these mean for your community.

New Homes Bonus

NHB was introduced in 2010 and gives a payment to a council for every new home built in its area**.** It is paid by the Treasury each year for six years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is an extra payment for providing affordable homes. The baseline for each local authority is set every year and is based on the previous year's collection of Council Tax. The amount is calculated by multiplying the annual net change in housing stock (adjusted for Band D equivalency) by the average Band D Council tax in England for the previous year.

For 2013/14, the NHB was £1,444.13, with a £350 supplement for affordable homes. To estimate future income for NHB the 2013/14 calculation is applied to the council's housing trajectory and projected specific housing growth data. There are no restrictions on how the money can be spent by a council.

You can find out how much your council's NHB allocation is via the link below:
https://www.gov.uk/government/policies/increasing-the-number-of-available-homes/supporting-pages/new-homes-bonus.

Business Rate Retention

Business Rates or National Non-Domestic Rates (NNDR) are set by the government's Valuation Office Agency with the local authority collecting and passing the money to the government. Previously the government would distribute the pooled income to councils based on population and assessed need as part of formula grant. Councils where Business Rate income is higher than the formula grant subsidise those councils where it is lower. This base funding level is set for seven years, presently until 2020.

Since April 2013, BRR allows councils to retain a proportion of business rate growth that they deliver in their area. The amount retained is worked out by having an initial 'funding level' set for each local authority based upon the formula grant they had previously received. A council's proportional increase in income from Business Rate growth will be capped as a proportion of the 'funding level'. For example:

Funding level: £50m
Business Rate income: £100m
Business Rate income increases by 5% (£5m) = 10% increase in 'funding level'
Council receives 5% up-lift of £2.5m from the £50m funding level

- A 1% increase in business rates income = no more than a 1% increase in funding, except where this would impose a levy rate of more than 50p in the pound.
- In these cases the levy will be set so the authority keeps at least 50p in each pound of growth in its business rate income.
- This means that, even after the government's 50% central share, at least 25p in each extra pound of business rates generated locally will be retained locally.

In certain locations the amounts will start to add up. As with NHB, this does not directly impact on a developer's budget. Further information on BRR from central government can be found via the link below:
https://www.gov.uk/government/collections/business-rates-retention.

Community Infrastructure Levy

The CIL was introduced in 2010 as a levy on new development. District or unitary councils set their own levy to pay for infrastructure; this levy does impact on developers' budgets and development viability. The rates need to be set at a level that balances the need to pay for infrastructure vs the impact on development viability. It is optional and councils can set some variety of charges within their area by type of development or by area.

A proportion of the money collected must be spent in the area within which it was collected, to enable communities to feel the direct financial impact of development. The rest must be spent on infrastructure to further growth. **Be aware that a council's ability to pool s106 will be severely limited from 2015**.

Why are councils implementing CIL?

1. CIL can significantly increase funding for your local infrastructure priorities.
2. CIL ensures the widest range of developers make a fair contribution.
3. CIL supports a strategic approach to development management, investment and delivery cash flow.
4. CIL gives districts control over spend priorities.
5. CIL provides up-front transparency, consistency and speed of negotiations reduces developers' risk and will encourage development in difficult economic conditions.
6. Initial investment to create the charging schedule can lead to reduced management costs for the charging authority going forward.

Proportional impact of CIL on development viability

A common myth about CIL is that, from a development viability perspective, it is off-putting. In the vast majority of cases the reality is very different.

- A 10% various in build costs has an impact on viability 20 times that of a £10/sqm variance in CIL charge.
- A 10% various in sales values has an impact on viability 40 times that of a £10/sqm variance in CIL charge.

So, in the vast majority of cases, it is sales values that determine whether residential schemes go ahead or not. This appreciation of the impact of CIL on development viability is being played out in charging schedules across the country. Sheffield, Kingston, Bexley and Newham have all set CIL rates in areas of limited viability on the basis that it is not the overwhelming reason for development not coming forward. Full detailed guidance on CIL can be found on the PAS website:
http://www.pas.gov.uk/3-community-infrastructure-levy-cil;jsessionid=F3B16D55E01C846EAD3CDB36CBF96B82.

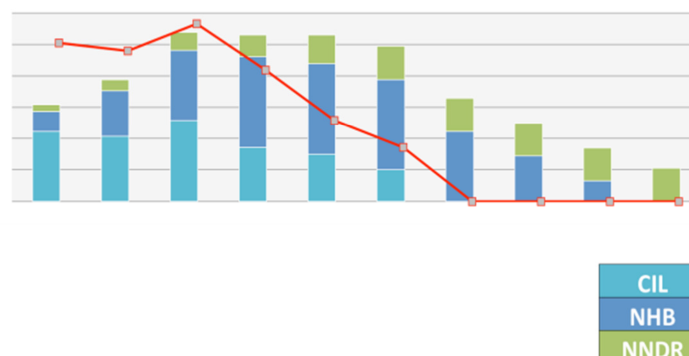
Combined Funding (Blending NHB, BRR and CIL)

Councils from across the country are finding that implementing CIL will only make a small contribution (5-15%) to meeting the infrastructure funding gap. Councils now collecting CIL back up this projection; whilst some of the numbers are large (£6m for the GLA, £100,000 for Redbridge, £260,000 for Bristol) they are insufficient to meet the cost of strategic infrastructure. Few infrastructure items are delivered through one single source of funding; it is a blend of several sources including CIL, NHB, BRR, and others - and probably some borrowing to make up any shortfall.

This table summarises the three sources of funds and their key characteristics:

Policy	Source	Trigger	Duration	Influence	Ringfenced?
CIL	Developer	Commencement of development	Small number of payments over 12-18 months	Over entire process	To infrastructure
NHB	Government	Occupation of home	6 years	None	No
NNDR	Government	Occupation of business space	In perpetuity	None	No

The income profile of the three tools therefore varies over time, as shown below in the graph highlighting how long each financial tool gives a return each year with housing completions.



CIL and NHB can be a high portion of returns but will vary over time relating to housing completion rates and will eventually stop. However NNDR will alter but can continue giving a return indefinitely.

Summary

These financial returns, to be spent on infrastructure, can be a material consideration in the determination of planning applications.

Examples

Below are some examples of where councils have sought to inform their decision making by understanding how these payments interrelate with their plans for development and regeneration.

Example 1 – City in South West England

The impact of infrastructure being funded in the early phases.

Background: The council was assessing how infrastructure delivery would bring forward development across ten strategic sites in the centre of the city. Some important strategic infrastructure was needed to release development capacity on these strategic sites but there were no means of funding it. The council needed a business case for investment that was more than simply new homes.

What they did: A development finance model was devised to calculate the potential CIL, NHB, Business Rates and Council Tax income streams. That future income was set alongside valuation work for sites owned by the local authority to assess the potential future capital receipts.

The result: The timing of the income was modelled alongside infrastructure costs and development phasing, to provide an investment programme cash flow. This whole process added practical delivery information to the council's Masterplan for the city.

Example 2 – Outer London Borough, Strategic Infrastructure Investment Planning

Looking at the local infrastructure delivery plan and prioritising the items within it.

Background: The council decided to prioritise the infrastructure items based on their financial and regenerative impact. This required them to define what infrastructure projects were truly enabling and would have a probabilistic causal link to the release of a development site to bring forward new homes and employment space.

What they did: Where infrastructure items were deemed to have a direct impact, the council calculated CIL, NHB and NNDR - generated by the development site and compared that with the cost of the infrastructure item. The work included an investigation into the alternative development scenarios for each of the boroughs' growth areas to establish the associated regenerative benefits of each infrastructure item. The table below sets out the projected income from each of the funding sources over the plan period:

	2013-14	2015-2024	2025-2034	2035-2044
Whole Borough	**£13,239,915**	**£137,087,736**	**£128,665,536**	**£137,613,160**
CIL	£4,042,752	£48,145,998	£38,146,752	£34,412,028
NNDR	£1,946,535	£15,659,223	£47,859,440	£61,969,274
NHB	£2,033,934	£33,587,776	£27,805,634	£30,903,917
CT	£2,614,925	£17,461,796	£9,947,610	£7,835,241
S106	£2,601,769	£22,232,944	£4,906,100	£2,492,700

The result: A high-level impact assessment and starting point for a detailed business case for each infrastructure item. Further work was undertaken to review which option should be pursued to maximise the regenerative and financial benefits for the borough. This work is informing the council's local infrastructure investment programme.

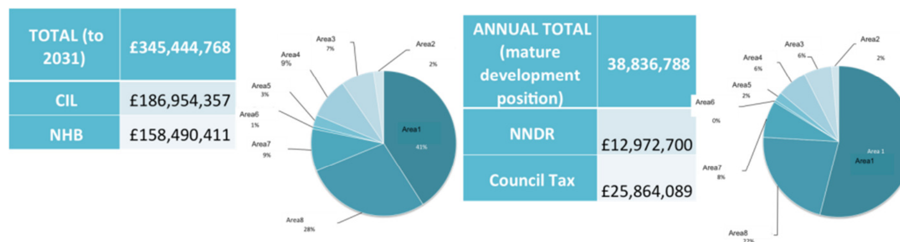
Example 3 – Outer London Borough, Development Finance Analysis

Trying to understand the direct financial benefits of its regeneration programme.

Background: The council commissioned a study to understand the direct financial benefits of its regeneration programme to inform the borough's medium term financial strategy and test regeneration investment options.

What they did: This required a calculation of CIL, NHB, NNDR, Council Tax, asset sale values for the local development trajectory and required detailed analysis of each major regeneration programme, in terms of costs and phasing. The council developed alternative strategic scenarios and analysed the direct financial impact of each. This was being used by the council to inform its strategic decisions whilst the regeneration department is being outsourced.

The result: The two charts below demonstrate the cumulative income from CIL and NHB and the annual income from Business Rates and Council tax for the council:



Example 4 - Outer London Borough, Office Market Study

Making an area attractive for investment.

Background: The council has a well-articulated regeneration agenda, with high-profile projects ongoing in the town centre. They initiated a huge investment programme in the public realm to enhance safety and remodel the urban fabric to make the area more attractive for investment. However, there were still issues with the town centre – mainly due to the poor performance of the office market.

What they did: The council initiated a project to assess the planning issues, viability and market conditions that are influencing the office market and what tools the council could utilise to address the problems; as well as engaging with landowners and occupiers to understand the barriers to development. The team produced a development finance model that considered the direct financial benefits of growth alongside the potential downstream regeneration benefits to demonstrate whether there was a business case for intervening in any given site. The tables below give a comparison of cumulative income from a site depending on whether it was developed as a majority office or majority residential use:

SITE 2: Scenario 1: 98% Offices, 2% Assembly & Leisure

	YEAR 5	YEAR 10	YEAR 20	YEAR 35
NNDR	1,571,085	3,840,452	8,835,037	16,706,044
NHB	-	-	-	-
COUNCIL TAX	-	-	-	-
CIL	1,122,600	1,122,600	1,122,600	1,122,600
TOTAL	**2,693,685**	**4,963,052**	**9,957,637**	**17,828,644**

SITE 2: Scenario 2: 90% Residential, 10% Retail

	YEAR 5	YEAR 10	YEAR 20	YEAR 35
NNDR	133,069	325,281	748,316	1,414,979
NHB	770,600	1,321,029	1,321,029	1,321,029
COUNCIL TAX	493,500	1,198,500	2,608,500	4,723,500
CIL	131,640	131,640	131,640	131,640
TOTAL	**1,528,809**	**2,976,450**	**4,809,485**	**7,591,148**

The result: The work made the case for increased Economic Development Team budget and has influenced the council's £400m infrastructure investment programme.

Example 5 - Planning Application Discussions

Taking local finance considerations into account as a material planning consideration.

Background: A senior development control officer had always prioritised large housing proposals as he felt they were politically high profile and because they had the biggest impact on the area.
What they did: He had found himself in protracted s106 negotiations with a new business park proposal. He felt that he was fighting the council's corner by holding out for greater commuted sums. However, one day the Business Retention figures were brought to his attention. He suddenly realised this was worth millions to the council and that the money could be spent on related regeneration priorities.
The result: He moved to soften his stance on the application and section 106 to speed up the process.*

*Section 70(2) of the Town and Country Planning Act 1990 (as amended) provides that authorities must have regard to local finance considerations as far as material. Section 70(4) of the 1990 Act (as amended) defines a local finance consideration as a grant or other financial assistance that has been, that will or that could be provided to a relevant authority by a Minister of the Crown, or sums that a relevant authority has received, or will or could receive, in payment of the CIL.

Whether or not a 'local finance consideration' is material to a particular decision will depend on whether it could help to make the development acceptable in planning terms. It would not be appropriate to make a decision on the potential for the development to raise money for a local planning authority. In deciding an application for planning permission or appeal where a local financial consideration is material, decision takers need to ensure that the reasons supporting the decision clearly state how the consideration has been taken into account and its connection to the development.

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