

Committee(s): Priorities Board - for Decision Resource Allocation Sub-Committee Policy and Resources Committee Planning and Transportation Committee	Dated: 11 June 2024 11 July 2024 11 July 2024 23 July 2024
Subject: CIL allocation process and potential CIL rates review	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	This report would address all six outcomes of the Corporate Plan
Does this proposal require extra revenue and/or capital spending?	Yes
If so, how much?	Around £120,000 annual staffing costs for two years
What is the source of Funding?	CIL administration costs
Has this Funding Source been agreed with the Chamberlain's Department?	Yes
Report of: Joint report Bob Roberts, Executive Director Environment Department and Caroline Al-Beyerty, Chamberlain	For Decision
Report author: Rob McNicol, Assistant Director – planning policy and strategy and Sonia Virdee, Financial Services Director	

Summary

Community Infrastructure Levy is used to help fund the infrastructure that is necessary to deliver the growth of the Square Mile.

To realise the aims of the City Plan, the City Corporation's vision for growth, a significant number of infrastructure projects will need to be delivered. While funding will come from a variety of sources, Community Infrastructure Levy (CIL) will continue to play an important role. Funding for future infrastructure projects would significantly outstrip the CIL surplus currently forecast for the next five years.

There is therefore a need to undertake a series of actions that would reduce allocation of CIL in the short term, establish a clearer medium and long term picture of infrastructure needs, and establish the potential for, and – subject to decisions – begin the process of, a review of CIL rates and other planning obligations.

To achieve this, two new roles within the planning division will need to be created, funded by CIL and s106 administration charges, working closely with Chamberlains and other City Corporation teams.

Recommendations

Members of Resource Allocation Sub Committee, Policy and Resources Committee and Planning and Transportation Committee are asked to approve the following recommendations, supported by the Priorities Board:

- Temporarily limit the quarterly allocation of CIL to those projects that are 'critical' for supporting the City's development needs
- Refresh the City Corporation's Infrastructure Delivery Plan
- Bring in more specific assessments to inform prioritising infrastructure projects funded by CIL
- More widely publicise how CIL and other developer contributions are being used for public benefit
- Undertake a review of CIL rates and the Planning Obligations SPD
- Put in place robust mechanisms for collecting and spending developer contributions related to biodiversity net gain and cultural infrastructure

Main report

Background

1. Legislation requires CIL to be spent on infrastructure that is necessary to support the development of the area. The City Corporation's local plan sets out the vision for the future development of the Square Mile. It is supported by an Infrastructure Delivery Plan that sets out the infrastructure needs to make that vision a reality. A new local plan (City Plan 2040) is being developed and will undergo public examination later in 2024. An Infrastructure Delivery Plan has been developed to support the City Plan but requires refreshing to ensure it is fully up to date.
2. At Policy and Resources Committee on 20 April 2023, Members approved a refreshed process for allocating CIL to infrastructure projects. A substantial amount of unspent CIL had been accumulated, and the new process was designed to ensure that CIL was being allocated in a timely manner.

Current situation

3. Financial forecasts show that the CIL that had been accumulated has now been substantially spent or allocated, and new allocations are being assigned against potential future income in future years. If agreed, the new CIL bids recommended to be allocated in this quarter of £14.41m would result in a maximum unallocated balance still available this financial year 2024/25 of £14.397m, rising to £38.357m in 2028/29. While this is expected to replenish in future years as development comes forward, it is significantly less than the potential infrastructure funding requirements for the Square Mile over the coming years of between £110m and £165m (see paragraph 7 and appendix 1).

	Prior Years Actual/ Approved £'000	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000	2028/29 Forecast £'000	TOTAL £'000
TOTAL INCOME (80% CIL - General Pot)	(78,152)	(12,108)	(10,700)	(11,083)	(11,480)	(11,891)	(135,416)
TOTAL OF CAPITAL, SRP	60,199	15,664	6,246	5,450	4,300	5,200	97,059
DEFICIT/(SURPLUS) Brought Forward @ 1st April		(17,953)	(14,397)	(18,852)	(24,485)	(31,665)	(38,357)
DEFICIT/(SURPLUS) Carried Forward @ 31st March	(17,953)	(14,397)	(18,852)	(24,485)	(31,665)	(38,357)	

4. The On Street Parking Reserve, which has been used to fund a range of projects alongside CIL, is no longer available as a significant source of further funding for infrastructure projects, because of both its tighter ringfencing criteria than CIL, and as it is also now almost fully committed in the medium term.
5. There are a wide range of infrastructure projects that will be required to realise the objectives of the City Plan 2040. While different funding sources will be required, CIL (and other developer contributions, s106, s278, carbon offsetting and on-site delivery) will have an important role to play.
6. Appendix 1 to this report sets out a selection of the significant infrastructure requirements that the City may need over coming years to realise City Plan 2040, which may need to be funded (in part or full) from CIL. The list has been informed by internal discussions and work on the Infrastructure Delivery Plan. It is not exhaustive and neither does it guarantee that any of these projects would get CIL funding. Instead, it is meant simply to make clear that in coming years there is likely to be a significant funding gap for a wide variety of projects, and fully funding these from CIL as things currently stand would not be feasible.
7. Overall, the costs for this infrastructure could range from £110m to upwards of £165m over the next five years – and could be significantly higher depending on whether the full costs of major capital projects are included. Further longer-term projects could also increase this figure significantly.
8. While an upward CIL review (see below) would assist in funding the infrastructure requirements for the City, it is highly unlikely that CIL rates would be able to be raised to a sufficient level that would cover all infrastructure projects without making development in the City unviable.

Proposed way forward

9. Given the likely costs for infrastructure, and the likely shortfall even with a CIL review, there is the need to identify a more comprehensive overview of the potential infrastructure requirements for the Square Mile through a refresh of the Infrastructure Delivery Plan, and to develop clear criteria and processes for the prioritisation of these infrastructure projects. This will enable the Priorities Board and Members to decide funding priorities and the appropriate portfolio of infrastructure projects that should be pursued to best realise the growth vision set out in the City Plan 2040.

10. This process would be undertaken in partnership between the planning division and Chamberlains. For the planning division it would involve discussions with spending departments (including City Police) and key external partners (such as the NHS) as to their medium and longer-term infrastructure plans, to inform a refreshed Infrastructure Delivery Plan. The development of prioritisation criteria would be informed by reviews of the City Plan, Corporate Plan, Transport Strategy, and other City Corporation strategies; through benchmarking and review of other local authority approaches; and through review of established criteria such as those used for capital projects. With the Chamberlain advising on the use of Reserves.

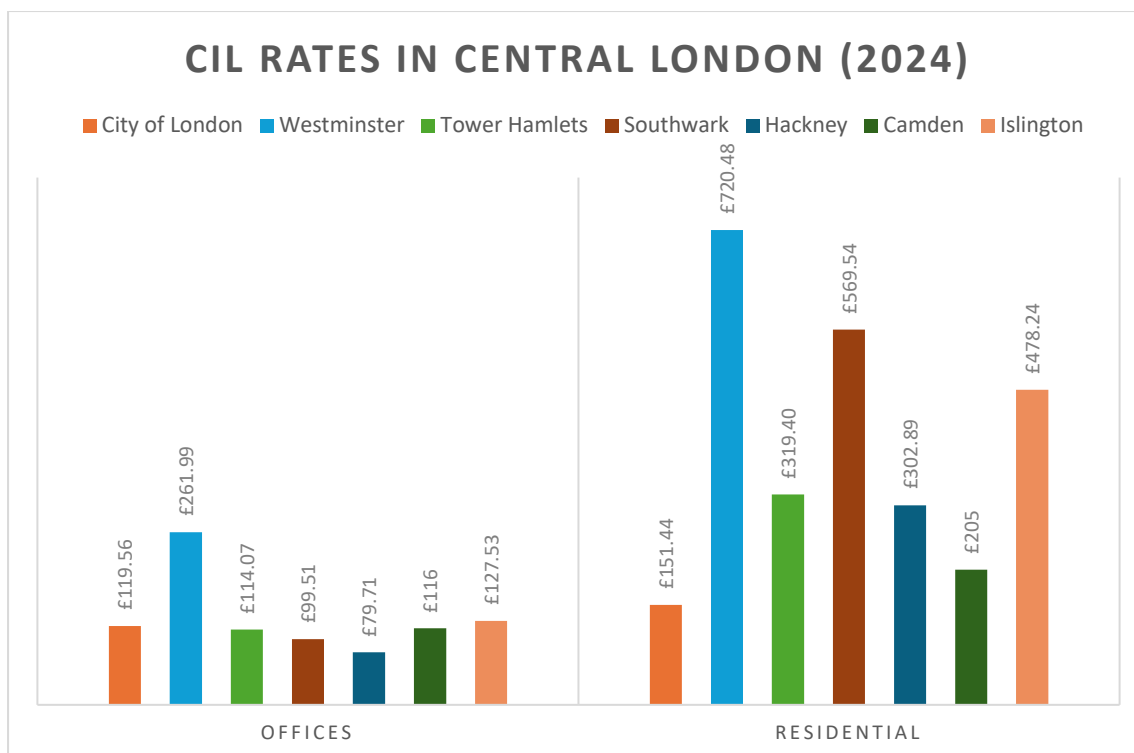
11. It is envisaged that this approach would require agreement by the Planning and Transportation Committee, Resource Allocation Sub-Committee and Policy and Resources Committee. Revised prioritisation would be brought to committees in the autumn and a refreshed IDP produced by the end of 2024.

CIL and Planning Obligations Review

12. The City's CIL charging schedule (which sets the rates per square metre) was brought into effect in 2014 and is increased in line with the RICS CIL index¹. The rates have not been reviewed since they were introduced. The chart below sets out the comparative rates of the City and central London boroughs.² These rates reflect adjustments for inflation and are the current rates for 2024.

¹ This is based on the all-in tender price index, prepared by the Building Costs Information Service (BCIS)

² Central London boroughs tend to have different rates in different parts of the borough, broadly reflecting development values. The rates in the chart are for those areas most similar and closest to the Square Mile; rates in other parts of these boroughs tend to be lower, especially for offices.



13. The rate for office development is similar to the majority of central London, except for Westminster, which charges a substantially higher rate for offices in the West End, St James/Westminster and Mayfair areas.
14. The City has the lowest CIL rate for residential development of comparable central London areas – though comparatively little CIL income comes from residential development in the Square Mile given the limited amount of new housing delivered here. As part of a CIL rates review, all uses – including residential, hotel, retail and offices, as well as others – would be in the scope of the exercise.
15. Reviewing CIL rates has positives and negatives. On the positive side, it could generate greater CIL receipts for the City Corporation to fund infrastructure. However, this is not necessarily a given; if CIL rates are set too high this could potentially make development unviable or put off developers and investors, leading to them develop elsewhere.
16. Before any review is formally undertaken, research would need to be carried out to establish likely impacts on viability, investor sentiment, market impact, and potential CIL income.
17. The table below sets out the potential uplift in CIL income in a range of scenarios. These are theoretical and assume that increases in CIL rates would not affect the level of construction in the City, and that the City does not experience the impact of wider economic factors that could lead to reductions in development (such as a major economic downturn). A ten year baseline has been used, based on

forecast income over the next five years 2024/25 to 2028/29. Any increase in CIL rates would of course be likely to continue to generate additional income beyond this timeframe.

City CIL ten year income baseline	Percentage increase	Additional City CIL income	City CIL five year income with uplift
£118m	10%	£11.8m	£129.8m
	20%	£23.6m	£141.6m
	40%	£47.2m	£165.2m
	100%	£118.0m	£236.0m

18. Any review of CIL rates would be likely to take 18 months from commencement, depending on the level of objection, internal resource, and capacity of the Planning Inspectorate to undertake an Examination in Public.

19. Alongside CIL, development also contributes planning obligations that are secured through section 106 agreements. Requirements for these are set out in the City Plan 2040 and detailed in a Planning Obligations Supplementary Planning Document. To ensure a clear and holistic approach, a review of the SPD should be carried out alongside the review of CIL rates. This would take a similar amount of time and once adopted would be a material consideration in the determination of planning applications.

Risks and sensitivities

CIL reform

20. Through the Levelling Up and Regeneration Act, the Government have legislated for significant reforms to the CIL setting and collection process. If the significant reforms in the LURA are implemented, this could mean that a CIL charging schedule review could get overtaken by the reforms and require the City Corporation to start again with a new charging schedule under the reformed approach.

21. These reforms have not yet come into effect, and the calling of the election for early July means that they may never be brought about. The Labour party have proposed less significant reforms that would be more of an evolution of the current system.

Investor confidence

22. Development and investment in the built environment have faced turbulent times in recent years, with substantial increases in materials and labour costs and shortages, uncertainty borne of political interference in the planning system, and wider shocks from macroeconomic shifts, international relations and conflict. These headwinds have reduced investment appetite and it will be important that

any CIL review does not send an overtly negative message, suggesting that the City is no longer 'open for business'. Development under construction in the City has fallen from a high of over 1 million sqm (gross) office floorspace in the years 2014/15 to 2017/18, to an under construction figure of around 500,000 sqm (gross) in 2022/23 (the most recent year for which data is available). There is still significant demand for additional office floorspace in the Square Mile, and confidence that wider factors are beginning to ease as inflation stabilises. These factors, and the progress made on the City Plan 2040, suggest that this would be an appropriate time to begin a CIL review.

Securing developer buy-in and public endorsement

23. The development industry would prefer to see CIL being used to fund public realm enhancements that would help to improve the environment around their sites and make the City more attractive to office occupiers and workers.
24. More widely, there is a lack of public awareness of the contribution made by development to the local area through CIL.
25. To mitigate these issues the City Corporation should develop and publish a robust prioritisation method for infrastructure projects as part of the Infrastructure Delivery Plan, and regularly publicise the benefits of CIL-funded infrastructure projects.

Alternative options

Alternative 1: status quo

26. Over the past 18 months, substantial sums of CIL have been allocated to infrastructure projects. If this is continued it is highly likely that all forecast CIL income could be fully allocated in the next 6-9 months, leaving none available in the medium term for other infrastructure projects.
27. This 'first come first served' approach is not suitable for long-term infrastructure planning where there is insufficient income to fund all projects. Instead, careful consideration of the trade-offs and priorities of different projects will be required.

Alternative 2: undertake CIL rates review only

28. While an upward review of CIL rates to bring in more funding could be taken forward on its own, this is likely to be strongly resisted by the development sector and could be unsuccessful at examination without a clear forward-looking plan that sets out the funding requirements and priorities for spending. The development sector will also be keen to see that CIL could be used to fund the types of infrastructure projects (largely public realm improvements) that in their view would more directly benefit their investments.

Implementation

29. Coordinating, planning and managing the processes and systems around developer-funded infrastructure projects is increasingly complex and requires sufficient expertise and resources. To facilitate this, the planning division intend to recruit two roles to undertake and oversee this work. They will focus on:

- Managing processes for allocating funding from CIL
- Reviewing CIL rates and the Planning Obligations SPD
- Implementing new processes for collection/distribution/monitoring of new funding streams, including cultural funding and biodiversity offsetting
- Keeping the Infrastructure Delivery Plan up to date and feeding into CIL allocation processes, liaising internally with Chamberlains and spending departments
- Publicising how the City Corporation’s infrastructure spending is supporting the development of the Square Mile.

30. The table below sets out likely timescales for the activities proposed in this report.

	Q1 (Apr- Jun) 2024	Q2 (Jul- Sep) 2024	Q3 (Oct- Dec) 2024	Q4 (Jan- Mar) 2025	Q1 (Apr- Jun) 2025	Q2 (Jul- Sep) 2025	Q3 (Oct- Dec) 2025	Q4 (Jan- Mar) 2026
Recruitment to two infrastructure coordination roles								
Review IDP								
Develop prioritisation schema for CIL funded projects								
Review CIL allocation process								
Scoping CIL/planning obligations reviews								
Develop publicity strategy								
Develop collecting/spending approaches to BNG and culture								
CIL charging schedule review								
Planning obligations SPD review								

Corporate & Strategic Implications

Strategic implications – The provision of infrastructure is crucial for the delivery the Corporate Plan, City Plan 2040, Transport Strategy, Climate Action Strategy, the Destination

City initiative, the Utilities Infrastructure Strategy, and numerous other City Corporation strategies. Numerous major projects by the City Corporation that are underway will be delivering infrastructure for the Square Mile. The approach outlined in this paper will provide decision-makers with a clear overview of the City's infrastructure requirements, facilitate strategic decision-making and prioritisation of CIL funding, and could lead to greater CIL receipts to assist in the funding of infrastructure.

Financial implications – This paper proposes the creation of two new roles, funded through the CIL administration pot, on a two year fixed term basis. Refreshing the IDP and establishing a new prioritisation process would not require further funding. Reviewing CIL rates would require significant further funding – potentially around £250,000 – for the development of evidence and the conducting of an Examination in Public. A decision whether to undertake a CIL review, and therefore to incur these costs, would only be taken following further scoping work in Q2. These costs would be met from the 5% CIL administration fund.

A review of CIL rates could lead to greater CIL receipts to assist in the funding of infrastructure, though any review would require scoping and clear justification, as well as independent examination.

Resource implications – Two roles would be created to oversee and undertake the work set out in this paper. There would be further requirements for oversight of the process by senior officers in Planning and Chamberlains, and to a lesser extent input from spending departments. These can be resourced from existing staffing.

Legal implications – The expenditure and collection of CIL, and reviews of CIL rates, are governed by legislation and regulations, which will be adhered to throughout.

Risk implications – There are no strategic risks that would be affected by the proposals.

Equalities implications – Reviews of the CIL rates, Infrastructure Delivery Plan and CIL allocation process will be informed by equality impact assessment, helping to ensure that the funding of infrastructure takes account of the Public Sector Equality Duty.

Climate implications – The provision of infrastructure for the City is crucial in ensuring that development is sustainable. The review of the Infrastructure Delivery Plan will be informed by the objectives of the Climate Action Strategy. Climate implications can also inform a refreshed CIL funding prioritisation process and criteria.

Security implications – CIL has been used to fund projects that improve the safety and security of the Square Mile. Ongoing security infrastructure requirements will inform the update of the Infrastructure Delivery Plan.

Conclusion

The use of Community Infrastructure Levy to fund infrastructure for the Square Mile is a vital aspect of delivering the growth envisaged by the City Plan 2040. To ensure CIL continues to be used in the most appropriate way, it is necessary to refresh the City Corporation's Infrastructure Delivery Plan and to establish robust criteria for the allocation of CIL to the infrastructure projects the IDP identifies. Alongside this, the potential to review CIL rates could lead to increases in future CIL income from

development, although this is not a foregone conclusion and will need to be carefully undertaken.

This report recommends a series of steps that could lead to a more proactive and forward-looking approach to the funding of infrastructure in the Square Mile from development, and would help to ensure the City Corporation's stakeholders can better appreciate how the growth of the Square Mile is transforming the City for the benefit of all.

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