

CIL Rate Setting

It is important to get rate setting right- so let's start with two issues that contextualise the rate setting process (these should be considered alongside all other advice). Then we will share some approaches and techniques developed when we worked with the CIL Front Runners. Collectively these tricks and tips should help you navigate the CIL rate setting process.

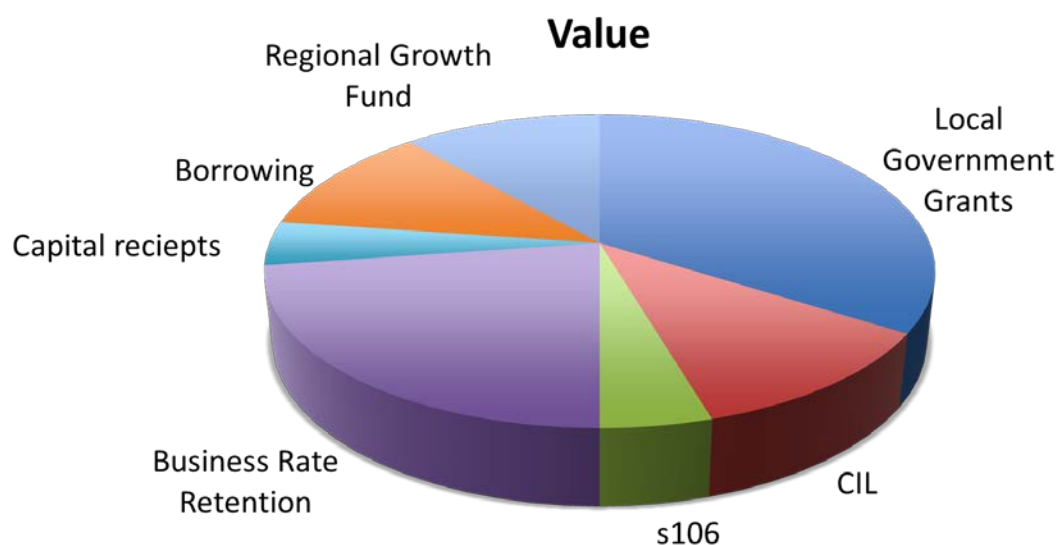
When setting CIL rates it is important to understand CIL in context. You are required to consider your infrastructure funding requirements and what contribution CIL will make. Whilst CIL is an important source of funding for infrastructure, it is just one of many funding mechanisms.

The Levy is unlikely to contribute more than 5-10 per cent of funding for your infrastructure requirements (depending on your local circumstances, such as, the extent to which you have prioritised your infrastructure requirements, and the level of growth expected in your area).

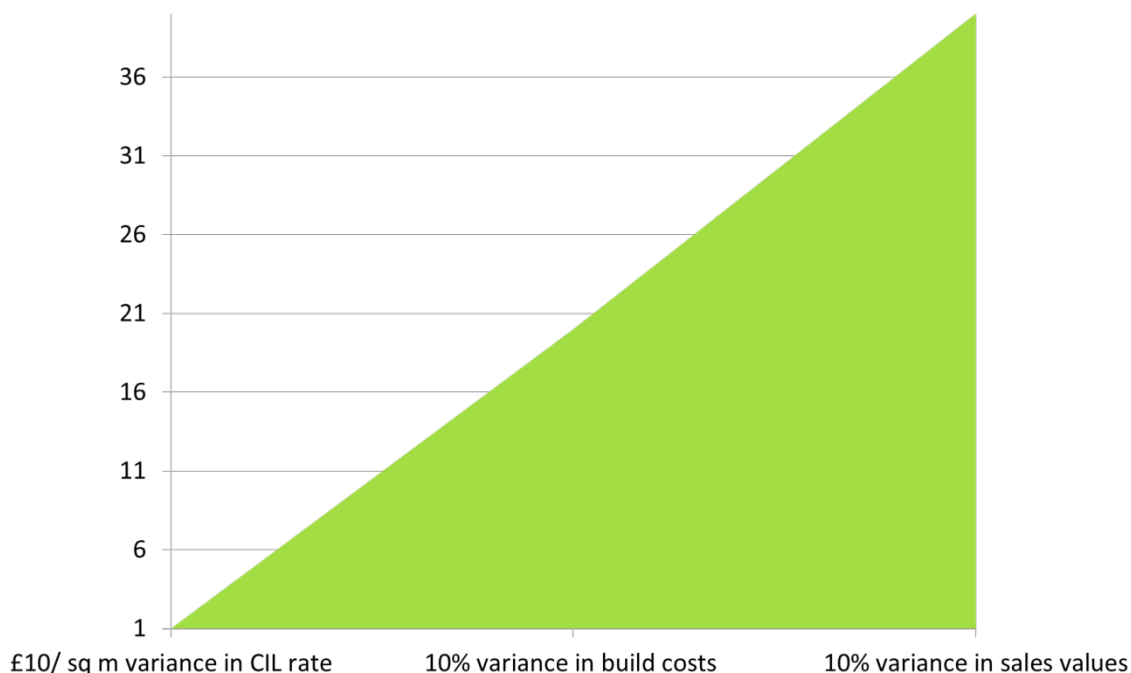
Other significant sources of infrastructure funding will include:

- Section 106 planning obligations, which will still play an important part in on-site mitigation
- Capital receipts from the sale of existing assets
- Business Rate retention, which can make a significant contribution in growth areas
- Grants such as education funding, albeit that a proportion of these may go directly to Academies or Free Schools, and
- Borrowing

It is worth noting that many Authorities that were early adopters of CIL have used it as leverage (or match-funding) to attract far greater sums of money for infrastructure. CIL rarely pays for whole items of infrastructure alone.



When setting rates you are also required to consider CIL's potential impact on development across the area, as well as the impact on the delivery of your local plan. You will often be engaged in discussions with objectors that focus on the impact of CIL on particular developments. It is important to understand that CIL has a relatively minor impact on development viability when considered against other factors impacting on viability.



- This diagram shows the relative impact of a £10 variation in CIL against a 10% variation in build costs and sale values.
- The impact of 10% variance in build costs will be 20 times as significant as a £10psm variation in CIL.
- The impact of 10% variance in sales values will be 40 times as significant as a £10psm variation in CIL.

CIL Rate Setting - Preparatory work

Develop a working hypothesis - we recommend that those Charging Authorities that are at the beginning of the CIL research process develop a working hypothesis for your CIL rates. You will know your area better than many. You will have an understanding or a hunch as to where rates may vary across your area or between uses in your area.

In order to record your working hypothesis we recommend you develop a simple matrix and host a short workshop for key decision-makers and technical experts within your authority. In that workshop ask them to complete the matrix based on their knowledge.

This should enable you to develop an understanding of what variations / scenarios to test thoroughly through technical viability.

The outcomes of this workshop will also help you develop a brief for viability consultants - should you need to appoint them. See this example of a [setting matrix](#).

Rate setting preparation -simplicity v s complexity

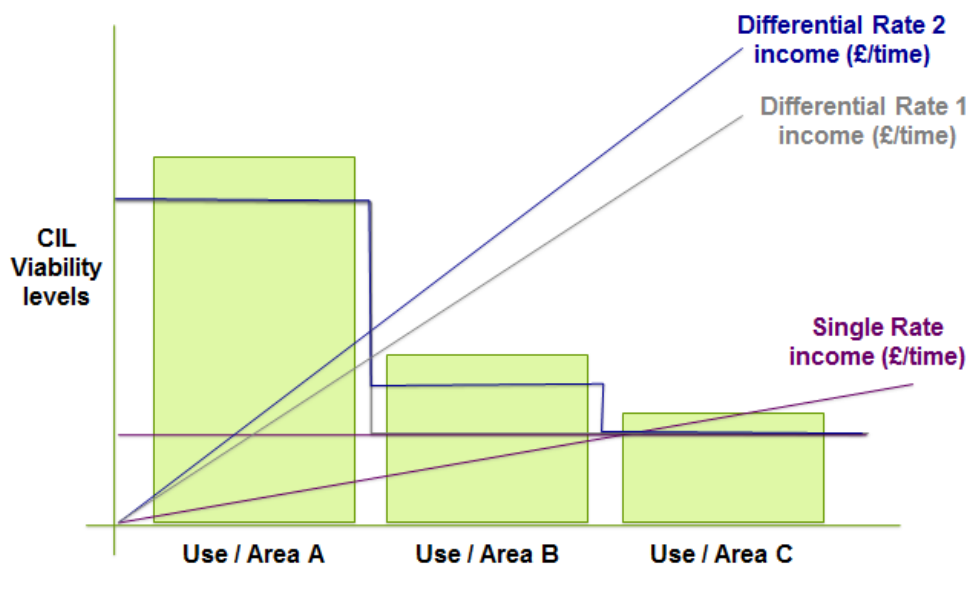
Another factor that should be considered at the early stages of developing a CIL charging schedule is the issue of Simplicity vs Complexity.

A single rate or simple set of rates requires less evidence to justify variations – spatial variations can be difficult to justify if there is not a very clear difference in viability across your area. Several Charging Authorities have chosen a simple approach because it is easy to operate and easy for the development industry to understand. However, the nature of a simple rate means that you need to set your single rate at a level that does not have a significant impact on your local plan delivery, which usually means the rate not only doesn't impact on housing, but also commercial developments (these are usually lower value). The nature of this approach means you may well be forgoing potential income from higher value developments.

Setting differential rates is most likely to optimise CIL income and therefore provide a greater contribution towards your infrastructure. Some have seen this as a more progressive approach in that it sets a levy commensurate to the profit for each development type. Furthermore, greater investment in infrastructure can support development viability in your area. However, be warned, the greater the number of rates, the more evidence is needed to justify each variation in the context of one another. This can create a complex picture of the development industry (when its purpose is to provide a clear, predictable up-front cost that is absorbed in land transactions). Complex rates can also be more complex to administer.

The message from the early adopters of CIL is to strike an appropriate balance between simplicity and complexity (leaning to the side of simplicity if in doubt!).

Differential vs Single Rate



Rate Setting Workshop

The rate setting process is a local judgment that should be informed by, and consistent with, the technical evidence. The technical evidence can be highly complex and there is no technically perfect answer to CIL, so viability consultants should not be the final arbiters of CIL rates: that is for the Charging Authority (and the Examiner!).

We strongly recommend you set rates through a Rate-Setting Workshop, where key decision-makers in your local authority are brought together, getting to hear from those that have produced the technical evidence, then discuss their options, finally coming to a consensus on the preferred rates (prior to formal consultation).

Having worked with the early adopters we believe that there are some pre-conditions to a successful rate setting workshop:

- It needs to be hosted by the CIL project sponsor – usually a senior manager.
- It may or may not include elected members – if members are in attendance it is vital that they are fully briefed beforehand. Receiving a barrage of complex technical evidence is very unlikely to result in a clear decision being made quickly.
- Your technical viability advisor should be in attendance to present the findings and answer technical questions.
- You should be able to project CIL income for the various rates discussed so that decision-makers can sensitivity test the impact of their decisions on addressing the infrastructure funding gap (as well as viability). How do changes in CIL rates effect income? Therefore it is recommended you have a CIL income projection model linked to charging schedule.

- You should not set rates at the maximum level. A buffer of around 25% below maximum CIL rates.
- You should consider rates that allow for unusual circumstances for developments.
- How do changes in CIL rates affect income.

Rate setting example – [income](#) and [maximum CIL rates](#).

Rate Setting – Concluding Summary

In summary, direct the viability work using your own local knowledge, you are required to involve developers prior to the publication of draft rates, and use a rate setting workshop that brings together viability and projected income to reach an optimal solution.

Rate setting is an evidence-based judgement. It is best undertaken through a process that allows key decision-makers to understand the technical evidence, debate the implications of rates and come to consensus on their preferred rates.

There are many ways this can be achieved, however, lessons from the CIL Front Runners group showed clear benefits to:

- Developing a working hypothesis for CIL rates (this helped shape the commissioning of viability studies as well as developing understanding and buy-in from decision-makers at an early stage); and
- Host a rate setting workshop with all key decision-makers in attendance (ensuring attendees were very well briefed beforehand).