sintropher

Innovative Financing for Transport Schemes: A European reference resource

Briefing Paper 1
Property/Land Value Capture - Community Infrastructure Levy
September 2015


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Sustainable transport for North-West Europe's periphery

Sintropher is a five-year €23m transnational cooperation project with the aim of enhancing local and regional transport provision to, from and withing five peripheral regions in North-West Europe.

INTERREG IVB

Investing in Opportunities

This project has received European Regional Development Funding through INTERREG IV B.

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INTERREG IVB

INTERREG IVB North-West Europe is a financial instrument of the European Union's Cohesion Policy. It funds projects which support transnational cooperation.

Working in association with the POLIS European transport network, who are kindly hosting these briefing papers on their website.

Report produced by University College London

Lead Partner of Sintropher project

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Background

This briefing paper is one of a series that together comprise a European reference resource for innovative approaches to financing transport schemes (capital costs) with particular reference to light rail and tram-based schemes in cities and regions. The approaches are also relevant to capital financing of transport schemes generally.

The resource is one of the Investments undertaken for the Sintropher project funded under the INTERREG IVB North West Europe Programme for transnational co-operation. The overall aim of Sintropher project is to develop sustainable, cost-effective solutions to improve connectivity to, from and within poorly connected regions in North-West Europe - to use innovative transport links to connect peripheral regions of NWE with the core European transport network of high-speed trains, via effective interchange hubs.

There has been a particular focus on tram-train systems which allow local trams to run on to national rail networks, pioneered in Germany, firstly in Karlsruhe and developed in Kassel, which allow urban tram systems to extend over national rail tracks to serve extensive city regions. The project has also looked at other innovative forms of tram systems such as single-track tramways, as well as high-quality transport interchanges that link such systems to major national or transnational rail or air hubs.

The project began in late 2009, with fourteen partner agencies in five EU Member States, and lead partner University College London (UCL): Valenciennes (France); the Fylde Coast (UK); West Flanders (Belgium); North Hesse (Germany); and Arnhem-Nijmegen (Netherlands).Participants included public transport operators, local authorities, regional transport agencies, and universities.

They have worked together on a series of feasibility evaluations, pilot investments and demonstration projects, as well as comparative analyses of EU best practice. The total budget is more than €23m, with funding part-financed by the EU's INTERREG IVB Programme.

A €1.5m project extension in 2014, covers follow-on work to capitalise on results from the initial project, and added a fifth objective: to test technologies for low cost transport links in different territorial contexts, plus integrated territorial corridor plans that help these links unlock wider economic and regeneration benefits; and better recognise these in business cases. This included two new partners (total now 16) and two extra demonstration regions (total now 7) in West Flanders Brugge-Zeebrugge (Belgium) and Saar-Moselle (a cross-border region France-Germany).

Innovative financing for transport schemes - increasingly important

Results in the European demonstration regions, plus topics at Sintropher Conferences and Workshops indicate that new tram-based or tram-train proposals are usually technically feasible and can often offer a reasonably positive investment case - especially if the case goes wider than conventional cost-benefit analysis (CBA) to include realisation of territorial objectives and benefits, such as economic growth and social opportunities.

But implementation can be impeded by lack of available funding due to cuts in public expenditure following the European economic crisis of 2008 and subsequent recovery efforts by national governments. Regions that are weaker in population or economic terms have even more difficulty in justifying an investment case in terms of public expenditure, so innovative financing is of growing importance - and much can be learned from approaches in different European countries.

Community Infrastructure Levy

First implemented in April 2010, the Community Infrastructure Levy ('CIL') provides a means of raising funds for local authorities in the UK. Developers who are undertaking new building projects within the local area are targeted, and is used to fund a wide range of infrastructure needed as a result of new development.

It has long been understood that almost all development has an impact on the need for new infrastructure and services. In addition, many developments increase strain on existing infrastructure, such as transport. As such, it has been decided that development projects share a portion of the cost for existing and new infrastructure. For many years, this has been conducted through the Planning Obligations system, in which negotiations with the developer determine a unique contributory amount for the project, as decided subjectively by the planning authorities. This system, however, has been criticized for its inability to agree on adequate funding; many times, the developer contributes very little for public infrastructure improvements. The subjective nature of the negotiation process may also mean that particular companies and developments will be treated more leniently, in order to encourage the development project to be implemented in a particular area.

In order to avoid these complications and inefficiencies, CIL was created. The process has implemented a fair and unbiased system, in which each local authority decides on developer contribution rates that are non-negotiable. Levies are charged on a per-development basis to provide a one-time contribution to public infrastructure, to offset the effects of increased strain and use on existing infrastructure surrounding the development. The charge is not repeated unless new additions are added to existing developments. CIL is used to provide any new infrastructure or improvements to existing infrastructure, including (but not limited to) public utilities provision, green space, and the public realm. Transport is a main focus of CIL, in order to address the public transit needs and accessibility of new residential and business developments.

Financial Mechanism

Deciding CIL Rates

In order to implement CIL, authorities must produce a charging schedule that sets out the rates within the boundaries of the local authority. This schedule is unique to each local authority. The charging schedule is determined on a case-by-case scenario, and must draw on the infrastructure planning that underlines the development strategy within the locality. It is important that the charging schedule take into account the overall risk to discouraging development within the area. CIL rates that are too high may deter developers from choosing certain areas over others with lower rates, while rates that are too low will not gain enough funding to properly provide new and upgraded infrastructure. Rates must be set in order to fulfil the total infrastructure funding gap that exists, and should also recognize all other sources of available funding.

Implementing CIL Charging

CIL charging will be levied per square metre on the net additional increase in floor space of any given development that meets the minimum criteria to be liable for CIL charging. A minimum internal floor space of 100 square metres or more is required for any new building, in order to be liable for the levy. The levy amount charged for any new development will remain responsive to market conditions via an annually updated index of inflation (determined by a high-level public authority, and applying to all local authorities equally). This will mean that all future developments will be held accountable for a comparable contribution to public infrastructure, despite inflation or market fluctuations.

The levy charges are collected from the date that a development is commenced, as per the planning permission for the project. The CIL collection authority will issue a notice of amount payable under the CIL. The levy will be paid within a set payment window once notice is served.

It is important to note that CIL differs from British Section 106 planning obligations (S106) in that it is a fixed levy exacted on developers in order to meet set infrastructure goals and criteria, while S106 is perhaps a more subjective financing tool requiring bargaining and unspecified financial contributions.

Attractiveness

- Higher level of transparency compared to the Planning Obligations system (Section 106, Public Gain, etc.)
- Faster process obtaining funding from developers; removes lengthy negotiation processes in favour of mandated amounts provided
- Levy rates are set by local authorities, making it highly specific to the needs and size of both the local area and the new development
- Higher certainty for developers in regards to their expected contribution amounts
- Fair system for developments, where all but the smallest are expected to contribute to local infrastructure
- Positive increase in overall funds obtained, compared to Planning Obligations system (where only 6 percent of all development provided contributions for supporting infrastructure)

Risks

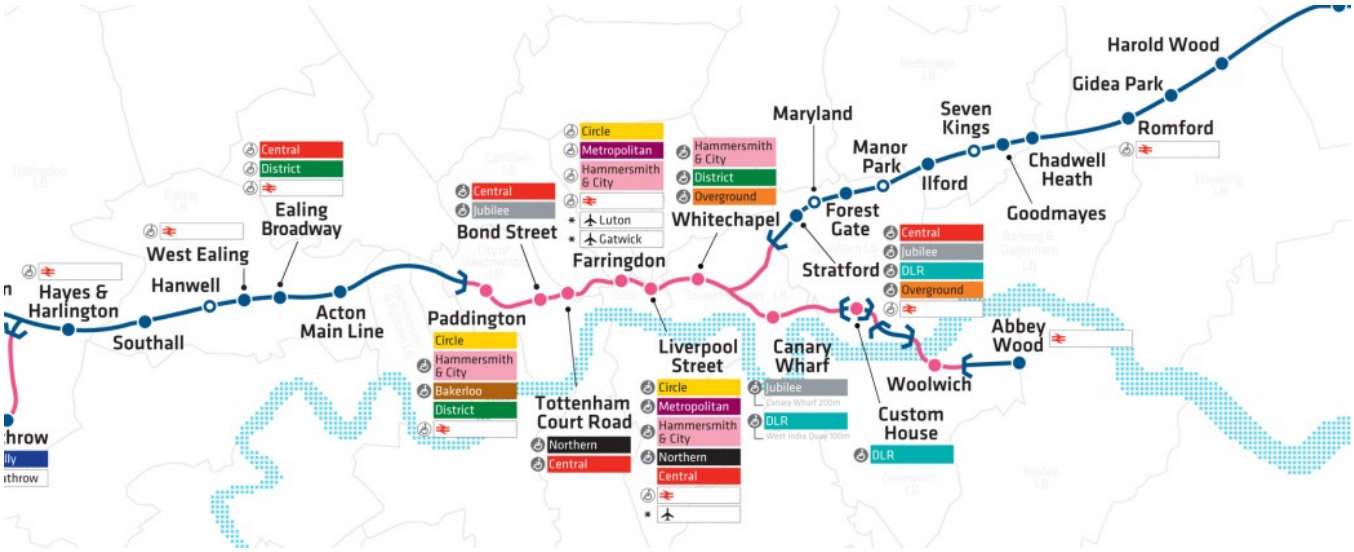
- Dependent on local authority for pricing and enforcement; many councils still do not have a CIL schedule in place
- There is no ONE way to do a CIL, thus any local authority needs to be mindful and involvement in the creation of a CIL charging schedule
- May discourage development in areas with high CIL rates, in favour of development in areas with more affordable or no CIL
- This can be resolved by implementing CIL across all local authorities within region
- Requires an overseer authority in order to approve CIL rates and schedule

Track Record

Prior to the creation of CIL, Planning Obligation was the main means of gaining funding from developers. These methods (such as Section 106 in the UK, and public gain in North America) had variable rates of success, depending mainly on the combination of how strict a local authority upholds their demands, and how desirable the area is to develop within. By using planning obligations, both developers and local authorities would barter in order to reach an outcome that meets the goals of both involved parties; however, this is a more subjective process. In particular, areas in which there is a high level of desirability for development would tend to gain greater financing from Planning Obligations, as developers are more likely to agree to the demands of the local authority. With CIL, an objective method for charging reduces potential favouritism and financing shortfalls.

CIL is relatively new, but has a strong track record thus far. In the UK, CIL has funded 29 transport initiatives totalling £170 million. UK Transport Minister Paul Clark has quoted that “around 60 per cent of the schemes that [are supported by CIL] include sustainable transport initiatives” such as public transport and improved transit links other than road upgrades. With a strong transport plan, CIL has the potential to fully fund public transit links such as tramways and improved bus services.

Community Infrastructure Levy: CrossRail Case Study



Financial Specifications

Amount(s)

CIL will be charged by London boroughs on most developments in London at the following rates:

Zone 1 boroughs - £50 per square meter

Camden, City of London, City of Westminster, Hammersmith and Fulham, Islington, Kensington and Chelsea, Richmond-upon-Thames and Wandsworth

Zone 2 boroughs - £35 per square meter

Barnet, Brent, Bromley, Ealing, Greenwich, Hackney, Haringey, Harrow, Hillingdon, Hounslow, Kingston upon Thames, Lambeth, Lewisham, Merton, Redbridge, Southwark and Tower Hamlets

Zone 3 boroughs - £20 per square meter

Barking and Dagenham, Bexley, Croydon, Enfield, Havering, Newham, Sutton and Waltham Forest

Targeted Groups

Developers and future profiteers from new development (both business and residential)

Timeline

Applied to most new developments granted planning permission on or after April 1 2012

Line/Project	*Status*	*Costs*	*Alternative Finances Used In Tandem*	*Timeline*
Crossrail	Under construction	£15.9bn	Yes – government funding, Stamp Duty Land Tax	Completion due 2018/2019

Why the mechanism was chosen in London

- Expected large benefits for existing and new developments in proximity/with access to Crossrail
- Capturing future business/development benefits and profits in order to fund new infrastructure
- Note though, that this is only a partial means of funding project

Financial Specifications of Case Study

In tandem with alternative funding mechanisms, CIL will be used to help fund Crossrail, in order to capitalize on the benefits of business and residential developments that are and will be located near to the new transport project. The levy, titled the Mayoral Community Infrastructure Levy (MCIL), provides a financing option that uses funds outside those from the Treasury. As such, Crossrail becomes less dependent on the national budgetary demands, and more financially independent, increasing the likelihood of project implementation and success. This has made MCIL an appealing option for Crossrail, or for any transport schemes that expect resulting property and business demand.

CIL will be applied by the local planning authorities within the boroughs of London. The boroughs will collect all levies in their jurisdictions respectively, and will report to and provide the funds gathered from CIL to Transport for London. This is due to planning applications being filed with borough planning authorities directly, rather than through the

Table 3: Mayoral CIL charging rates

Zone	London boroughs	Rates (£ per sq. m.)
1	Camden, City of London, City of Westminster, Hammersmith and Fulham, Islington, Kensington and Chelsea, Richmond-upon-Thames, Wandsworth	£50
2	Barnet, Brent, Bromley, Ealing, Greenwich, Hackney, Haringey, Harrow, Hillingdon, Hounslow, Kingston upon Thames, Lambeth, Lewisham, Merton, Redbridge, Southwark, Tower Hamlets	£35
3	Barking and Dagenham, Bexley, Croydon, Enfield, Havering, Newham, Sutton, Waltham Forest	£20
Use		**Rate (£ per sq.m.)**
Development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner		Nil
Development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education		Nil

Mayor of London office.

The sum payable from MCIL is calculated in direct accordance with Regulation 40, Community Infrastructure Levy Regulations 2010. A 'CIL Calculator' has been made publically available in order to establish an estimate of the sum payable. This influx of public capital goes directly to the UK Treasury and, thus, can be redistributed towards funding Crossrail and future major infrastructure projects such as the planned Crossrail 2.

The interplay between MCIL and planning obligations for Crossrail has been carefully examined by the Mayor of London office. In Crossrail, CIL is an extra levy, and does not replace planning obligations as demanded by the borough; instead, CIL acts as a city-levied charge. To ensure that developers do not have unreasonable demands made of them by paying both charges for Crossrail-related developments, CIL payments will act as a credit towards any payment sought under the Crossrail obligations policy (if the former is less than the latter). This avoids double charging on developments, but ensures that all developments that will benefit from access to the Crossrail transport scheme will undergo a fair levy to contribute to public infrastructure.

Benefits

- Delivers additional funding other than Treasury support
- Allows for flexibility and freedom to set spending priorities, and a predictable funding stream that promotes planning ahead
- Provides developer with 'upfront' certainty as to levies and charges, while providing infrastructure that encourages them to locate within charging area (e.g. provides new transport links)
- Promotes transparency between developers, government, and local people
- Provides an understanding of how new development is helping provide infrastructure for the community

Drawbacks

- CIL does not replace planning obligations such as Section 106; as such, there is still a need for inter-authority communication in order to properly collect and govern both charges in tandem with a single development
- There is no procedure by which the developer can ensure the provision of particular infrastructure for the benefit of the development site
- Jeopardizes the provision of affordable housing, as the focus of CIL (which is traditionally proportioned to include affordable housing) is on transport scheme
- Potential discouragement of developments that do not meet a particular profit threshold
- May dissuade developers from choosing certain locations over others that are further out and thus not charged as heavily

Assessment

One reason that CIL has been so successful is due to the nature of the London property and development market. Huge increases in demand for property (residential and business) are due to the steady increase in property prices within the city, as well as the economic and population growth that London is currently undergoing. Property is a sought after investment in London, with strong returns. As such, CIL is a natural choice as a financing mechanism; as transport schemes add value and open up neighbourhoods, CIL allows some of that private profit to go directly towards funding the scheme that added to the value increase of the property.

Success of Financial Mechanism

According to a 2-year implementation review of CIL (conducted by TfL), the financial mechanism is on track to raise the forecasted amount of over £300 million by 2019. As such, TfL has deemed CIL to be a

successful financing tool for major transport projects within London, and is keen to implement the levy on future projects.

It is important to note that CIL is being used in tandem with other financing mechanisms, including stamp duty land tax and S106 planning obligations. While stamp duty taps in to residential property value uplift, CIL allows Crossrail to gain funds through projected development corridors. The transport scheme is being used to not only increase transport connectivity across London, but to also encourage concentrated development nodes along the line. As such, CIL accesses this encouraged development growth as a means of financing.

The nature of the London property market also makes CIL a strong option for financing. However, smaller municipalities may not have as much success, due to the nature of development prospects and/or housing purchase demand within the area, compared to outlying regions. Thus, an in-depth feasibility study is imperative to determine whether there is enough property demand and economic growth – both with and without the transport scheme – to justify implementing CIL on top of existing planning obligations.

Future Prospects and Transnational Relevance

- While on track, CIL for Crossrail is still being monitored and implemented; it will take some years to see whether the financing mechanism reaches its desired targets for financing
- Excellent within areas with strong property markets and economic growth, across a variety of regions and areas
- CIL is applied within the planning obligations already set for a development; however, future growth in property demand within London could mean that CIL becomes an additional cost on top of planning obligations
- This would provide large increases to funding, and would capture more of the value uplift of property within the city

The MCIL (Mayoral Community Infrastructure Levy) is the first large-scale funding example of CIL in the UK. However, the success of CIL in Crossrail is applicable across a range of planning obligation styles, and in multiple countries. In particular, North American and larger European cities have the potential to capitalize on regional growth and economic boosts by using CIL. Furthermore, North American cities in particular have the opportunity to fund public transport by using economic growth (business sectors) as a financial driver.

Transnational relevance: Europe-wide

Funding of major trasnport schemes is an issue faced by many cities and regions across the North West Europe Programme area and indeed more widely across Europe. Traditionally, in most countries tram-based links have been financed by public funding from national or regional government authorities, sourced from either taxation or borrowing or a combination. (In regimes where there is a national or regional transport infrastructure authority, operating profits may also assist).

But as with Sintropher partners, implementation of such schemes is facing a lack of available funding due to cuts in public expenditure following the European ecomic crisis of 2008 and subsequent efforts by national (or regional/city) governments, to recover. So innovative financing is of growing importance, and much can be learned from approaches in different European countries.

The financing approaches and city/region case examples on the reference resource are context-specific and reflect:

- the geographical context: the physical scale of the scheme and scale of capital cost. Obviously a major scheme with high capital cost of, say, €50m + may be beyond the resources of a single city

or regional authority, and require a national contribution in a “cocktail” approach. The investment case will usually be stronger in a major dense metropolitan area than smaller regions with lower population and (possibly) lower or weaker economic activity.

- the organisational context: which level of government and/or relevant transport authority or agency is the primary initiator of the scheme - national, regional, or city - will influence the financing opportunities and options available.
- the legal context: the nature and extent of the powers and responsibilities of the initiating authority, and the processes/procedures, to actually pursue any of the financing approaches.
- But even though the various approaches and case examples are context-specific, their transnational relevance is strong:
- the approaches offer a stimulus and possibilities for wider thinking by cities and regions in other European countries, about how to assemble capital financing for transport schemes,
- in all countries, the reality of capital finance for transport infrastructure means that a “cocktail” approach is often the most practical way forward - and the approach of mixed public-private sector finance is an increasingly pragmatic basis
- some or all of the various approaches might be potentially adaptable within the particular organisational and governance regime of another country, using similar powers or processes
- the approaches offer possibilities for lobbying by city and regional authorities, in order to secure from national government the powers and competences to utilise new approaches (as has happened in the UK - for example local authorities have in recent years acquired powers to implement tax increment financing (TIF) although subject to safeguards over risk and borrowing; similarly, powers to enact a community infrastructure levy (CIL) on developments in their area, subject to local consultations and examination of viability and fairness for private developers.

The reference resource should be seen from this perspective, as a means to promote knowledge transfer and learning across different NWE countries and regions.

Further information

This paper was produced by UCL Bartlett School of Planning (Sintropher team members Charles King, Giacomo Vecia, Imogen Thompson) using desk research and expert comment. The paper reflects the views of the authors and should not be taken to be the formal view of UCL or Sintropher project.

The European reference resource can be accessed on the following:

Sintropher project website

http://www.sintropher.eu/publications

POLIS website

http://www.polisnetwork.eu/sintropher or http://www.polisnetwork.eu/res/resources

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