

MAYOR OF LONDON



MCIL2 PDCS SUPPORTING INFORMATION

Mayor of London Community Infrastructure Levy 2 Preliminary Draft Charging Schedule
Proposed to take effect from April 2019

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1 INTRODUCTION

- 1.1 This supporting information document is issued by the Mayor of London alongside the Mayoral CIL 2 (MCIL2) Preliminary Draft Charging Schedule (PDCS) and its Viability Evidence Base supporting evidence document as the first step in setting a London-wide Community Infrastructure Levy 2 under the powers set out in Part 11 of the Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (as amended).
- 1.2 These powers enable the Mayor to set a charge called the Community Infrastructure Levy (CIL) which will be paid by most new development in Greater London which:
 - consists of buildings that are usually used by people (this excludes buildings to which people do not usually go to, or go to occasionally to inspect machinery, and structures like electricity pylons which are not buildings)
 - has 100 square metres or more of gross internal floorspace or involves creating one dwelling even where this is below 100 sq m (although any net charge of less than £50 will not be collected)
- 1.3 CIL charges are based on the net additional increase in floorspace of a development.
- 1.4 The Mayor brought in his first CIL (MCIL1) in April 2012 in order to contribute to Crossrail's £600 million developer contributions funding target. MCIL1 applies across all of London and to most land uses, with the exception of education, health, and certain uses exempted by statute, such as affordable housing.
- 1.5 MCIL1 complements the Crossrail S.106 contributions scheme, which was introduced through London Plan alterations published in April 2010. London Plan Policy 6.5 permits the seeking of S.106 contributions from office, retail and hotel developments in Central London and the Isle of Dogs, in order to mitigate the additional demand for public transport that the Crossrail project will help address.
- 1.6 All proceeds from MCIL1 are used for Crossrail funding. There is strong evidence that the Crossrail funding target will be reached by March 2019, the required date.

1.7 The Mayor proposes that:

- Mayoral CIL continues to be levied from April 2019 (as MCIL2)
- MCIL2 supersedes the current Crossrail S106 charge which will be brought to an end simultaneously with the start of MCIL2, and
- the rates for MCIL2 largely reflect a combination of MCIL1 and the Crossrail S106 charge, adjusted for current viability.

1.8 For clarity, Mayoral CIL, introduced in April 2012, is referred to as MCIL1 throughout this document, whereas the proposal for continuation of the levy from April 2019 is referred to as MCIL2. Whilst only one Mayoral CIL will be chargeable at any one time, it is conceivable that there may be two Mayoral CIL charges levied in the first years of MCIL2. This is because under the Regulations, any chargeable development permitted before April 2019 – but implemented after this date – would continue to attract MCIL1 charges.

1.9 The money raised by the MCIL2 is intended to be used to pay for infrastructure needed to support the development of an area. The Mayor proposes to use his MCIL2 to help meet part of the cost of the Crossrail 2 project, which is a strategic priority to support the growth and development of Greater London. The Mayor may however choose to apply his MCIL2 to any other strategically important transport project that is listed in the London Plan, as may be altered from time to time.

1.10 Under the CIL Regulations, the amount of CIL to be paid (with a figure given per square metre of development and an explanation of the method to be used to work out how much should be paid in each case) has to be explained in a formal document called a Charging Schedule.

1.11 The Mayor has to carry out two rounds of public consultation on his proposed Charging Schedule:

- First, he must consult on a preliminary draft. The Mayor has published the MCIL2 Preliminary Draft Charging Schedule at the same time as this further information document and an associated viability evidence base document (the 'MCIL2 Viability Evidence Base for Preliminary Draft Charging Schedule' prepared by JLL for the Mayor of London and TfL)
- Having considered the comments made on the preliminary draft, he must then consult again on a Draft Charging Schedule for a period of at least four weeks.

Any person or organisation that makes comments at this stage will have the right to be heard at the CIL public examination (see below)

- 1.12 The Mayor then has a further opportunity to make changes to the Draft Schedule and, if he does so, he has to allow a further four weeks for public consultation on these changes.
- 1.13 Following this consultation, the Mayor has to appoint an independent examiner to conduct an Examination in Public (EiP) into the Draft Charging Schedule. This public hearing will ensure that:
 - The Mayor has complied with the procedures for setting the CIL as set out in legislation and the CIL Regulations
 - The Schedule is supported by background documents containing appropriate available evidence.
- 1.14 The Mayor intends to publish the MCIL2 Draft Charging Schedule later in 2017, and to hold the MCIL2 EiP in 2018. This may form part of the EiP to be held into the Mayor's new London Plan, also to be held in 2018.
- 1.15 The Mayor intends to commence levying MCIL2 charges in Greater London from April 2019.

2 CROSSRAIL 2 AND MCIL2

- 2.1 Crossrail 2 is a proposed new railway serving London and the wider South East. It connects the National Rail networks in Surrey and Hertfordshire via a new tunnel and stations between Wimbledon, Tottenham Hale and New Southgate, linking in with London Underground, London Overground, Crossrail 1, and national and international rail services.
- 2.2 Like Crossrail 1, Crossrail 2 will address major emerging pressures on the transport network. Population and employment in London and the South East are forecast to grow strongly – by a further 20 per cent over the next 15 years. Without action to relieve crowding, boost connectivity and unlock new housing, the Greater South East won't grow sustainably in coming decades.
- 2.3 From a transport perspective, Crossrail 2 will relieve key bottlenecks in central London, address critical crowding challenges on the South West Main Line and transform connectivity to key growth areas in north east London. It is also estimated to unlock around 200,000 additional homes along the line of route, as well as support 200,000 new jobs across the region. Around 40% of the transport benefits and more than 30% of the new housing will be realised in areas outside London.
- 2.4 The importance of Crossrail 2 was acknowledged by the National Infrastructure Commission (NIC) in 2016, which recommended that Crossrail 2 be taken forward as a priority with the aim of opening in 2033. In March 2017, the Mayor submitted the Crossrail 2 Strategic Outline Business Case (SOBC) to the Government for further consideration.

Crossrail 2 summary benefits				
up to £150 billion increase in UK gross value added (GVA)	along with Crossrail 1, directly connects cross London rail services to 40 of the UK's largest urban areas	60,000 new supply chain jobs created across the UK, including 18,000 apprentices	supports 200,000 new jobs across the wider South East region	200,000 additional homes along the line of route

- 2.5 Crossrail 2 will deliver significant benefits, but significant investment is required to realise these benefits. TfL estimates Crossrail 2 will cost around £30 billion in 2014 prices¹, including the cost of new trains and Network Rail works. This also includes some costs for national rail improvements which would be required regardless of Crossrail 2.
- 2.6 The NIC said: "It is vital that a funding package for Crossrail 2 is developed which strikes a fair balance between the contributions made by London taxpayers and businesses and by central government." It noted that: "HM Treasury should be in a position to recoup significant receipts from the added Gross Value Added (GVA) benefits and the rising value of property in London" and recommended a 'London deal for Crossrail 2' funding agreement, through which London contributes more than half the costs of the scheme.² The Government has also been clear that London should fund more than half of the project.
- 2.7 Since the 2016 Budget, Transport for London, the Greater London Authority and the Government have been working to develop a funding package for the project as part of the development of a strategic outline business case. The London contribution to the costs of Crossrail consists of four funding sources:
- Crossrail 2 net operating surplus – i.e. the net impact of Crossrail 2 on TfL's rail revenues
 - over station development – proceeds from development of land and property initially required for construction (development related with Crossrail 2 will pay Mayoral CIL 2 on the same basis other developments)
 - a Business Rate Supplement (BRS) (once the current BRS repays Crossrail 1 related debt)
 - a Mayoral Community Infrastructure Levy (MCIL2).
- 2.8 This document sets out the preferred design of MCIL2, which is expected to meet approximately 15 per cent of project costs.
- 2.9 The use of a Mayoral CIL is not new. It is already being used to help fund Crossrail. MCIL1 was designed as a single rate community infrastructure levy for each London Borough, covering all development other than education and health. It was set at a relatively low level.

¹ <http://crossrail2.co.uk/discover/funding/>

² 'Transport for a world city', NIC, pp12-13: <http://1267lm2nzpvy44li8s48uorode.wpengine.netdna-cdn.com/wp-content/uploads/2016/08/Transport-for-a-World-City-March-2016.pdf>

- 2.10 The Government commissioned an independent national review of community infrastructure levies in November 2015. The independent review group's report, published in February 2017, noted that "despite some early complaints, (the Crossrail 1 Mayoral CIL) seemed to end up being broadly acceptable to all and indeed was frequently cited as a success story.³" The underlying principles of the proposed design of MCIL2 remain the same, with some changes to reflect the proposed removal from April 2019 of the current section 106 charge which applies in some areas, and to reflect lessons learned from the implementation of MCIL1.
- 2.11 The design of MCIL2 ensures that developments across London, which will benefit from the significant benefits Crossrail 2 will bring, will make a relatively small contribution to the costs of the project. The aggregate sum of these small contributions will make a modest but important part of the funding solution for the scheme.
- 2.12 Negotiations on the Crossrail 2 scheme are still underway and there is no agreed funding package at present. However, MCIL2 does need to be brought forward now to avoid a charging gap at the end of Crossrail 1 construction and to allow for early funding of the Crossrail 2 scheme. Should no funding deal be achievable, the Mayor will be able to apply the MCIL2 proceeds to fund other strategic transport projects for which there is a significant funding gap.

³ 'A new approach to developer contributions – a report by the CIL Review Team', submitted October 2016, page 12:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf

3 SETTING MCIL2 RATES

Meeting the CIL tests

- 3.1 In setting the CIL rates set out in the Mayoral CIL PDCS, the Mayor is required to strike an appropriate balance between:

- The desirability of using the CIL to fund the cost of infrastructure to support the development of his area taking into account of other actual and expected sources of funding

The evidence for this is set out in Section 2 of this further information document. It shows the vital strategic importance of Crossrail 2 to the development of Greater London. It also shows that the sum to be raised through the CIL will contribute towards funding the project but it will not close the entire funding gap

- The potential effects (taken as a whole) of the imposition of the CIL on the economic viability of development across its area

The evidence for this is set out in the supporting evidence document⁴. This explains the basis on which the Mayoral CIL 2 rates set out in Mayoral CIL PDCS were arrived at, and at how the differential charge rates for each London borough and for specific land uses were derived. It then shows that these rates (together with an allowance for administrative costs) should not have an undue impact on the viability of development across Greater London as a whole.

- 3.2 The Mayor has satisfied himself that the evidence meets the standards required in the CIL legislation. Section 211(7A) of the Planning Act 2008 requires the use of “appropriate available evidence” to inform charging schedules. As Government guidance recognises “the available data is unlikely to be fully comprehensive”⁵. Regulation 14 states that in setting the rates the charging authority must strike an appropriate balance between the funding of infrastructure from CIL and the effect of the imposition of CIL on the economic viability of development across its area; for the Mayor, this area is Greater London as a whole, and the guidance states that “charging authorities should set a rate which does not threaten the ability to develop

⁴ MCIL2 Viability Evidence Base for Preliminary Draft Charging Schedule – JLL for the Mayor and TfL

⁵ DCLG, Community Infrastructure Guidance – How should the development be valued for the purposes of the levy? (June 2014) https://www.gov.uk/government/policies/planning-system?keywords=&detailed_format%5B%5D=detailed-guide&organisations%5B%5D=department-for-communities-and-local-government&public_timestamp%5Bfrom%5D=&public_timestamp%5Bto%5D=

viably the sites and scale of development identified in the relevant Plan (the Local Plan in England, Local Development Plan in Wales, and the London Plan in London)".⁶

- 3.3 In addressing these requirements, the Mayor has concluded that the approach outlined in the supporting evidence document is appropriate given the availability of data and the nature of the judgement he has to make – the effects on viability across Greater London.
- 3.4 As described in the supporting evidence document a number of different options were considered in coming to this judgement on the charging levels. The Mayor considered that the best approach is one that takes account of differing levels of viability in different parts of Greater London. This will also ensure boroughs will be able to raise resources through their own CILs without undue effect on viability.
- 3.5 On this basis of the evidence described in this document and the Viability Evidence Base, the Mayor has concluded that the proposed rates set out in the MCIL2 PDCS do represent an appropriate balance as required in the Regulations. He also considers that the banding of boroughs into Charging Zones as shown in the MCIL2 PDCS remain an appropriate way of addressing viability across the different parts of Greater London.
- 3.6 In accordance with CIL Guidance and the Regulations, London boroughs must take into account any proposals for new Mayoral CIL rates when setting their own levy rates. The Mayor, when reviewing his levy rates, should also take account of borough levies that are in force at the time. This he has done.

Impact on development delivery in Opportunity Areas

- 3.7 In reaching his conclusions, the Mayor has also taken account of the location of the main reservoirs of land available for new housing and employment identified as Opportunity Areas in the London Plan⁷. Policy 2.13 of the London Plan promotes opportunity areas as locations to optimise residential and employment output. Map 2.4 in the Plan shows the 38 Opportunity Areas. Each Opportunity Area in the London Plan has indicative output figures for homes and jobs. These figures are summarised in Table 1. Opportunity Areas can be large and cross borough

⁶ *ibid*

⁷ The London Plan, Mayor of London March 2016 <https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan>

boundaries. Given that the bulk of predicted supply is allocated to lower charging bands (bands 2 and 3), the Mayor does not consider his proposed MCIL2 rates will impede delivery in the London Plan's Opportunity Areas.

Impact on housing delivery

- 3.8 The Mayor has also considered the location of London's housing capacity. The London Plan contains Policy 3.3 to boost housing supply and this is supplemented by Table 3.1 in the Plan which sets out a ten year target for housing supply. Table 2 shows that the bulk of London's predicted supply comes from the lower proposed charging bands – 66 per cent in Band 2 and 22 per cent in Band 3. Given that the bulk of predicted supply is allocated to lower charging bands, and in the light of the supporting viability evidence, the Mayor does not consider that the proposed MCIL2 rates will impede housing delivery.

Table 1: London Plan 2016 opportunity area outputs by MCIL2 bands

London Plan opportunity areas and MCIL2 bands	no.	%	homes	%	jobs	%
OAs wholly in band 1	8	21	23,400	8	68,200	12
OAs straddling bands 1 & 2	1	3	20,000	7	25,000	4
OAs wholly in band 2	19	50	146,800	49	374,800	65
OAs straddling bands 2 & 3	2	6	37,000	12	54,000	9
OAs wholly in band 3	8	21	73,800	25	53,000	9
total number of OAs	38	100	301,000	100	575,000	100

Source: London Plan March 2016 / GLA 2017

Table 2: Number of authorities and London Plan 2016 aggregate ten year housing supply target in each MCIL2 band

MCIL2 bands	authorities	%	aggregate ten year housing target	%
band 1	8	23	51,921	12
band 2	20	57	278,684	66
band 3	7	20	93,282	22
Total	35	100	423,887	100

Source: London Plan March 2016 / GLA 201

Impact on affordable housing delivery

- 3.9 Professional advice to the Mayor and TfL suggests the impact of the proposed rates on delivery of affordable housing is likely to be minor. Mayoral CIL remains a very small element of overall development costs, and rates of affordable housing are much more likely to be affected by other factors such as housing policy, the grant regime and cost of construction. Further, development of social housing is exempt from the CIL under the statutory provisions of the 2008 Act and the Regulations.

Scale of change – MCIL2 compared to MCIL1 and Crossrail S.106 charging

- 3.10 Tables 3 and 4 examine the likely scale of change at April 2019 between the levy rates and charges under the current MCIL1/S.106 regime (indexed/forecasted) and those proposed under MCIL2.

Conclusion

- 3.11 Taking account of all this evidence, the Mayor has concluded that the charging proposals outlined in the MCIL2 Preliminary Draft Charging Schedule will not threaten the ability to develop viably the sites and scale of development identified in the London Plan.

Table 3: MCIL1 vs MCIL2 rates – all development in Greater London¹

MCIL2 bands	MCIL1 rate at April 2012 (£/sq m)	MCIL1 rate at Q3 2016 (indexed) (£/sq m)	MCIL1 rate at Q2 2019 (indexed/forecast) (£/sq m)	MCIL2 rate from April 2019 (£/sq m)	MCIL1 at 2019 compared to MCIL2	
					(£/sq m)	% change
band 1	50.00	64.57	65.25	80.00	+ 14.75	+ 23
band 2	35.00	45.20	45.67	60.00	+ 14.33	+ 31
band 3	20.00	25.83	26.10	25.00	- 1.1	- 4

¹ except for office, retail and hotel in Central London and Isle of Dogs, and for health and education in all of Greater London

Source: JLL for the Mayor of London and TfL 2017 / GLA 2017

Table 4: Crossrail S.106 vs MCIL2 rates – offices, hotels and retail in Central London and Isle of Dogs

charging areas and uses	S.106 charge at April 2012 (£/sq m)	S.106 charge at Q3 2016 (indexed) (£/sq m)	S.106 charge at Q2 2019 (indexed/forecast) (£/sq m)	MCIL2 rate from April 2019 (£/sq m)	S.106 charge at 2019 compared to MCIL2	
					(£/sq m)	% change
Central London						
offices	140.00	153.77	162.09	185.00	+ 22.91	+ 14
retail	90.00	98.85	104.20	165.00	+ 60.8	+ 58
hotels	61.00	67.00	70.62	140.00	+ 69.38	+ 98
Isle of Dogs						
offices	190.00	208.69	219.98	185.00	- 34.98	- 16
retail	121.00	132.90	140.09	165.00	+ 24.91	+ 18
hotels	84.00	92.26	97.25	140.00	+ 42.75	+ 44

Source: JLL for the Mayor of London and TfL 2017 / GLA 2017

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