DRAFT MDF CONTENT ON MCIL 2

REQUEST FOR MAYORAL DECISION – XXXX

Title:Preliminary Draft Charging Schedule (PDCS) for proposed changes to the Mayoral Community Infrastructure Levy (MCIL) – approval of PDCS document

Executive Summary

This Mayoral Decision Form asks the Mayor to agree a PDCS document, with annexes, setting out proposals for revisions to the MCIL. The PDCS will then be published as the start of the process of changing the MCIL, which involves further consultation and then an Examination in Public (EIP). The new proposals (MCIL2) are designed to increase the revenue from MCIL and to replace the existing the Crossrail 1 Section 106 scheme. The target date for the change is April 2019. The document also contains advance notice of further changes with a target date of 2024. MCIL2 is forecast to raise 15% of Crossrail 2 funding, on a basis consistent with the affordable housing target. Publishing the PDCS gives the Mayor an opportunity to make a public statement on Crossrail 2.

Decision:

That the Mayor:

1. Agrees the content of the draft PDCS, including the summary of proposed changes included with it
2. Notes the findings and conclusions of the viability evidence prepared by Jones Lang LaSalle (JLL) in support of the PDCS
3. Agrees that the PDCS should be published for consultation
4. Authorises GLA and TfL expenditure in support of consultation, to be funded from the 1% administrative charge which TfL is allowed to withhold from monies collected.

….

Standard text and signature

….

Confidential advice to the Mayor

Introduction

1. The PDCS document and the supporting analysis will be public information. But the details of the Crossrail 2 funding and the state of the discussions with the Government are not, and the Strategic Outline Business Case (SOBC) has been submitted as a private document. This section refers to both and so is confidential.

2. Growth Board discussed the Mayoral Community Infrastructure Levy (MCIL) on 29 November 2016 as part of Crossrail 2 funding, and after further discussions the Mayor agreed a paper on 8 December. Those papers contained initial proposals for MCIL 2 with:

    a. increased rates from 2019;
    b. advance notice of a further increase in 2024, for MCIL 3;
    c. the Crossrail 1 S106 subsumed into MCIL 2;
    d. an agreed forecast of development, consistent with affordable housing plans;
    e. and a funding line for Crossrail 2.

3. On 14 February the Mayor agreed publication of the biennial review of the existing MCIL. MCIL receipts have stayed strong over the course of [this/last] financial year and we are on track to reach the £600 million combined MCIL/S106 target by April 2019, and possibly up to one year earlier. Total amount of MCIL/S106 raised to date is £438 million, with the next receipts due in April. The Crossrail 2 Strategic Outline Business Case (SOBC) was submitted to Government on 6 March for approval. SOBC highlights MCIL 2 as an important funding source for the project, especially during the construction phase.

4. GLA/TfL submitted a paper to Deputy Mayors on 7 March asking for guidance on some detailed questions including:

    a. The banding of the boroughs
    b. The treatment of the two Mayoral Development Corporations (MDCs)
    c. The boundaries of the Central London and Docklands contribution area
    d. The removal of the differential between Docklands compared to the remainder of Central London
    e. Whether there should be station zones for Crossrail 1 or Crossrail 2 stations.

5. The Government has now published the Housing White Paper and the Liz Peace review of CIL nationally. There will be no decisions on CIL before the Autumn Budget. The Liz Peace review commented on the MCIL's simplicity, universal applicability and use for a single scheme and noted that it was frequently cited as a success story.

6. The PDCS document is consistent with the decision in December and the further guidance in March. It is also supported by the JLL work on viability. And the forecasts for funding are those assumed in the SOBC document.

Key issues

<u>Charging rates</u>

7. The proposed charging rates are in the tables in Annex 1, with no changes since December. The top and middle bands of boroughs have an increase of approximately £15 a square metre over forecast tender inflation. There is no increase for the bottom band of boroughs. These rates would apply to residential property everywhere, and to offices, retail, and hotels outside Central London and Docklands. The discretionary exemption for health and education would continue to apply. JLL have looked at changes in overall viability, based on house prices and tender inflation; and they have also examined the buffer in BCILs.

8. The charging rates for offices, retail and hotels in Central London and North Docklands have changed. We looked with JLL at a single charge for all commercial development in those areas. The higher rates for Docklands came from the S106 policy and the greater reliance of Docklands on a few public transport links; the justification looks weaker when using the CIL approach of viability, where Docklands rents are typically below those in the West End and the City. On the other hand there is concern that a significant rise in hotel and retail markets to the office rate could affect those markets.

9. The proposed compromise is to have separate office, retail and hotel rates, but to apply the same three rates to Central London and Docklands. We also recommend flagging a move to a single rate in 2024.

10. TfL has a Crossrail 1 contractual agreement with the Canary Wharf Group over the repayment of S106 contributions on three sites in Docklands. There is a current dispute, which may go to court, around whether this includes MCIL.

What are the changes to the charging bands?

11. Annex 2 shows how the boroughs were divided into three bands based on mean 2010 house prices, which was used as a proxy for the viability of all chargeable development. JLL have checked that this methodology is still sound. It is also close to the proposal for a regional CIL in the Liz Peace report. So we propose to use it again.

12. But the relative position of the boroughs has changed, as the table shows. There is no change in the top band boroughs; the issue is around the boundary between the middle and lower band. There is some discretion as to where to draw the line, and how many boroughs are in each group. It is convenient to draw the line where there is a clear gap as the numbers do move on a quarterly basis. Our recommendation is that the line falls between Hounslow and Sutton where there is a gap of £15,000. This would put Waltham Forest and Enfield in the middle band and move Greenwich into the lower band. The case for an increased rate of charge in Waltham Forest is very clear; and there is a wider argument that there would be several Crossrail 2 stations in Enfield.

13. There was no separate treatment of Mayoral Development Corporations (MDCs) in MCIL, as neither existed at the date of examination. At present, there are two MDCs in London – the London Legacy Development Corporation (LLDC) and the Old Oak and Park Royal Development Corporation (OPDC). While the MDCs collect MCIL in their areas, and set their own CILs, the MCIL charging rate is based on the underlying borough. Housing statistics are not collected at MDC level, but JLL's advice is that both MDCs would be likely to fall into the middle band. This would mean the underlying MCIL rate in the area of LB Newham that forms part of the LLDC would increase, while the rate in LB Hammersmith & Fulham that is part of the OPDC would fall. Both of these changes can be justified on viability grounds. Our recommendation is that LLDC and OPDC should be treated separately and placed in the middle charging band.

Central London

14. The current Central London S106 contribution area for office/retail/hotel development is based on the Central Activities Zone (CAZ) with 1km circles around Liverpool Street and Paddington and the exclusion of Waterloo, Elephant and Castle, and Vauxhall Nine Elms Battersea (VNEB). A small area near Hyde Park is also included to avoid a hole in the zone.

15. There is now an opportunity to rationalise this map and to make it closer to JLL's definition of the central commercial area. Our recommendations are:

    a. To include Waterloo, Elephant and Castle and VNEB. JLL's evidence is that all three of these areas have viability characteristics sufficient to include them in the CAZ charging zone. Elephant and Castle is perhaps the most marginal.
    b. To use major roads as natural boundaries, not 1km circles. This avoids the boundary going through part of a development.

16. Our view, having consulted the Deputy Mayors, is that it is too early to expand the charging area to include zones around the Crossrail 2 stations at Victoria and Euston. We can pick up any London Plan CAZ map and other Crossrail 2 amendments at the second stage in 2024. The maps of the current Central London charging area and of our proposed Central London charging area are shown in Annex 3.

<u>North Docklands</u>

17. Similar to the Central London charging area, we recommend rationalising and simplifying the charging boundary of the Isle of Dogs area by using roads and the river as the natural boundaries, rather than a 1km circle around the Canary Wharf station. The maps of the current Isle of Dogs charging area and of our proposed Isle of Dogs charging area are shown in Annex 4.

<u>Station zones</u>

18. In December Deputy Mayors specifically asked us to look at the inclusion of station zones. These could be drawn around all Crossrail 2 stations, and possibly Crossrail 1 stations. They could use natural boundaries and would apply to all chargeable uses. (The existing Crossrail 1 stations zones only apply to office, retail and hotel). They could involve a supplement on the underlying rate charged for the relevant borough (or MDC).

19. We consulted Deputy Mayors again in March, as further discussion had showed a number of difficulties with station zones for Crossrail 2 in MCIL 2:

    a. The existing S106 station zones outside the Central London and the Isle of Dogs charging areas have produced very little revenue – circa £300,000 over the last 7 years.
    b. The location and timing of Crossrail 2 stations are not confirmed. For instance, there has been no announcement on the revised route and there is an option for delaying some parts of the scheme.
    c. Under the MCIL regulations we would need to justify station zones on a viability basis, across London as a whole. This is possible, as we have

evidence of the likely land value changes from the KPMG/Savills work on land value capture. But there is a timing problem: they argue that the changes in viability are still hard to discern for Crossrail 1 and are unlikely to emerge before the end of the construction period for Crossrail 2. JLL have said we would need to obtain and show viability evidence. Without good evidence, we could only propose a modest supplement.

d. We can only estimate the value of the zones if we study them in more detail at particular rates. But all previous work has suggested fairly low values, with total receipts well under £1 billion.
e. They will add to the complexity of the proposed changes, and weaken MCIL's simplicity and universality.

20. Similarly, there are difficulties with station zones for Crossrail 1. It is conceivable to use existing MCIL charging bands and add a supplement for station zones, however this would not always produce the right results on viability grounds. While certain boroughs, e.g. LB Hillingdon will benefit from a Crossrail 1 station, their house prices and hence development viability would still be lower than in other boroughs, e.g. LB Hackney, that will not have a Crossrail 1 station. There may also be a perception that Crossrail 1 has already been paid for.

21. There are other approaches to station zones:

a. They could be introduced in 2024 at the second stage for MCIL, and we could trail this in our 2017 documents.
b. They could be taken forward in negotiations with the boroughs as amendments to borough CILs. This would be similar to the approach used in VNEB by Wandsworth and Lambeth. In this case, viability issues only have to be addressed at a borough level.
c. Should further MDCs be introduced on the Crossrail 2 route, the station zones could form part of the MDC CIL with viability examined across the MDC only.
d. Station zones and CILs form part of the wider land value capture work, and it may be possible to create zones for a variety of taxes to be captured (stamp duty, business rates). Some planning work looking at station intensification areas is also underway and this might be useful.

22. Both c and d link to the work on land value capture and the Development Rights Auction Model (DRAM) being taken forward under Nick Bowes. Approaches c and d look suitable, and could be integrated with the DRAM. Approach a is possible, but the strategic nature of MCIL limits what can be done. Approach b could also work, but depends on cooperative work with the relevant boroughs.

23. So our recommendation is that there should not be CIL charging station zones for Crossrail 1 or 2 stations in MCIL 2, but this should be revisited in MCIL 3/other work.

Affordable housing

24. MCIL is not charged on affordable housing. But changes in MCIL could affect the viability, at the margin, of affordable housing. And the forecast for MCIL receipts depends on the amount of housing built, and critically the market housing component of that.

25. There has been a GLA Housing representative on the MCIL team from November. JLL have also looked at the effect of MCIL2 on affordable housing delivery. They conclude that MCIL2 will remain a very small element of the overall cost of production, and that other factors will have a much stronger effect.

26. Two changes in approach, agreed in November, will also help. First, there is no proposal for a prime London residential rate in MCIL2. So most of the viability gain at the top end of the housing market remains untouched. Secondly, there is no proposed increase, other than inflation, for the lower band of boroughs where viability can be an issue.

Viability

27. Viability is at the heart of MCIL. The Government regulation requires the Mayor to balance the desirability of funding infrastructure with the effects on the economic viability of development. JLL quote the full text in their report and it is also below.

Regulation 14(1) as amended states that *'in setting rates (including differential rates) in a charging schedule, a charging authority must strike an appropriate balance between (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.'*

28. JLL summarise their advice as follows: [to follow]

MCIL3 and 2024

29. The proposal for consultation and EIP is the proposed 2019 charging schedule MCIL2. The information on the second stage, MCIL3, forecast for 2024 is not a formal part of the process. It could be released informally, or not

at all. There are, however, a number of reasons for releasing early details on MCIL3 as part of the document:

30.

a. It is a signal to the Government that MCIL can raise the funding stream quoted in the submitted SOBC and that there is some commitment to that.
b. It provides an early warning to the development market of the proposed changes, including higher rates, a prime residential zone and further simplification to office, hotels and retail in Central London. And we will get early information on issues and difficult areas from stakeholders.
c. And it is a signal to Government, as there is further consideration of the Liz Peace review, of the policy direction of MCIL. Broadly we accept the principles, such as simplicity and low rates, but want to make sure that London has the autonomy to develop MCIL in its own way.

Timing

The chart below gives a summary timetable for MCIL2. Provided the consultation starts by the end of June 2017, the target of April 2019 should be achievable.

[chart from Neil]

Publicity

The publication of the PDCS provides an opportunity to make an announcement on Crossrail 2. The SOBC document has been submitted and is being discussed within Government. There is no indication of when there will be a response.

One option would be for a low key announcement. Government officials are aware of the need to make progress with a PDCS [jrw to check sobc documents].

The other would be to use the opportunity to make a strong statement of support for Crossrail 2, to emphasise London's commitment to funding its share, and to highlight the PDCS as an important step in getting a key funding stream ready.

[conclude with a summary of recommendations?]

Annex 1. Table of proposed MCIL 2 charging rates

Proposed borough-wide MCIL 2 rates

Proposed MCIL 2 charging band*	Current rates - no indexation (per sq m)	Current rate + indexation to Q3 2016 (per sq m)	Current rate + indexation to Q3 2016 + forecast to Q2 2019 (per sq m)	Proposed MCIL 2 rate from April 2019 (per sq m)
Band 1 - current and proposed core CIL rates	£50.00	£64.57	£65.25	£80.00
Band 2 - current and proposed core CIL rates	£35.00	£45.20	£45.67	£60.00
Band 3 - current and proposed core CIL rates	£20.00	£25.83	£26.10	£25.00

Source: JLL report *MCIL 2 – working towards PDCS [draft*, 21 February 2017, table 8, page 25]

* We are proposing a continuing MCIL rate of nil for health and education premises.

Proposed Central London and Isle of Dogs MCIL 2 office/retail/hotel rates

	Current S106 rates - no indexation (per sq m)		Current S106 rate + indexation to Q3 2016 (per sq m)		Current S106 rate + indexation to Q3 2016 + forecast to Q2 2019 (per sq m)		Proposed MCIL 2 rate from April 2019 (per sq m)
	Central London	Isle of Dogs	Central London	Isle of Dogs	Central London	Isle of Dogs	Central London and Isle of Dogs
Office	140.00	190.00	153.77	208.69	£162.09	£219.98	185.00
Retail	90.00	121.00	98.85	132.90	£104.20	£140.09	165.00
Hotel	61.00	84.00	67.00	92.26	£70.62	£97.25	140.00

Annex 2. Average and median house price changes by MCIL charging bands [to be replaced with simpler jll table]

Borough	Average House Price (as per HPI data April 2010)	Borough	Average House Price (rebased HPI data April 2010)	Borough	Median House Price (as per ONS data Q1 2010)	Borough	Average House Price (as per HPI data November 2016)	Borough	Median House Price (as per ONS data Q2 2016)
Kensington and Chelsea	£866,295	Kensington and Chelsea	£818,816	Kensington and Chelsea	£700,000	Kensington and Chelsea	£1,303,778	Kensington and Chelsea	£1,200,000
City of Westminster	£623,963	City of Westminster	£590,583	City of Westminster	£525,000	City of Westminster	£1,021,027	City of Westminster	£950,000
Camden	£553,706	Camden	£499,767	Camden	£425,000	Camden	£872,390	City of London	£797,250
Hammersmith and Fulham	£494,064	Hammersmith and Fulham	£488,087	Hammersmith and Fulham	£425,000	City of London	£790,439	Camden	£750,000
City of London	£492,982	City of London	£458,246	City of London	£424,000	Hammersmith and Fulham	£744,965	Hammersmith and Fulham	£745,000
Richmond upon Thames	£430,008	Richmond upon Thames	£417,128	Richmond upon Thames	£387,000	Islington	£673,350	Wandsworth	£605,000
Islington	£423,250	Islington	£393,892	Wandsworth	£359,950	Richmond upon Thames	£650,272	Richmond upon Thames	£600,000
Wandsworth	£373,641	Wandsworth	£379,075	Islington	£350,000	Wandsworth	£609,373	Islington	£599,975
Hackney	£361,035	Barnet	£327,955	Barnet	£300,000	Hackney	£564,536	Hackney	£520,000
Southwark	£355,831	Haringey	£304,766	Tower Hamlets	£297,500	Haringey	£559,173	Southwark	£500,000
Barnet	£345,734	Hackney	£298,084	Lambeth	£285,000	Barnet	£534,221	Lambeth	£488,000
Tower Hamlets	£340,867	Kingston upon Thames	£295,162	Southwark	£285,000	Southwark	£532,071	Barnet	£465,000
Haringey	£333,591	Merton	£294,295	Kingston upon Thames	£280,000	Lambeth	£526,622	Haringey	£462,000
Lambeth	£331,534	Lambeth	£294,294	Hackney	£279,000	Merton	£507,901	Ealing	£459,950
Merton	£318,072	Southwark	£292,880	Brent	£272,250	Brent	£500,605	Merton	£450,000
Ealing	£315,637	Tower Hamlets	£288,964	Ealing	£270,000	Tower Hamlets	£484,861	Tower Hamlets	£446,700
Kingston upon Thames	£311,368	Harrow	£288,144	Haringey	£265,000	Kingston upon Thames	£479,238	Kingston upon Thames	£444,500
Brent	£302,630	Brent	£287,902	Harrow	£265,000	Ealing	£475,704	Brent	£427,250
Redbridge	£286,344	Ealing	£285,639	Merton	£260,000	Harrow	£465,604	Harrow	£425,000
Harrow	£286,017	Bromley	£266,897	Bromley	£250,000	Waltham Forest	£438,294	Waltham Forest	£400,000
Bromley	£283,643	Hounslow	£252,274	Hounslow	£241,475	Bromley	£435,465	Bromley	£399,995
Hounslow	£276,168	Redbridge	£244,146	Redbridge	£235,500	Hillingdon	£407,202	Hounslow	£382,500
Greenwich	£265,237	Hillingdon	£244,122	Hillingdon	£232,500	Lewisham	£404,616	Lewisham	£380,000
Lewisham	£261,444	Enfield	£239,051	Greenwich	£230,000	Redbridge	£397,413	Hillingdon	£375,000
Hillingdon	£259,175	Sutton	£234,859	Enfield	£227,000	Enfield	£395,044	Greenwich	£375,000
Havering	£256,611	Lewisham	£226,054	Lewisham	£220,000	Hounslow	£389,458	Redbridge	£370,000
Enfield	£255,528	Waltham Forest	£225,011	Waltham Forest	£219,500	Sutton	£372,926	Enfield	£360,000
Sutton	£247,133	Greenwich	£222,902	Sutton	£216,500	Newham	£369,236	Sutton	£335,000
Croydon	£245,747	Croydon	£222,847	Croydon	£205,000	Greenwich	£368,226	Newham	£334,500
Waltham Forest	£241,338	Havering	£217,821	Newham	£205,000	Croydon	£367,076	Croydon	£326,500
Bexley	£231,601	Bexley	£202,739	Havering	£204,000	Havering	£358,805	Havering	£314,750
Newham	£221,403	Newham	£202,170	Bexley	£200,000	Bexley	£335,076	Bexley	£310,000
Barking and Dagenham	£213,777	Barking and Dagenham	£162,756	Barking and Dagenham	£160,000	Barking and Dagenham	£288,873	Barking and Dagenham	£265,000

Source: JLL report *MCIL 2 – working towards PDCS* [*draft*, 21 February 2017, table 2, page 11.]

Band 1 boroughs – current MCIL rate of £50 per square metre (2012 prices)

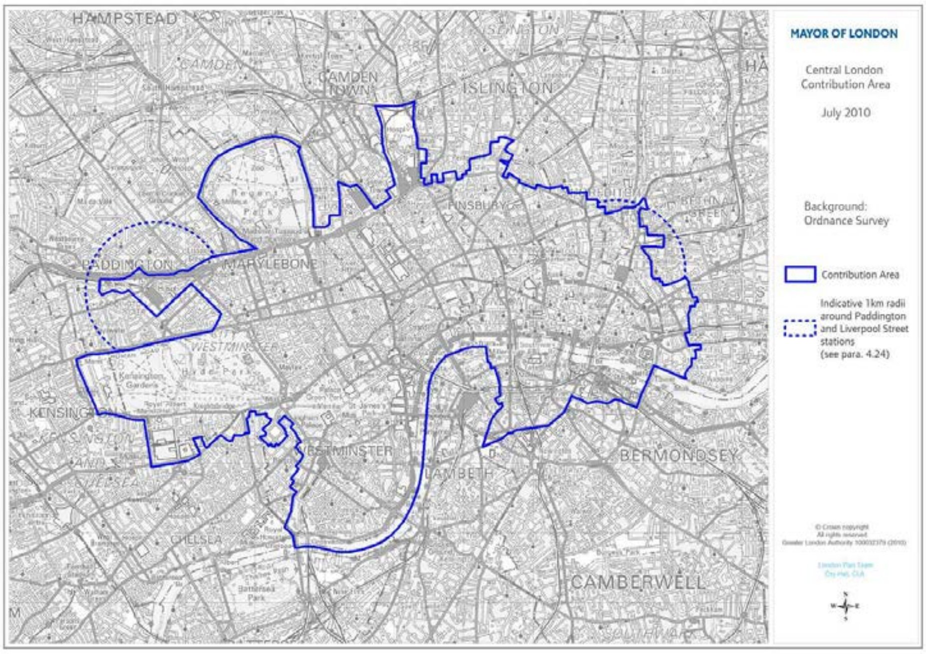
Band 2 boroughs – current MCIL rate of £35/sqm (2012 prices)

Band 3 boroughs – current MCIL rate of £20/sqm (2012 prices)

Annex 3

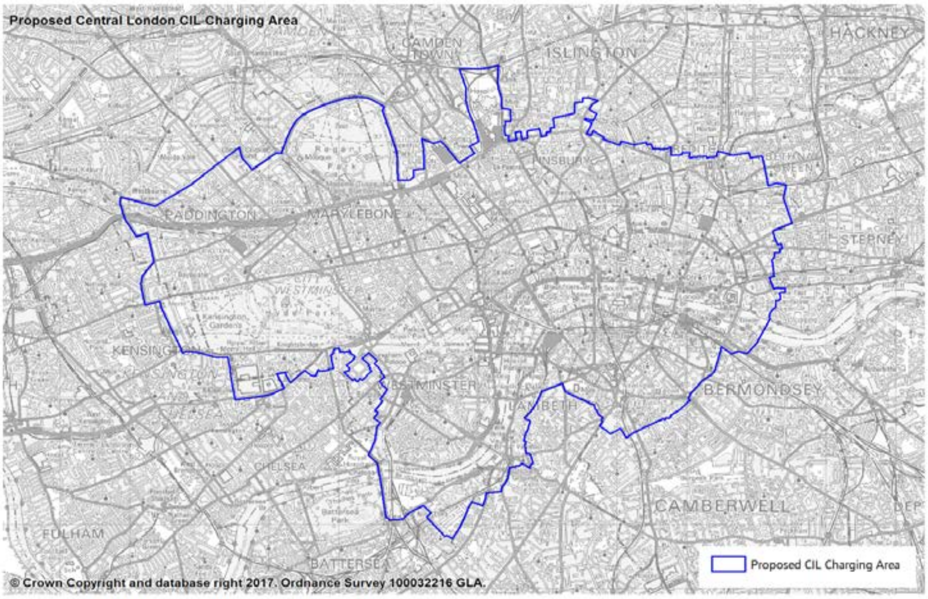
Current Central London Crossrail S.106 contribution area (excluding North Docklands)

Comment [GR1]: Check definition



Proposed Central London Crossrail S.106 contribution area (excluding North Docklands)

Comment [GR2]: Check definition


Proposed Central London CIL Charging Area
HACKNEY
ISLINGTON
CAMDEN TOWN
FINSBURY
PADDINGTON
MARYLEBONE
STEPNEY
LAMBETH
BERMONDSEY
CHELSEA
CAMBERWELL
FULHAM
BATTERSEA
Proposed CIL Charging Area
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Annex 4 -

[two docklands maps]