Proposals for a Mayoral Community Infrastructure Levy

Draft Charging Schedule

Mayor of London
June 2011

Contents

1 Introduction

1.1 This consultation document is issued by the Mayor of London as part of the process for setting a Londonwide Community Infrastructure Levy under the powers set out in Part 11 of the Planning Act 2008 and the Community Infrastructure Levy Regulations 2010[1] ("the Regulations"). These 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).

Charges will be based on the net additional increase in floorspace of a development.

1.2 The money raised by the CIL is intended to be used to pay for infrastructure needed to support the development of an area. The Mayor proposes to use the CIL to help meet part of the cost of the Crossrail project, which is a strategic priority to support the growth and development of Greater London.

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

- First, he must consult on a preliminary draft. He published a preliminary draft for public consultation on 17 January 2011. There was a six week consultation period, ending on 2 March 2011. The results of this consultation, and the Mayor's conclusions on them, are described later in this document,
- 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 (explained below).

1.4 **This process has now reached its second stage, and this document contains a draft charging schedule, the relevant evidence about the use of CIL to fund infrastructure in Greater London and the effect of the Mayor's proposals on the viability of development. It also explains how those wanting to comment and take part in the next stages of the process should respond now, and make sure their interest is registered.**

[1] SI 2010 No 948.

1.5 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.

1.6 The Mayor will appoint an independent "examiner" to conduct a public Charging Schedule Examination. This will be a public hearing to ensure that:

- The Mayor has complied with the procedures for setting the CIL as set out in legislation
- The Schedule is supported by background documents containing appropriate available evidence
- This evidence shows that the level of CIL proposed to be charged complies with the legal duty to ensure that an appropriate balance has been struck between the desirability of funding infrastructure through CIL and the potential effects of doing so on the economic viability of development across its area. This judgement has to be based on infrastructure planning carried out as part of the development plan process, showing what is needed to support the growth of the area.
- This evidence shows that the rate proposed to be charged would not put at serious risk overall development of the area.

1.7 The examiner will then report to the Mayor, who will take his final decision on the rate to be charged in the light of any recommendations the examiner may make. He will then formally approve and publish the Charging Schedule. CIL will be payable for developments that receive planning permission after the date the Charging Schedule comes formally into force. Payments are made by developers when they commence their developments. In London, the CIL set by the Mayor will be collected by the London boroughs, who will forward it to the Mayor. Both the Mayor and the boroughs are allowed to support the costs of CIL administration from the sums paid.

1.8 Once formally approved, the Charging Schedule will sit alongside the Mayor's Spatial Development Strategy (the London Plan), but it will not form part of it.

1.9 The Government intends to make changes to the CIL through the Localism Bill, which is currently before Parliament. Of these the most important in the context of this document are:

- It intends to require authorities charging a CIL to pass "a meaningful proportion" of CIL monies raised in each neighbourhood back to that neighbourhood. Government considers this will ensure that where a neighbourhood bears the brunt of a new development, it receives sufficient money to help it manage those impacts. **This requirement will not apply to the Mayoral CIL proposals outlined in this document.**
- It intends to limit the binding nature of recommendations made by the independent examiner about CIL rates. At the moment, any changes put forward by an examiner are binding. From the time when the Localism Bill receives Royal Assent it is proposed that authorities will have to correct charges considered excessive by examiners, but will have greater discretion about how this is done.

1.10 This document represents the second stage in the process. Drawing on the legislation and the guidance issued by the Department of Communities and Local Government[2], it:

- Explains how the Mayor will meet the various requirements in setting the CIL, providing background on the Crossrail project and how it is to be funded
- Contains the draft Charging Schedule and explains the basis on which it has been prepared
- Sets out the evidence about the effect on development viability and overall development in Greater London on which the Mayor has based his decision.
- Explains how to comment on the draft Schedule and the rest of this document, and the next steps in the process. In particular it sets out the details about how those wishing to comment and take part in the examination should respond to the Mayor (what the CIL Regulations call "the statement of the representations procedure").

1.11 The Mayor has considered the need for a Strategic Environmental Assessment of the draft Schedule. The Government has expressed the view that a CIL Charging Schedule is a short financial document, and therefore will not require a sustainability appraisal[3]. As described in Annex 1, the Mayor has considered the matter for himself, and has come to the same conclusion.

1.12 Further details of the CIL are set out in "The Community Infrastructure Levy – An overview", published by the Department of Communities and Local Government (May 2011)[4].

[2] Office of the Deputy Prime Minister, Community Infrastructure Levy Guidance: Charge setting and charging schedule procedures (March 2010)
[3] ibid, para. 19
[4] http://www.communities.gov.uk/documents/planningandbuilding/pdf/1897278.pdf

2 London's infrastructure needs, Crossrail and the CIL

2.1 As explained earlier, when setting the level of charge the Mayor is required to strike what appears to him to be "an appropriate balance " between the desirability of funding infrastructure from CIL and "the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area"[5]. This section deals with the first element of this balancing exercise – the desirability of using the CIL to fund infrastructure needed to support the development of its area and, in particular, to contribute towards the funding of Crossrail. It provides an overview of likely infrastructure needs in London over the next twenty years and the resources likely to be available to meet them. It goes on to explain the particular strategic importance of Crossrail to supporting London's sustainable growth, development and regeneration, and the central role it plays to these ends in the London Plan. It explains the funding arrangements for the project and the part the CIL will play in these. Drawing on this background it sets out the Mayor's conclusions about the appropriateness and desirability of using CIL for the project. It concludes with an update on progress in implementing Crossrail.

London's infrastructure needs

2.2 The Mayor's assessment of London's need for infrastructure over the next twenty years is founded upon the work undertaken to develop his draft replacement London Plan and related activity to support its implementation. This has recently been found by an independent Panel to be a sound basis for planning for Greater London for the next twenty years. At time of writing, the draft Plan is being considered by the Secretary of State, the last formal stage before it is formally published.

2.3 At the core of the draft Plan are projections about London's future growth over the two decades to 2031. For population, these suggest that by 2031 London's population will be 8.82 million – growth of 1.2 million over the period 2007-2031. By 2031, there are also likely to be both more young Londoners, and more older ones and a 690,000 increase in the number of those of working age. This population growth is projected to contribute to the formation of 790,000 additional households. As far as the economy is concerned, the draft Plan projections suggest an additional 776,000 jobs, with a continued shift towards the service sectors. These trends will mean an increased demand for infrastructure of all kinds in Greater London; for that reason the draft Plan gives greater prominence to infrastructure planning, and will be backed with an Implementation Plan that will provide a sound framework for addressing the issue at Londonwide and more local levels.

2.4 The CIL regulations refer to the desirability of funding from CIL the "actual and expected estimated total cost of infrastructure required to support the development of

[5] Regulation 14 (1)

its area". This presents particular difficulties in London where both the Mayor and the boroughs are entitled to bring forward CILs to fund infrastructure and where responsibility for infrastructure planning is split between different levels of local government and a range of other organisations in the public and private sectors. Under the 2008 Act, there is no definitive list of "infrastructure". The CIL Regulations make clear that the Mayor can only apply his CIL to one part of total infrastructure need, "roads or other transport facilities" (regulation 59(2) is explicit that "funding for the purposes of, or in connection with, scheduled works within the meaning of Schedule 1 to the Crossrail Act 2008" falls within this definition).

2.5 This section reviews the evidence available on the need for infrastructure in London and the potential funding sources. It concludes that the Mayor's CIL is likely only to fund a very small proportion of the transport need, which in turn forms only one (albeit a substantial) part of London's overall infrastructure needs. The limiting factor on the Mayor's CIL is not the infrastructure need for transport; instead, the effects on the economic viability of development and on borough's flexibility to raise their own CILs are more important. Consequently further effort on detailed London infrastructure planning, for transport and wider, is unlikely to assist the consultation and EIP process. The note concentrates on financial issues and is not a statement of the legal or planning position.

2.6 There are a number of source documents for infrastructure needs in London. The Government produced a National Infrastructure Plan last year.[i] Estimates of London's general infrastructure needs have also been made by London First's Infrastructure Commission[ii] and the Policy Exchange. In addition, the Mayor's Transport Strategy looked at the likely need for transport investment beyond the TfL Business Plan,[iii] and during the examination in public of the draft replacement London Plan the Mayor brought forward a draft Implementation Plan (DIP)[iv] which gives a high view on provision of strategic infrastructure. The latest CIL overview document[v] gives some guidance as to what is covered by infrastructure.

2.7 There is no comprehensive and generally agreed definition of infrastructure (indeed, the Planning Act 2008 explicitly does not seek to set out a definitive list). This is reflected in the fact that different assessments of London's needs address different forms of infrastructure. The Mayor's DIP lists types of infrastructure; London First give a partial definition; the other documents give a list of examples. These are compared in Table 2.1, which shows that the only common items are transport and flood defences. The DIP picks up all of the areas, except telecoms.

2.8 One reason for the differences could be that much of the economic infrastructure in the National Infrastructure Plan is privately owned, but normally regulated, with investment the responsibility of the owners against the long term customer funding. This is true for energy, water and waste, and communications. Consequently these services would not normally need to be funded through local authorities (the London First report contains a useful table setting out the different ownerships and market features/funding sources for different kinds of infrastructure). The lack of an agreed definition of infrastructure makes attempting to assess the infrastructure needed in London will be difficult.

Table 2.1: Comparison of infrastructure coverage

National Infrastructure Plan	CIL overview document	London First Infrastructure Commission	GLA Draft Implementation Plan
Transport – road and rail	Transport – road and rail	Transport – road and rail	Transport – road and rail
Energy		Energy	Energy
Digital communication		Telecoms	
Flood protection	Flood defences	Flood protection	Flood protection
Water and waste management		Water and sewerage, waste	Water and Waste
	Schools, hospitals, health and social care facilities		Social infrastructure
	Play areas, parks and green spaces, cultural and sports facilities, district heating schemes and police stations and other community safety facilities		Green infrastructure

2.9 The Government's estimate for infrastructure investment needs in the National Infrastructure Plan over the next five years is £200 billion, compared to £150 billion invested in the previous five years. This is a UK wide figure and no regional breakdown is given, though there are regional examples of infrastructure improvements. (Taking London as 15% of the UK would give £30 billion). London First quote a report by the think tank Policy Exchange of £500 billion over the next decade for the UK as a whole, but do not provide a London estimate. (Taking 15 per cent again, it would be £75 billion). No breakdown or prioritisation of investment need is made by category of infrastructure in either report.

2.10 The Mayor's Transport Strategy addresses costs and funding for London's transport system, including the national railway as well as the modes for which the Mayor is responsible. It quotes a figure of £4.8 billion a year for the next five years and continuing investment of £3.5 billion to £4.5 billion a year in the period up to 2031. There are no overall numbers in the Mayor's DIP. It quotes the same transport numbers.

2.11 A further source of information about London's infrastructure needs are the core strategies and infrastructure delivery plans drawn up by London borough councils as part of their local development frameworks in accordance with Government guidance in Planning Policy Statement 12 ("Local Spatial Planning"). There are limitations in using this information – not all boroughs have assessed and published their infrastructure requirements; those documents that have been produced have appeared at different

times and with different assumptions about sources of potential funding (before and after the results of the 2010 Comprehensive Spending Review, for example). They look over different time periods, and often deal with widely differing types of infrastructure (some focus on that for which boroughs themselves have responsibility, while others include that provided by the Mayor and/or national government). Infrastructure serving more than one borough is sometimes double-counted and funding sources are often not clearly identified.

2.12 All this said, these estimates are a valuable basis for a "bottom-up" assessment of need to complement the "top-down" ones referred to earlier. For this purpose, a number of assumptions have been made:

- The costs of transport schemes to be funded predominantly by National Government, Transport for London or Network Rail have been excluded. These are included in the estimates given earlier, and more information about them will be given about these later.
- Borough figures for education, health and leisure have been used as given, although they often include assumptions about Government funding which may no longer be valid (because of the review of the Better Schools for the Future programme, for example)
- Assumptions have been made about funding of particular infrastructure (the Thames Tideway Tunnel being a good example) which should be discounted.

On this basis, information from 24 boroughs has been used (over 70 per cent of the total).

2.13 If this information is used to provide an average of borough estimates of need, and this average is then used to provide a 33 borough estimate. This is shown in Table 2.2:

Table 2.2: Borough-based estimates of infrastructure need (multi-year)

Type of infrastructure	Estimate (£m)
Transport	891
Education	4,851
Health	2,442
Leisure	825
Other	1,023
Total	**10,032**

2.14 This estimate is generally in line with the details published by the two London boroughs – Redbridge and Wandsworth – which have brought their own CIL proposals forward.

2.15 Redbridge identifies £227 million of investment to support development over the period to 2017. Redbridge's investment list covers:

- Education
- Transport
- Leisure centres

- Libraries
- Open space
- Health
- Further education.

Of the total of £227 million, £177 million is for education and further education (the borough average derived from the exercise referred to in paragraph 2.13 is £147m) and transport accounts for £10 million (borough average £27million).

2.16 Wandsworth's investment list covers:

- Transport
- Education
- Health
- Open Space
- Community
- Emergency services
- Employment
- utilities

If the exceptional infrastructure costs associated with the development at Nine Elms are excluded, their estimated total cost of infrastructure is £224.3million. Of this, transport makes up £93.4 m and is again the largest single item; community (sports) facilities come next with £48.7m and then education with £26.8 million (transport is also the largest element of the Nine Elms costs).

2.17 If these boroughs' stated investment needs are typical, then the total for all boroughs for the next five years would be in the £6 billion to £7.5 billion range. This suggests that the £10 bn estimate in paragraph 2.12 is a reasonable one. It also provides a basis for comparing total borough needs with the strategic transport requirement of £24 billion. (In both cases, Government will also have a role in supporting investment, whether in education or transport). It is recognised that grossing up from individual borough figure has its limitations, and the Mayor intends to keep the position under review as more information becomes available.

2.18 The DIP also covers potential needs, linked to the growth in London's population and housing. As a brief and high level document, it does not need to define investment amounts and funding precisely. It identifies:

- Transport, as Mayor's Transport Strategy.
- Water. Up to £1.3 billion to 2031, responsibility of the water companies.
- Flood defence, £270 million by 2031, responsibility of developers of new homes.
- Energy, £5 billion to £7 billion, responsibility of the energy companies, assisted by public sector initiatives.
- Waste, £0.3 billion to £1 billion, responsibility of boroughs.

- Social infrastructure. No figures for education, responsibility unclear; £1 billion to £1.5 billion for health, some borough involvement.
- Green infrastructure no figures.

Adding waste and social infrastructure together, where there is some borough involvement, gives a total of £2.5 billion.

2.19 In summary, then, it is possible to give an overall assessment of London's infrastructure needs by adding the borough figure of £10.032 billion, the £2.5bn identified as being required for social and utility infrastructure in the London Plan Implementation Plan and the £24bn estimate of required transport infrastructure to give an estimate of £36.5 bn. If the longer term estimates of transport need are added (£56-72 billion 2015-2031), a total estimated figure of £92-108 billion is obtained. Bearing in mind that this figure covers a longer time period than most of the estimates considered here, the London First figure may be a reasonable medium-term one.

2.20 The second aspect of the issue is the availability of resources. In 2010, according to the Government's Public Expenditure Statistical Analysis, capital expenditure on transport by national and local government and public corporation in 2009-10 amounted to £3.899 billion; with £1.56 billion for education and £882 million for health. Decisions on public spending are made on a three year basis, so it is not possible to make a reliable estimate across the whole period being considered. However, it is clear that in the short- to medium-term at least, public expenditure is likely to be constrained. Under the 2010 Spending Review, Departmental Programme and Administration Budgets are set to reduce in real terms by 8.3% between 2010/11 and 2014-15 (with reductions of 3.4 per cent in Education, 21 per cent in Transport, 51 per cent in Communities and Local Government support for local authorities, and an increase of 1.3 per cent for Health). If capital expenditure is considered, the 2011 Budget announced that nationally, between 2010/11 and 2015-15, Education will see a £3.9 billion cut, Health will see an increase of only £100m and Transport one of £400 million.

2.21 This constrained position is likely to be reflected in the resources available to local government . The 2011/12 grant settlement saw a 9.1 per cent reduction for London boroughs and the Greater London Authority Group, and the provisional 2012/13 one shows a further reduction of 7 per cent[6]. For capital expenditure, the Building Schools for the Future Programme has been abolished, with Department of Health grants increasing in line with inflation[7].

2.22 Against this background, it is possible to say that if the availability of public resources is taken into account, there is likely to be a substantial "funding gap" in meeting anything like the needs identified earlier. As explained later, this position is certainly reflected in the funding arrangements for Crossrail, which include a range of funding methods over and above national grant.

2.23 Across all these estimates, it is clear that transport infrastructure provided at national, Londonwide and borough levels is probably the largest single area (in terms of cost and investment) of infrastructure that will be required. TfL funding for the next five

[6] London Councils, *Provisional Local Government Finance Settlement 2011-12 to 2012-13: Briefing 1* (December 2010)
[7] London Councils, *Provisional Local Government Finance Settlement, 2011-12 to 2012-13: Capital Finance Briefing* (January 2100)

years is agreed, including an estimate for CIL and developer contributions. Given this, and the fact that the CIL Regulations limit the Mayor's use of CIL receipts to transport, the remainder of this section will focus on this.

2.24 It is possible to identify the different sources of funding that will be available to Transport for London. Its 2011/12-2014/15 Business Plan indicates that of its £7 billion capital expenditure over this period, 66% will be from grant, 4% from sales of property and other assets and 23% from borrowing. The Mayor's proposed CIL will obviously cover a very small proportion of this expenditure – at an expected annual average rate of between £40-£50 million during the next seven years, it will be meeting about 1% of the £4.8 billion and £4 billion yearly totals discussed above. The infrastructure need is so much larger than the CIL that the infrastructure calculation is most unlikely to be a limiting factor. Rather, the important constraint on the Mayor's CIL is the viability of development across London and it is this which has been the subject of research. The infrastructure need analysis might justify a much higher CIL for a variety of projects, particularly in the later period when funding is uncertain.

2.25 It is clearly a matter of concern to the boroughs that the Mayor's proposals will leave insufficient space for their own CILs and Section 106s. The evidence in the remainder of this document (borne out by experience of the first two London boroughs which have brought proposed CILs forward) is that this should not be the case. While imperfect, the analysis in this paper does provide a sufficient basis to meet the requirements of the CIL Regulations. The evidence available suggests that the proposed Mayoral CIL will not be at such a level as to make infrastructure provision across Greater London unviable, and he has sought to mitigate any effect it might have by proposing zero rates for forms of infrastructure that are particularly sensitive to the kind of population changes expected in London over the next twenty years – education and health – and where the CIL regulations prevent him from providing funding from the sums raised through the Levy.

2.26 In conclusion:

- There is no agreed definition of infrastructure.
- There are no agreed estimates of overall infrastructure needs for London. These estimates vary from £10 billion (based on borough assessments, excluding strategic infrastructure funded at national and Londonwide levels to £70 billion (London First/Policy Exchange). Based on the information available an estimate of £55-75 billion does not seem unreasonable.
- There is equally no agreed estimate of the total funding that will be available to meet these needs, however it is clear from the direction being taken in decisions on public spending that this is likely to be constrained. There is likely to be a funding gap, meaning that use of CIL to help pay for infrastructure supporting London's growth is appropriate.
- There are transport plans for London for the next five years, and an indication of needed funding after that. The transport investment needs would appear to be significantly greater than other infrastructure needs.
- The Mayor's CIL proposals will only fund a small proportion of the overall transport infrastructure needs. More detailed estimates of the overall infrastructure need, or comparisons between transport and borough supported infrastructure, are unlikely to be helpful to decision takers; the viability issues are more important.

2.27 The Mayor proposes to use the proceeds of his CIL to contribute towards the funding gap left for the Crossrail project after all the other sources – such as grant from national government, borrowing against the sums raised through a business rate supplement and contributions from London business are taken into account. This is explained in more detail in the following section of this chapter.

The importance of Crossrail to supporting London's development

2.28 Crossrail is a major cross-London rail link project developed to serve London and the south-east of England, providing fast, efficient and convenient rail access to the West End, the City and Canary Wharf and linking existing routes from Shenfield and Abbey Wood to the east to Maidenhead and Heathrow Airport to the west. The route is shown in Map 1. It will:

- Alleviate pressure on existing Underground and rail lines by increasing rail capacity in London by around ten per cent, benefiting millions of commuters, tourists and shoppers alike each year
- Generate estimated annual economic, employment and transport benefits of £1.24 billion per annum by 2026
- Give a kick start to London's construction industry which has suffered during the economic downturn, and provide direct employment for up to 14,000 people at the peak of construction. Around 1,000 individuals are expected to work on the rail link once it starts running in 2018-19.

2.29 It will also have wider social and economic benefits for London, enabling the continued growth of key economic sectors and locations. Crossrail has three key strategic objectives:

- To support the development of London as a world city, and its role as the financial centre of Europe and the United Kingdom;
- To support the economic growth of London and its regeneration areas by tackling congestion and the lack of capacity on the existing rail network; and
- To improve rail access into and within London.[8]

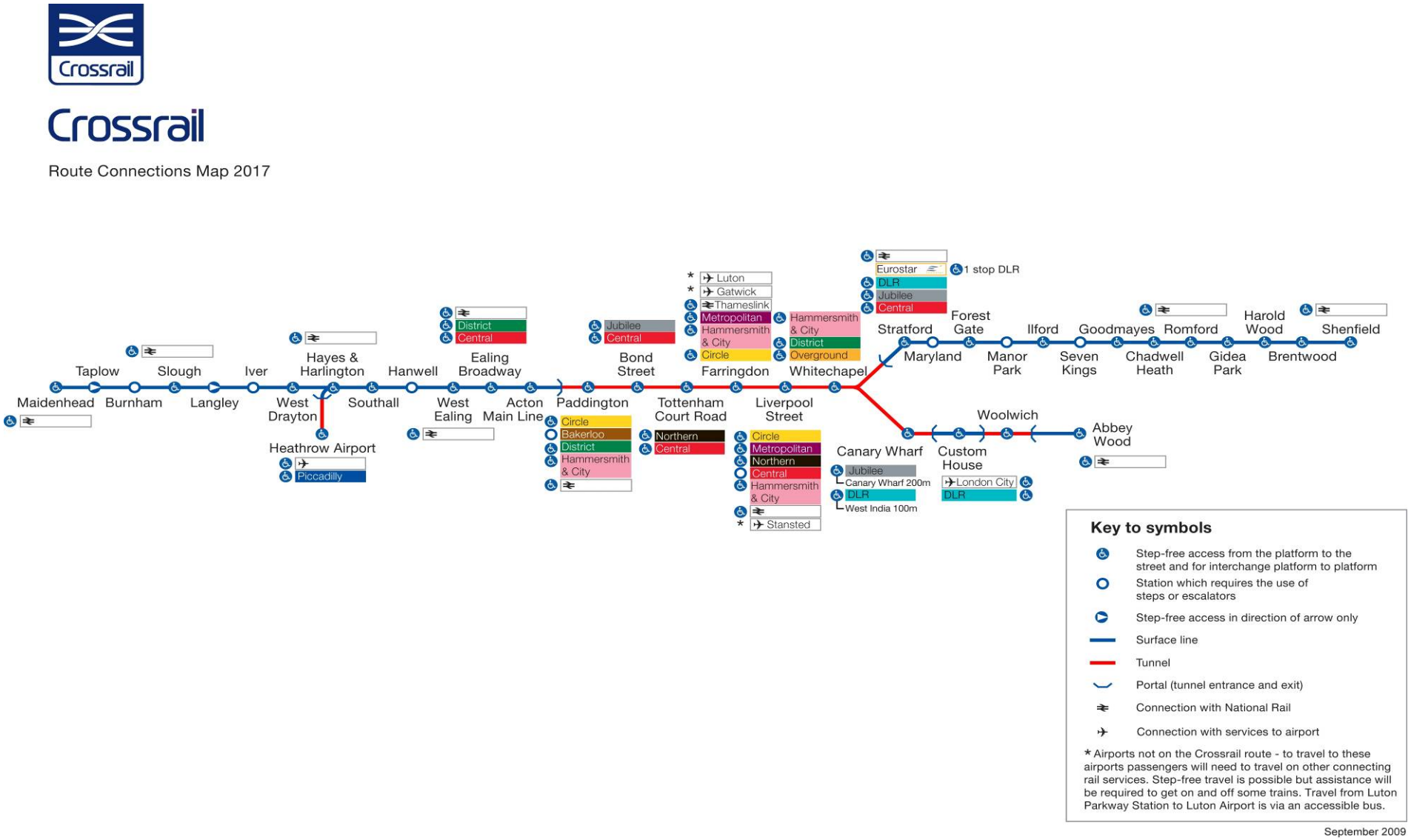
2.30 It will achieve these objectives by:

- Addressing problems of inadequate capacity on the National Rail and London Underground networks;
- Improving accessibility to regeneration areas; and
- Providing transport capacity for the growth expected for London.

2.31 Powers to construct and maintain Crossrail, and the necessary planning and other consents and powers were secured by the Crossrail Act 2008.

[8] Crossrail Environmental Statement, Volume 1

Map 1 – Crossrail route



2.32 Crossrail is essential to delivering the strategic objectives of the London Plan, particularly accommodating London's growth within its boundaries without encroaching on open spaces, making London a more prosperous city with strong and diverse economic growth and improving London's accessibility.

2.33 The current transport network in and around London is already highly congested, with high levels of crowding on key National Rail, London Underground and Dockland Light Railway (DLR) services, particularly during the peak period. Even with the on-going investment on the Underground, National Rail network and other transport systems, London's transport system is struggling to meet existing demands. Increasing congestion on London's rail network poses a threat to achieving the projected growth in jobs and economic activity envisaged in the London Plan.

2.34 Crossrail will help provide the extra public transport capacity needed to cope with the growth in employment expected in the West End, the City of London and Canary Wharf. Crossrail will reduce current levels of overcrowding on the Underground, particularly in the central area (all Underground lines other than the Northern Line should see a reduction in passengers following the opening of Crossrail) and the Isle of Dogs. It will also reduce crowding on some National Rail services (particularly those using Liverpool Street, Paddington, Fenchurch Street, Charing Cross and Cannon Street).

2.35 Crossrail is also essential to delivering the spatial priorities set out in the London Plan, particularly moving London's centre of gravity eastwards:

- By addressing public transport capacity issues, it will be essential to enabling the continued growth in central and eastern London outlined in the London Plan. In particular, Crossrail is critical to supporting the growth of the financial and business services sectors in central London and the Isle of Dogs, where there is market demand for additional development capacity – providing increases in rail capacity into each area of 20 per cent and 50 per cent respectively. It will also provide much needed additional transport capacity to the West End, supporting the future development of that area as London's premier retail and leisure location envisaged in the London Plan. The scheme will also improve links to Heathrow, thereby supporting connections for London's global businesses. By linking these areas, Crossrail will help create a virtual unified economic and business core in London. It is also crucial to the realisation of regeneration and intensification opportunities around key interchanges within the Central Activities Zone and to its east and west.
- Crossrail will also support delivery of London Plan policies for the development and regeneration of east London, and the London Thames Gateway in particular. Crossrail will make a vital contribution to improving the accessibility and attractiveness of the Thames Gateway to the east of the Isle of Dogs, through its cross-river link to south-east London and its links to the east including interchange with the DLR at Custom House.
- Crossrail will also help support growth in west London identified in the Plan. It will support development opportunities around Heathrow and at Hayes/West Drayton/ Southall, and will assist in supporting West London's network of town centres.
- Crossrail stations will lie within eight opportunity areas and areas for intensification identified in the London Plan. Together, these areas have spatial capacity for 216,000 new jobs – over half of which are planned for the Isle of Dogs – and 85,000 new homes (over one third in Stratford).

2.36 Crossrail will bring significant benefits across London. It is a strategic project which will improve the transport system and create new jobs while helping London remain competitive against other global cities. Significant indirect benefits will flow to areas of the capital not on the route. Combined with Crossrail's operational jobs, the employment figure as a direct result of the project could reach 40,000 in central London. Around 1.5 million more people will lie within 45 minutes' commute of Central London following the completion of the rail link. Londoners securing new and better paid jobs will spend their increased earnings in the areas in which they live, including main suburban town centres such as Bromley, Croydon, Enfield, Harrow, Kingston, Sutton and Uxbridge, which do not lie directly on the Crossrail route.

Quantifying the benefits of Crossrail

2.37 In February 2009 Crossrail Ltd (CRL) published a major economic study by consultants Colin Buchanan, which sought to quantify how these transport and economic benefits enabled by the new railway would be distributed across London. This work was updated in 2010 (some of the benefits could only be ascribed to particular boroughs on an approximate basis). The study identified the substantial economic benefits that Crossrail will deliver for the whole of London and the South East after the new railway opens. The benefits are allocated to the borough in which beneficiaries live – where they will spend the bulk of any additional income generated – rather than to the location of their employment.

2.38 When the results are modelled for just one year – 2026 – the annual economic benefit across all of London's boroughs is estimated at £1.83 billion (at 2010 prices). The study highlights that residents of every London borough are projected to benefit by at least £15 million per annum by 2026 in terms of wider economic, employment and transport benefits for local residents, with 20 of 33 boroughs benefiting by over £50 million per annum (including £99 million for Newham and £98 million for Greenwich).

2.39 Even boroughs located furthest geographically from the route are projected to benefit significantly, such as Barnet (£55 million per annum), Bromley (£46 million), Croydon (£36 million) and Enfield (£41 million). The benefits of Crossrail are therefore spread across all boroughs, not just those on the Crossrail route.

2.40 The benefits to Londoners by borough of residency are summarised in Table 2.3. The assumptions underpinning these figures are set out in more detail in the July 2010 business case document which is available on the Crossrail website www.crossrail.co.uk . A technical note explaining in more detail the basis on which these figures in are derived and the reasons why they differ from figures published earlier in 2009 is attached as Annex 2.

Table 2.3: Estimated annual transport and earnings benefits from Crossrail for Londoners by borough of residency (£ million, 2026 at 2010 prices)

London borough	Benefits
Westminster	115
Newham	99
Greenwich	98
Tower Hamlets	90
Ealing	89
Southwark	72
Redbridge	71
Camden	68
Brent	66
Wandsworth	65
Lewisham	65
Lambeth	63
Islington	61
City of London	59
Haringey	59
Barnet	55
Kensington and Chelsea	52
Hackney	50
Bexley	50
Hammersmith and Fulham	50
Waltham Forest	49
Hillingdon	47
Bromley	46
Havering	45
Enfield	41
Barking and Dagenham	41
Croydon	36
Richmond upon Thames	31
Merton	25
Hounslow	22
Harrow	22
Kingston upon Thames	17
Sutton	15
Total	1,834

Source: Crossrail Distribution of Benefits Paper, CRL July 2010

2.41 There are specific benefits to boroughs in terms of improved access to jobs in the area, for example public transport 'time savings by borough'. Figure 2 identifies those boroughs which will benefit the most from public transport time savings. As would be expected, these all contain one or more stations on the Crossrail route.

Figure 2: Highest annual public transport time savings (destinations) by borough (£ million) by 2026

London borough	Savings
Westminster	207
Tower Hamlets	80
Camden	50
City of London	35

2.42 The Buchanan report not only outlines the benefits to the capital, south eastern England and the wider UK, but reaffirms that the scheme is critical to the major increase in development planned for major economic centres such as Canary Wharf and the Thames Gateway, which in turn will support the creation of high-value jobs.

2.43 In summary there is a strong economic case for Crossrail. It will have a strategic effect on London's transport system, allowing further employment growth in London and economic development. The benefits of this will be felt across the capital. This strong case has been used to justify the Business Rate Supplement, which is paid by occupiers of property, but it is also a justification for contributions by those who will benefit from new development – whether residential or commercial.

2.44 It is for these reasons that existing London Plan Policy 3C.12 (which deals with a range of new cross-London rail links within an enhanced London National rail network, including Crossrail) supports the implementation of Crossrail:

> "The Mayor will work with strategic partners to improve the strategic public transport system in London, including cross-London rail links to support future development and regeneration priority areas, and increase public transport capacity by: implementing Crossrail 1, a particularly high priority to support London's core business areas…This will help improve access to the Central Activities Zone, town centres, major Opportunity Areas and regeneration sites and many parts of suburban London. DPD policies should identify development, intensification and regeneration opportunities that these new Cross-London links and national rail enhancements will support. They should identify and protect land used for rail purposes, and identify proposals for major schemes."

2.45 This approach has been taken forward by the Mayor in the Draft Replacement London Plan (which has recently been subjected to its examination in public). Draft Policy 6.4, which deals with enhancing London's transport connectivity, states that:

> "The Mayor will work with strategic partners to improve the public transport system in London, including cross-London and orbital rail links to support future

development and regeneration priority areas and increase public transport capacity..."[9]

through a number of projects and initiatives including:

"implementing Crossrail, the Mayor's top strategic transport priority for London"[10]

Funding arrangements for Crossrail

2.46 In considering the desirability of using CIL to help fund Crossrail, the Mayor (in consultation with the Government as joint project sponsors (see below)), has addressed the known and expected costs of the project, and the availability of other sources of funding available to meet them.

2.47 The headline construction cost of the Crossrail project as agreed by the Sponsors and CRL is now £14.5 billion (the rolling stock and depot will be privately financed through a design, build, finance and maintain contract and the costs are not included in this sum). This covers the period up to opening of Crossrail in 2018 and is a cash figure based on a 95 per cent confidence level. This figure differs from the £15.9 billion one that has been used before, and reflects two changes after rounding: the removal of the £0.5 billion estimate for a depot and cost reductions of £1 billion.

2.48 Crossrail is jointly sponsored by the Government, through the Department for Transport (DfT), and the Mayor, through Transport for London (TfL). In November 2007, the joint sponsors signed the Crossrail Heads of Terms (HOT), which set out the proposed financing and funding arrangements for the Crossrail project (including the respective contributions to be made by TfL and DfT), and an outline of the governance arrangements under which the Project would be taken forward by Cross London Rail Links ('CLRL') – which was renamed Crossrail Ltd at the end of 2008. The Crossrail Heads of Terms can be found at the following link: http://www.dft.gov.uk/adobepdf/165234/302038/headsofterms.pdf. The Sponsors Agreement formalising the project management and funding arrangements was signed in December 2008.

2.49 On 20 October 2010, the Mayor announced that he had achieved agreement for the whole of the Crossrail project to proceed with £1 billion of savings and a revised opening date following a management review. These changes formed part of the Government's Comprehensive Spending Review. The Sponsors reviewed the funding flows for the project in the context of these savings and the extended construction period. The figures in this document reflect the allocation of the savings, with TfL's total reduced by £600 million. TfL will consider with the DfT whether a more detailed breakdown of Crossrail costs could be provided in the future once the main procurement exercises have been completed. The Mayor agreed as part of the expenditure review to maintain the business rate supplement (see below) unchanged. There were also no changes proposed to the sums to be raised from either section 106 (although the profile of the income forecast from this source has been adjusted) or the CIL.

[9] Draft replacement London Plan, Policy 6.4B
[10] ibid, Policy 6.4Ba

2.50 Under the HOT, funding for the project will come from direct Government grant via the DfT (£ 4.7 billion), from the Mayor (£7.1 billion) and from contributions made by some of the project's key beneficiaries along its route. Canary Wharf Group has agreed to make a significant contribution to the project and will in addition be responsible for delivering the Canary Wharf station on the Isle of Dogs. The City of London Corporation will make an additional contribution from their own funds, and will assist in delivering additional voluntary contributions from the largest London businesses. BAA has also agreed to make a contribution. Network Rail will finance the works on the national railway.

2.51 The Mayor (through the Greater London Authority and TfL) has agreed to contribute around £7.1 billion towards the construction costs of the Crossrail project. In addition to the CIL, which is discussed at the end of this section, There are a number of distinct funding sources for this contribution:

- *Crossrail BRS (£4.1 billion):* The largest element of the GLA contribution will be financed by the Crossrail Business Rate Supplement (BRS). The Crossrail BRS will finance around £4.1 billion of the project costs. This comprises £3.5 billion of borrowing and a further capped sum of £0.6 billion representing the estimated Crossrail BRS income not needed to service the GLA's debt financing costs on this loan during the seven-year planned construction period.
- *Section 106 Contributions (£0.3 billion):* The Mayor is committed to provide £300 million to be raised from developer contributions through use of planning obligations under section 106 of the Town and Country Planning Act 1991. Further details about the Crossrail Section 106 scheme and its relationship with the proposed CIL are given later.
- *Direct TfL contribution:* TfL will provide the remainder of the core funding and contingency it is committed to from prudential borrowing, net of over station development proceeds.

2.52 The Crossrail cost budget provides for £1 billion of expenditure on land and property. At the end of construction, surplus land can be sold, and over-station development is possible at some of the stations. These receipts will come to TfL, and will contribute to funding the TfL contribution. Clearly both acquisition costs and future sale receipts will be dependent on the state of the property market at that time.

2.53 TfL expects to make use of prudential borrowing, as part of its wider borrowing programme. In the past TfL has borrowed from three sources: the Public Works Loan Board (PWLB), the European Investment Bank (EIB), and the capital markets through three bond issues. TfL agreed a £1billion loan facility for Crossrail with the EIB in September 2009 to be drawn down over six years.

2.54 Under the Local Government Act 2003, all TfL debt ranks equally. It is up to TfL to consider when any borrowing is prudent. When Crossrail is operational, the incremental operating surplus (net farebox less operating costs) which is received by TfL will provide funds to meet its debt servicing related to the Crossrail borrowing.

2.55 On the CIL, the HOT indicated that the Mayor might contribute £300 million raised through the proposed Community Infrastructure Levy (CIL). This depended on the Government providing the Mayor with the appropriate powers; if the powers were not forthcoming then the Government would provide cash instead. There was no

commitment by the Mayor to raise a CIL however, but if he decided not to, then Government would not have to provide equivalent funding.

2.56 As part of the 2010 Comprehensive Spending Review, the Mayor agreed that the legal powers were now in place (subject to the Government's review of the CIL and any changes that might emerge as a result) and that he was prepared to raise a CIL for Crossrail with a target of £300 million by March 2019. The Government's subsequent announcement on the CIL (on 19 November 2010) contained no significant restrictions on the Mayor's ability to raise a CIL. TfL will expect, therefore, to take the main risk that the CIL will deliver £300 million by 2019. If there is a shortfall in the £300 million, and the funding is needed for Crossrail, then TfL will have to generate further funding from its Business Plan from other non-Crossrail sources, which would be likely to put other strategically important transport projects and programmes at risk.

2.57 The incremental element in the GLA and TfL funding remains the TfL contribution from prudential borrowing and this has been adjusted for changes in costs and contingency. CRL's spending is now expected to be delayed, which could lead to significantly higher CRL cash balances in the opening years. Consequently the Sponsors have agreed in principle to change the timings of TfL's contributions from prudential borrowing. This avoids TfL paying interest to borrow money which CRL then deposits at a lower interest rate, while ensure that funding from Crossrail specific sources can be put to use as soon as possible. As part of these timing changes, the profile of CIL receipts has been adjusted in agreement with the Government to match the CIL proposal in this document.

Use of CIL for Crossrail

2.58 In conclusion, the £300 million sought for the project through the CIL plays a relatively small, but essential part in the overall funding of Crossrail. Without it there would be a funding gap that would involve one or more of the following:

- Renegotiation of the Crossrail funding agreement
- Delay in the project, exacerbating the capacity problems identified earlier and potentially inhibiting London's development
- Pressure on other parts of the TfL budget, reducing the scope either temporarily or permanently for other essential strategic transport investment such as upgrading the London Underground network.

2.59 The CIL Regulations state that the Mayor can only use CIL to fund transport infrastructure "including, in particular, funding for the purposes of, or in connection with, scheduled works within the meaning of Schedule 1 to the Crossrail Act 2008" [11]

2.60 For the reasons relating to the strategic importance of Crossrail to supporting the growth and development of London set out in the London Plan, the Londonwide benefits it will bring and the funding arrangements explained here – and against the background of London's overall infrastructure needs and the resources available to meet them - `the Mayor considers that it is appropriate and desirable to use CIL to fund Crossrail. He is strengthened in this view by the importance given to this funding stream in the Crossrail funding agreement with Government, and the specific reference to the scheme in the Regulations. This has been reflected in new Policy 6A.5A added to the

[11] Regulation 59 (2)

2008 London Plan as a result of the April 2010 Crossrail Alterations, which identifies Crossrail as a particular priority for use of the CIL, which has been carried over into the draft replacement London Plan.

Crossrail Implementation Update

2.61 Construction of the Crossrail project officially began on 15 June 2009 with the start of building works at the Canary Wharf station. Since then the North Dock has been drained and piled and work is underway on the station box. Other key milestones include:

- Demolition of the Astoria (for the Tottenham Court Road station) and Cardinal Place (Farringdon)
- Enabling works at all six central London stations largely competed, with station designs being finalised to allow the award of contracts for the actual main station works to occur over the next year.
- Award of over £1.5 billion in tunnel contracts for the entire 21 kilometre tunnel section
- Six tunnel boring machines under manufacture
- Issue of procurement notices in the Official Journal of the European Union for both the rolling stock and the central section signalling
- Topping out of the UK's only Tunnelling and Underground Construction Academy which will support the training of at least 3,500 people to work on projects including Crossrail and water and electricity tunnels in London.

2.62 Work on stations and tracks on the existing surface railway which will be served by Crossrail will be carried out by Network Rail, and works have started in a number of locations.

3 The Mayoral Draft CIL Charging Schedule

Introduction

3.1 Under Regulation 12 of the Community Infrastructure Levy Regulations 2010, there is no required format for a CIL Charging Schedule, but it must include:

- The name of the charging authority
- The rates (set in pounds per square metre) at which the CIL is to be charged
- Where a charging authority sets different rates for particular parts of its area or types of development, a map identifying the location and boundaries of the different charging zones reproduced from, or based upon, an Ordnance Survey map showing National Grid lines and reference numbers and including an explanation of any symbol or notation which it uses
- An explanation of how the amount to be charged for each development will be calculated.

3.2 All of these matters are included in the draft charging schedule set out overleaf:

Planning Act 2008

Community Infrastructure Levy Regulations 2010

Draft Community Infrastructure Levy Charging Schedule – Mayor of London

CHARGING SCHEDULE

The Mayor of London is a charging authority for the purposes of Part 11 of the Planning Act 2008 and may therefore charge the Community Infrastructure Levy in respect of development in Greater London.

The Mayor intends to charge the Community Infrastructure Levy in Greater London at the following rates (expressed as pounds per square metre) in respect of all development (other than those of intended uses shown in Table 2 below) in each of the London boroughs, as shown in Table 1:

Table 1: Mayoral CIL charging zones

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

These zones are shown in the map below:

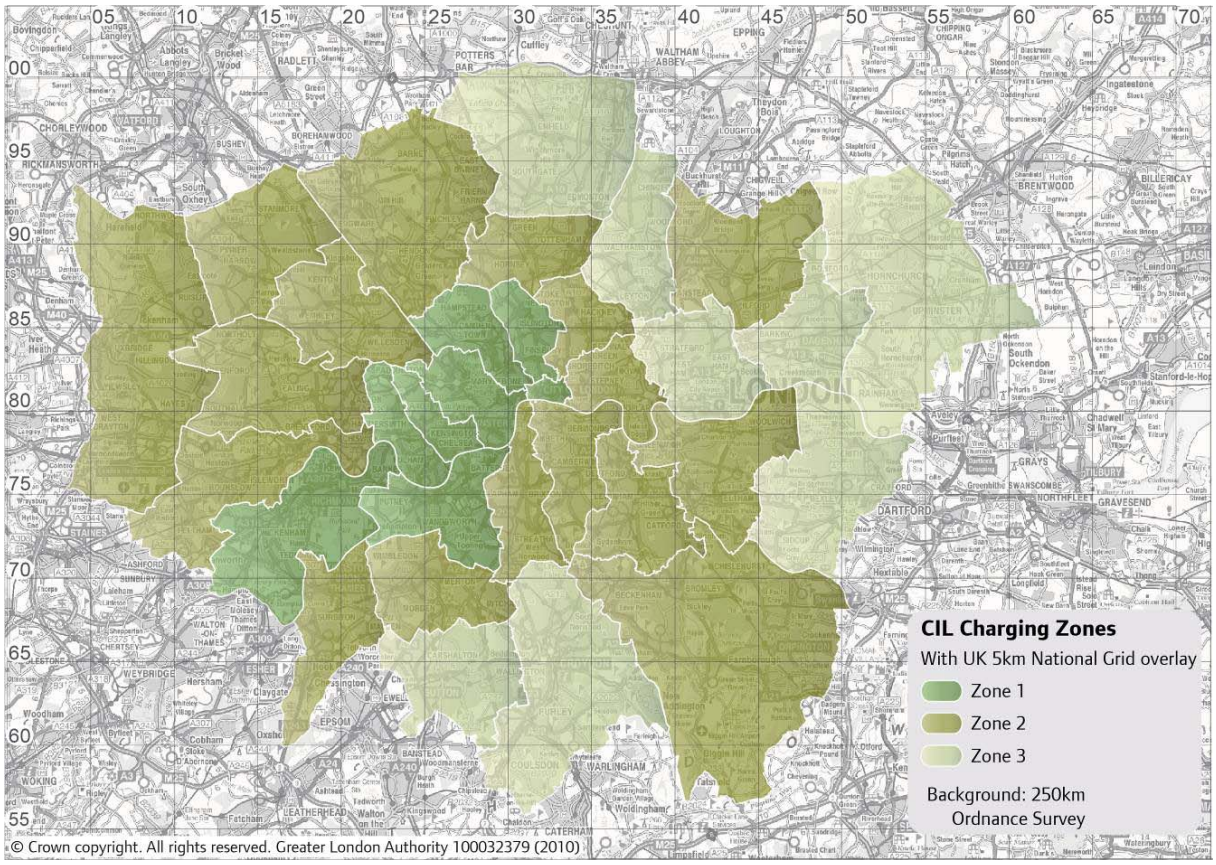


Table 2: Differential rates: intended uses

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

The amount to be charged for each development will be calculated in accordance with regulation 40 of the Community Infrastructure Levy Regulations 2010. For the purposes of the formulae in paragraph 5 of regulation 40 (set out in Annex 1), the relevant rate (R) is the Rate for each charging zone shown in Table 1 above, other than in respect of the intended uses shown in Table 2, for which the rates shown therein will apply.

This Schedule has been issued, approved and published in accordance with Part 11 of the Planning Act 2008 and the Community Infrastructure Regulations 2010 (as amended).

This Schedule was approved by the Mayor of London on ***

This Schedule takes effect on ***

Annex One

to the Draft Community Infrastructure Levy Charging Schedule – Mayor of London

Extract from the Community Infrastructure Levy Regulations 2010

(nb: this Annex is formally part of the Draft Community Infrastructure Levy Charging Schedule – Mayor of London)

PART 5 CHARGEABLE AMOUNT

Regulation 40
Calculation of chargeable amount

(1) The collecting authority must calculate the amount of CIL payable ("chargeable amount") in respect of a chargeable development in accordance with this regulation.

(2) The chargeable amount is an amount equal to the aggregate of the amounts of CIL chargeable at each of the relevant rates.

(3) But where that amount is less than £50 the chargeable amount is deemed to be zero.

(4) The relevant rates are the rates at which CIL is chargeable in respect of the chargeable development taken from the charging schedules which are in effect—

(a) at the time planning permission first permits the chargeable development; and

(b) in the area in which the chargeable development will be situated.

(5) The amount of CIL chargeable at a given relevant rate (R) must be calculated by applying the following formula—

$$\frac{R \times A \times I_P}{I_c}$$

where—

A = the deemed net area chargeable at rate R;

I_P = the index figure for the year in which planning permission was granted; and

I_c = the index figure for the year in which the charging schedule containing rate R took effect.

(continued overleaf…)

(6) The value of A in paragraph (5) must be calculated by applying the following formula—

$$\frac{C_R \times (C - E)}{C}$$

where—

C_R = the gross internal area of the part of the chargeable development chargeable at rate R;

C = the gross internal area of the chargeable development; and

E = an amount equal to the aggregate of the gross internal areas of all buildings which—

(a) on the day planning permission first permits the chargeable development, are situated on the relevant land and in lawful use; and

(b) are to be demolished before completion of the chargeable development.

(7) The index referred to in paragraph (5) is the national All-in Tender Price Index published from time to time by the Building Cost Information Service of the Royal Institution of Chartered Surveyors; and the figure for a given year is the figure for 1st November of the preceding year.

(8) But in the event that the All-in Tender Price Index ceases to be published, the index referred to in paragraph (5) is the retail prices index; and the figure for a given year is the figure for November of the preceding year.

(9) Where the collecting authority does not have sufficient information, or information of sufficient quality, to enable it to establish—

(a) the gross internal area of a building situated on the relevant land; or

(b) whether a building situated on the relevant land is in lawful use, the collecting authority may deem the gross internal area of the building to be zero.

(10) For the purposes of this regulation a building is in use if a part of that building has been in use for a continuous period of at least six months within the period of 12 months ending on the day planning permission first permits the chargeable development.

(11) In this regulation "building" does not include—

(a) a building into which people do not normally go;

(b) a building into which people go only intermittently for the purpose of maintaining or inspecting machinery; or

(c) a building for which planning permission was granted for a limited period.

Explanatory Note

to the Draft Community Infrastructure Levy Charging Schedule – Mayor of London

(nb: this Explanatory Note is not formally part of the Draft Community Infrastructure Levy Charging Schedule – Mayor of London)

Costs of Administration

1. Under Regulation 61, charging and collecting authorities (in this case the Mayor and the London boroughs) can use CIL proceeds to cover administrative expenses incurred in collecting the Levy up to specified limits – four percent of CIL collected in each year by collecting authorities, and one per cent by charging authorities. The sums set in the preliminary draft Schedule assume full use of these provisions (see paragraph 4.7.21).

Differential charging

2. The Mayor proposes to set differential charges for different boroughs of Greater London to reflect the different levels of development viability within the Greater London charging area. The Mayor considers that this is appropriate given the nature of the judgement he is required to draw under the CIL legislation and guidance[12] to use an area-based approach, taking a broad judgement about viability across London as whole. The basis on which the banding of boroughs and the level of charge proposed for each band is explained in section 4 of this document.

3. The Mayor is also proposing to set nil charge rates (as he is empowered to do by regulation 13(2)) for two types of development:

   - 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
   - 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

4. This is intended to ensure the Mayoral CIL does not undermine the economic viability of the provision of these forms of infrastructure, the need for which is closely tied to the projected increase in population in Greater London in the period to 2031. "Economic viability" for these types of development takes in different considerations than commercial particularly policy decisions about availability and allocation of funding. Given the twin pressures of constrained public funding and growth both of total population and of younger and older age groups, the Mayor has concluded that the imposition of a CIL for these types of development – which are specifically identified in the London Plan as being essential in order to support the extent of development envisaged in London in the next twenty years (see policies 3.18 and 3.19 of the draft replacement London Plan) - could make them unviable in these terms. Together the make up about 5% of total development in Greater London, and the Mayor does not consider that setting a zero rate for them will have a significant detrimental effect on development in Greater London. This approach would also ensure consistency of

[12] Communities and Local Government, Community Infrastructure Levy Guidance – Charge setting and charging schedule procedures (March 2010)

treatment for these uses whether or not they are provided by charities (development by charities on their own land for their charitable purposes is exempt from the CIL).

Reliefs and exemptions

5. Under regulation 44, charging authorities may allow relief for development by charities where the whole or greater part of the development is held by the charity as an investment for charitable purposes. The Mayor does not currently propose to make this relief available. He considers that the better approach is to apply the CIL on the basis of uses rather than ownership, and to keep the overall figure set low. Allowing this relief would also make administration of the CIL across London as a whole unduly complex and burdensome. He will keep the position under review (see below).

6. Under regulations 57 and 58, the Mayor may allow relief for exceptional circumstances (relating specifically to developments in respect of which there is also a section 106 agreement, where sums payable under that agreement are higher than the amount of CIL payable). The Mayor does not intend to make this relief available at this point. He considers that it would be better to address problems of viability caused by the combined demands of CIL and section 106 agreements by making any necessary adjustments to the latter, in accordance with well-understood and applied planning principles. Disputes could be dealt with through the appeals procedures under the Town and Country Planning legislation. This approach would also avoid making administration of the CIL across London as a whole unduly complex and burdensome. Again, he will keep the position under review.

7. **For the avoidance of doubt, the following are exempt from the CIL under the 2008 Act and the Regulations:**

   - **social housing**
   - **development by charities of their own land for their charitable purposes.**

Relationship with Crossrail planning obligations.

8. The Regulations make provision for restricting the use of section 106 after introduction of the CIL. The Government has made clear its view that the CIL will be a better vehicle to address the cumulative impact of developments and fund the infrastructure needed to deal with this. Accordingly, the Regulations restrict the use of "tariff" arrangements for the pooling of contributions to arrangements involving fewer than five developments. As far as existing section 106-based tariff arrangements are concerned, the Regulations allow these to run until April 2014, or the date on which a local authority begins to charge a CIL, whichever is the earlier. In any case, authorities will not be able to "double charge" – seek contributions towards the cost of particular infrastructure through both section 106 and the CIL.

9. The position is different, however, with respect to planning obligations that relate to, or are connected with the funding or provision of scheduled works within the meaning of Schedule 1 to the Crossrail Act 2008 (regulation 123 (4)). The practical effect of this will be that the contributions policy set out in this document will run until the £300 million sum to be raised from this source under the Crossrail Heads of Terms has been secured.

10. Paragraph 5.7 of the Supplementary Planning Guidance on "Use of Planning Obligations in the Funding of Crossrail"[13] states that should the Mayor bring forward a CIL, he would take decisions on both the CIL charging schedule and the level of section 106 contributions for Crossrail in tandem. He has taken the view that the best way of ensuring that developers do not have unreasonable demands made of them by having to make both CIL and section 106 payments towards Crossrail is to treat CIL payments as a credit towards any payment sought under the section 106 policy should the former be less than the latter, and not to seek a contribution at all should the obverse be the case. The Mayor intends to bring forward a revised SPG dealing both with CIL and use of s106 for Crossrail in due course.

Phasing and payment by instalments

11. The Regulations deal with the calculation of the amount of CIL to be paid for developments approved to proceed in phases (at the time of the approval of the last reserved matter associated with that phase – see regulation 8) and with payment by instalments in certain cases (regulation 70). The Government has stated its intention to change the Regulations "to free up payment arrangements … authorities will be able to decide their own levy payment deadlines and whether to offer the option of paying by instalments"[14]. The Mayor is having discussions with London boroughs about establishing a common approach to payment by instalments and will give further information in due course.

Reporting and review

12. As required by the regulations, the Mayor will publish annual reports showing, for each financial year:

- how much has been collected in CIL by the boroughs on his behalf;
- how much of that money has been spent;
- the items of infrastructure on which it has been spent;
- any amount used to repay money borrowed;
- the amount of CIL used to cover administrative expenses; and
- the amount of CIL retained at the end of the reported year.

13. The Mayor will keep the operation of the CIL and the position regarding the funding and implementation of Crossrail under continual review. He intends, however, to conduct biennial formal reviews of the working of his CIL. These reviews will consider in particular whether the CIL rates set continue to be appropriate, and whether there is evidence that would justify the Mayor in allowing either or both of the forms of discretionary relief referred to in paragraphs 5 and 6. He will publish the results of these reviews in the London Plan Annual Monitoring Report covering the relevant year, and any changes will be subject to public consultation in accordance with the CIL Regulations or the Mayor's

[13] Mayor of London (July 2010)
[14] DCLG, The Community Infrastructure Levy – An overview (November 2010)

usual practice, as appropriate. The first of these reviews is likely to take place in 2014. At the appropriate time, the Mayor will make announcements about future uses of Mayoral CIL powers.

4 Evidence base

Context

This chapter describes the evidential basis for the judgement made by the Mayor on economic viability across Greater London, and his conclusion that the amounts set out in the preliminary draft charging schedule would not put at serious risk overall development of the area.

It has been prepared for the Mayor by Jones Lang LaSalle, the consultants he has retained for this purpose.

4.1 Introduction

Crossrail: Development and Funding Requirements

4.1.1 Crossrail is a significant new piece of railway infrastructure for Greater London. As part of the Comprehensive Spending Review October 2010, the Government confirmed that funding will be made available to enable Crossrail to proceed. The central section is now programmed to open in the financial year 2018/19.

4.1.2 CIL is a new levy which can be raised to support development in line with a local authority's development plans. The Mayor of London has long supported Crossrail as a necessary piece of infrastructure to underpin the development of London.

4.1.3 As part of the funding settlement with Central Government the Mayor proposes to raise £300m from the Community Infrastructure Levy in addition to sums raised from the confirmed S106 policy and Business Rates Supplement.

4.1.4 The Community Infrastructure Levy Regulations 2010 came into force on 6th April 2010. These regulations, described in more detail in the next section, set out the process which a "charging authority" must follow in order to have a "charging schedule" confirmed for their area.

4.1.5 This technical report is produced to help inform this process. Section 4.1 provides an introduction of Crossrail and the Community Infrastructure Levy, including the CIL Regulations. Section 4.2 outlines the S106 analysis previously undertaken, the common and distinguishing features of the CIL and S106 Policy, as well as the brief for this report. Section 4.3 demonstrates the need for, and desirability of, Crossrail and other infrastructure while Section 4.4 discusses the viability issues associated with the implementation of the CIL, in particular its correlation with development activity. Section 4.5 discusses whether residential values are a good indicator for high values in other sectors before Section 4.6 discusses the merits of implementing a flat versus a variable rate. Section 4.7 outlines the methodological approach undertaken in the analysis, with Section 4.8 summarising issues raised by respondents to the consultation on the preliminary draft charging schedule. Section 4.9 looks at preferred scenarios and goes into details on calculations undertaken, whilst Section 4.10 assesses the impact on viability that the CIL may have at the preferred level, providing some sensitivity analysis to illustrate the size of CIL in relation to other "moving parts" in the appraisal process and therefore the likelihood or otherwise that the proposed level of CIL will change the decision to develop or not. Section 4.11 offers some conclusions, and the Appendices list the other scenarios considered and the results of the correlation co-efficiency analysis.

4.1.6 Our analysis will discuss the necessary pre-conditions for economic viability and whether development activity alone equates to development viability. We will conclude that the higher the value of the land is above costs of construction the more attractive the development is likely to be when measured against existing use value. None of this matters, of course, if land for development is simply not there - attractiveness needs to be aligned with opportunity and some Boroughs are either already densely developed with limited capacity for further development, have high existing use values or restrictive planning policies. It therefore follows that when considering the possible impact of CIL we will need to have regard to both viability and the location of London's reservoir of development land.

Community Infrastructure Levy (CIL)

4.1.7 In setting rates the charging authority must comply with the requirements of Regulation 14:

(1) In setting rates (including differential rates) in a charging schedule, a charging authority must aim to strike what appears to the charging authority to be 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.

(2) In setting rates in a charging schedule, a charging authority may also have regard to actual and expected administrative expenses in connection with CIL to the extent that those expenses can be funded from CIL in accordance with Regulation 61.

(3) In having regard to the potential effects of the imposition of CIL on the economic viability of development (in accordance with paragraph (1) (b)), a London borough council must take into account the rates set by the Mayor.

(4) For the purposes of paragraph (3), the rates set by the Mayor are the rates in the most recent charging schedule approved by the Mayor before the London borough council begins consultation on its preliminary draft charging schedule in accordance with regulation 15.

4.1.8 The document published by the Department for Communities and Local Government in November 2010 (The Community Infrastructure Levy, An Overview) gives further assistance on interpretation. Paragraph 22 states that:

"Charging authorities wishing to introduce a levy should propose a rate which does not put at serious risk the overall development of their area"

4.1.9 Taken overall, when considering whether the "appropriate balance" has been struck between the desirability of infrastructure and the impact across Greater London of the introduction of the charge we will address the question whether, at the levels adopted, development in Greater London is put at serious risk.

CIL & S106

4.1.10 Following considerable public consultation and an Examination in Public in December 2009, alterations to the London Plan were approved, along with Supplementary Planning Guidance to enable use of the planning system to raise contributions towards the cost of Crossrail through the use of planning obligations ("section 106 agreements").

4.1.11 At the EiP concern was raised about the cumulative effect of CIL and, where appropriate, the Crossrail S106 policy.

4.1.12 To meet this concern the Mayor intends to allow any payment of CIL to be set off against the sum otherwise due from a S106 payment levied solely for the purpose of contributing to Crossrail.

CIL Regulations

4.1.13 Any proposed Community Infrastructure Levy is governed by the provisions of Part 11 of Chapter 2 of the Planning Act 2008 and the Community Infrastructure Levy Regulations 2010.

4.1.13 The following are the key regulations which we have had regard to in our analysis:

• A charging schedule will set out rates (pounds per square metre)	Regulation 12
• A charging authority may set differential rates for different zones or uses. In setting differential rates, a charging authority may set supplementary charges, nil rates, increased rates or reductions.	Regulation 13
• In setting rates (including differential rates) in a charging schedule, a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between— – 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 – the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.	Regulation 14
• A charging authority may have regard to actual and expected administrative costs.	Regulation 14
• In considering the impact of CIL in economic viability a London borough council must take into account the amount set by the Mayor.	Regulation 14
• Indexation using the All-in Tender Price Index published from time to time by the Royal Institution of Chartered Surveyors	Regulation 40
• Charge levied in the increase in gross internal area permitted by a planning permission over and above the existing gross internal area. (Planning permission includes permission given pursuant to the General Permitted Development Order and similar)	Regulation 40 Definitions
• Small properties or charge levels exempt: charges below £50, properties with a permitted development of less than 100 sq metres unless a dwelling.	Regulation 40, 41 & 42
• Charities owned property used for charitable purposes is exempt.	Regulation 43
• A charging authority may give relief to a charity owning property for investment purposes.	Regulation 43, 44, 45 & 46
• Social housing relief. Relief will be given from CIL for social housing which is widely defined and includes shared ownership arrangements.	Regulation 49-50
• Relief may also be given for exceptional circumstances	Regulation 55-58
• In relation to a collecting authority which collects on behalf of a charging authority (e.g. a London Borough on behalf of the Mayor) the maximum recovery of administration cost is 4% of CIL	Regulation 61
• In relation to a charging authority which is not a collecting authority	Regulation 61

(e.g. the Mayor) the maximum recovery of administrative costs is 1% of CIL if collecting authority charges the maximum 4%.	

4.2 Background and brief

Approach taken for S106 analysis presented to EiP in December 2009

4.2.1 In presenting evidence for the December 2009 S106 EiP we considered projected levels of development activity within a defined geographical boundary over a period which coincided with the planned construction phase of Crossrail. Based on different assumptions about uses to be covered and geographic boundaries, we made various estimates of the contributions required to achieve the target sum included as part of the funding settlement. The impacts of congestion were considered to derive a policy compliant with Circular 05/2005. This section explains how the CIL differs from section 106, and how the analysis we have carried out to support the preliminary draft charging schedule for CIL differs from that which we undertook for the earlier exercise.

4.2.2 It is important to note that the Crossrail S106 policy will continue in operation until the £300 million identified to be raised from that source has been collected (there is a specific exemption in the CIL regulations to enable this to happen). This technical report is based on the s106 and CIL operating alongside each other.

The common and distinguishing features of CIL and S106 Policy

Common Features

4.2.3 The separate targets, each of £300 million, are part of the settlement with Central Government and accord with overall national and London transport policy.

4.2.4 The need for funding coincides with the construction of the central section of Crossrail (Paddington to Custom House) currently estimated to take place in the financial years starting April 2010 and finishing March 2019.

Distinguishing Features

4.2.5 The test in Regulation 14 – desirability of infrastructure tempered by impact on development – is very different to the approach in the Circular, with its emphasis on addressing the impacts of particular developments.

4.2.6 Funding of, or in connection with Crossrail, is specifically identified in the CIL Regulations as infrastructure for which the Mayor may apply funding (see Regulation 59(2)).

4.2.7 There is a presumption that CIL will be levied on all uses and development except where specific reliefs or exemptions are in place or in exceptional circumstances.

The brief

4.2.8 To make an estimate of likely quantity of development across all sectors from an assumed commencement date for the Levy of 1st April 2012 for the next seven years (excluding accommodation for charities for charitable purposes, social housing which are subject to a relief under the Regulations, and assuming that the charge for education and health purposes will be set at a nil rate as proposed by the Mayor).

4.2.9 To consider, in light of Regulation 14 and the other CIL Regulations, an appropriate level and structure of charge which is unlikely to cause significant adverse impact on the property markets across Greater London and which has regard to:

- the need for the Crossrail project and the desirability of that infrastructure, and
- the impact of the Levy, looking at Greater London as a whole, and the effect that any impacts on economic viability have on the likely quantum of development

4.2.10 To consider the options available for a differential Levy dependent upon use or geography.

4.2.11 To produce a recommendation, which strikes the "appropriate balance" (see 4.1.7 above) whilst being practical to implement across the whole of Greater London.

4.3 The need for Crossrail and other infrastructure

The case for Crossrail

4.3.1 The case for Crossrail has been endorsed and promoted nationally, and at London and local levels. The Crossrail Act was passed in July 2008 and as part of the recent Spending Review the new coalition government agreed that the project should continue.

4.3.2 Crossrail is a major plank of the adopted London Plan. The supportive text to Policy 3C.12 refers to new cross-London links within an enhanced London National Rail network, in particular:

"Crossrail 1 is critical to supporting the growth of the financial and business services sector in central London and in the Isle of Dogs, where there is market demand for additional development capacity. By linking these two areas, Crossrail 1 would create a virtual unified economic and business core in London. Significant regeneration and intensification of development around key interchanges within the Central Activities Zone and to its east and west are crucially dependent on the delivery of Crossrail 1, which is planned for phased completion to 2017. Crossrail 1 will make a vital contribution to improving the accessibility and attractiveness of the Thames Gateway to the east of Canary Wharf, through its cross-river link to south east London, and potential links to a DLR extension to Barking Riverside via an interchange at Custom House. The scheme will also improve links to Heathrow thereby supporting connections for London's global businesses".

(Paragraph 3.224, The London Plan consolidated with alterations since 2004, published February 2008)

4.3.3 In the consultation draft of the replacement London Plan 2009 this policy is reinforced:

"Crossrail is essential to delivery of the strategic objectives of this Plan. Demand for public transport into and within central London is nearing capacity, with crowding on Network Rail services and on London Underground routes towards the West End, the City and Isle of Dogs. The employment growth expected over the period covered by this Plan will further increase demand. Unless this is addressed, continued development and employment growth in central and eastern London will be threatened. In particular, Crossrail is critical to supporting the growth of the financial and business services sectors in central London and in the Isle of Dogs, where there is market demand for additional development capacity. It will also provide much needed additional transport capacity to the West End, where it will support the future development of that area as London's premier retail and leisure location. The scheme will also improve links to Heathrow thereby supporting connections for London's global businesses. By linking these areas, Crossrail will help reinforce the development of London's economic and business core. It is also crucial to the realisation of regeneration and intensification opportunities around key interchanges within the Central Activities Zone and to its east and west. Crossrail will make a vital contribution to improving the accessibility and attractiveness of the Thames Gateway to the east of the Isle of Dogs, through its cross-river link to south-east London and connection with the DLR network (including to a potential DLR extension to Barking Riverside). It is expected that Crossrail will be operational in 2017".

(Paragraph 6.19, The Consultation Draft Replacement London Plan, published October 2009)

4.3.4 Colin Buchanan and Partners undertook a study in 2009 to quantify the financial benefit to Greater London of building Crossrail, and to show how this benefit will be distributed across Greater London. The total estimate of annual economic benefit across all London's boroughs is £1.83 billion (2010 prices).

4.3.5 Crossrail is also widely supported in the business community:

"Large infrastructure projects such as Crossrail will be vital to the economy as London and the UK seek to retain a competitive edge. As such property owners across London and the UK will be relieved to see the Government continuing its commitment to Crossrail and local transport schemes." (British Property Federation)

"Crossrail, along with continued improvements to the quality, reliability and capacity of the Tube, are the two most vital pieces of publicly funded infrastructure London needs. They will play a critical role in supporting London's growth and economic success….. Given the pressures on public finances, the business community strongly supports robust action to drive down Crossrail project costs and ensure value for money. But cuts to the scope of Crossrail are a false economy. The benefits of Crossrail far outweigh the costs". (London First)

4.3.6 Crossrail is considered essential by public policy makers, the business community and property market practitioners because the costs of congestion and the need to increase capacity to allow planned employment growth require a significant improvement to London's rail infrastructure.

4.4 Viability and its correlation with development activity

Market conditions and economic viability

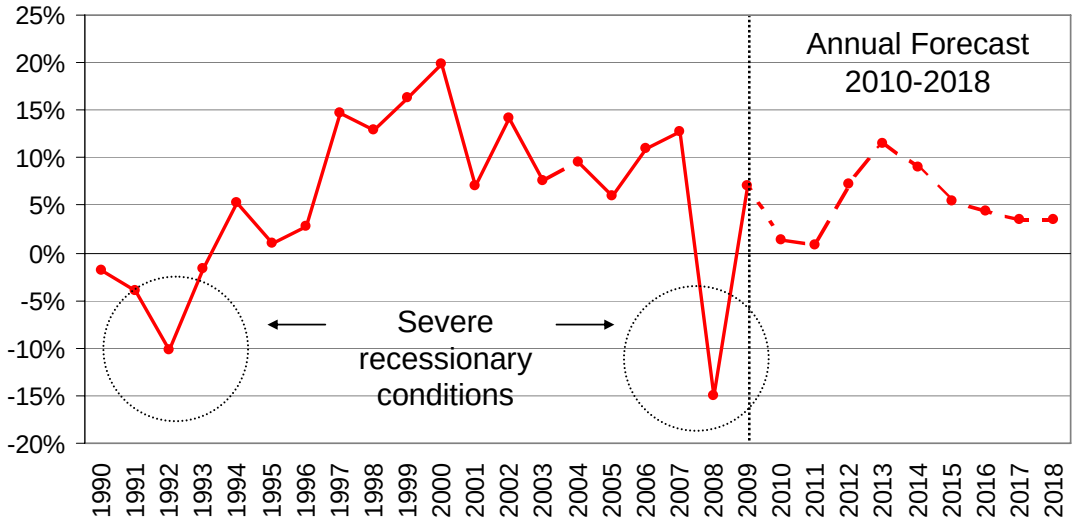
4.4.1 Before considering specific proposals for CIL we first look at the historical experience to see the extent to which development activity has tracked economic viability and the likely sensitivity of development activity to an increased cost such as CIL. We will use residential examples and then show the correlation between house prices and commercial values.

4.4.2 Economic viability has been defined elsewhere as *"the reasonable level of reward for an investment in a development project, having regard to the risks involved, which is necessary as a pre-condition to delivery of the project"*. (Use of Planning Obligations in the Funding of Crossrail Viability Assessments (Methodology and Principles) - Discussion Paper)

4.4.3 The reward for most commercial projects is measured either as profit or return on capital employed. A profit is made by selling the completed product at in excess of the costs of production of which CIL will be a part.

4.4.4 When judging viability it is important to recognise that the background is not static as the following chart showing house price volatility (similar volatility could be shown for office or retail rents) indicates:

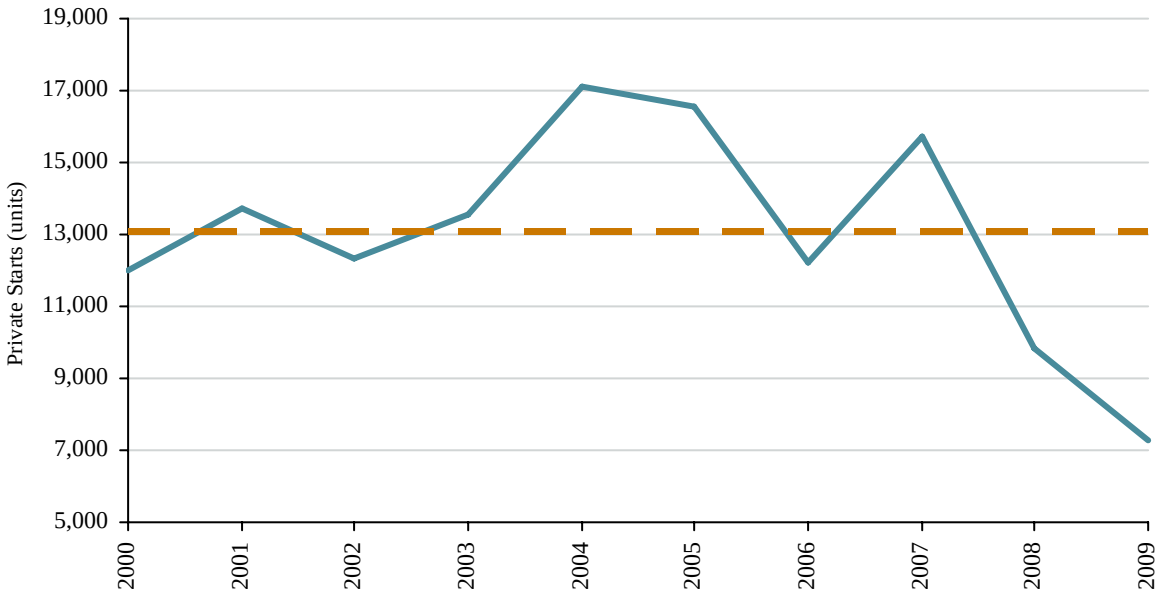
Figure A: Greater London House Price Changes



Source: Jones Lang LaSalle; Land Registry; Oxford Economic Forecasts

4.4.5 When using the expression "housing" or "house" in this report we are referring to all types of dwelling. This volatility is also reflected in private housing starts – see Figure B overleaf.

Figure B: Greater London private housing starts (2000-2009)



Source: Jones Lang LaSalle, DCLG

4.4.6 When circumstances are opportune (high end values and development finance readily available on favourable terms) developers acquire land, valuing it using a residual appraisal where the land value is calculated after deducting all costs. Costs in themselves rise and fall substantially across a development cycle – variables include construction costs and associated fees, interest and different tax treatments. Large scale developments have incurred stamp duty on land purchase at rates of between 1% to 4% over the last 30 years.

4.4.7 Ultimately the costs of development, including CIL, are absorbed into the calculation from which a residual land value is derived. The impact of CIL is therefore to reduce land value – and if land values are below the existing use value then development will not be viable. Historical experience suggests that very substantial changes in opinion regarding viability can occur over a short space of time.

Land values and economic viability

4.4.8 Higher values and development densities (usually accompanied by improved confidence) lead – all other things being equal – to a higher likelihood of land values exceeding existing use values which is a necessary pre-condition to development. However lower value schemes may still be viable.

4.4.9 This can be demonstrated by two simplified examples:

House value say £465,000

End value			£5,081 psm
Less 20% profit on costs (inc land)			-£847
			£4,234 psm
Less build cost		£1,830	
	plus fees and finance	say	-£2,250
			£1,984 psm
	Less finance on land and purchasers costs		
		LAND VALUE	£1,670 psm

House value say £250,000

End value			£3,000 psm
Less 20% profit on costs (inc land)			-£500
			£2,500 psm
Less build cost		£1,830	
	plus fees and finance	say	-£2,250
			£250 psm
	Less finance on land and purchasers costs		
		LAND VALUE	£210 psm

Both examples based on average dwelling size of 83.33 sq m GIA.

4.4.10 Both of the schemes illustrated by these examples could be viable – it depends whether the land value indicated is higher than existing use value. High value areas are likely to have high existing use values and so when considering viability it is not as simple as saying that high end values are an indicator of viability and, even if it were, viability in these terms alone is not sufficient. In order to get development activity the opportunity to develop must also be forthcoming – availability of suitably located and sized sites is an obvious precondition.

4.4.11 However in a property market, such as London, development opportunities are constrained by land availability and planning policy. Whilst a lack of viability will result in a lack of development activity the reverse is not necessarily the case. Viability is only one of the pre-conditions to development the others are developer confidence, availability of finance, land and planning permission.

Residential land values and development activity

4.4.12 As we have explained, higher house prices are a good indicator of higher residual land values (see 4.4.8 onwards), and we will later show that house prices have a positive correlation with office and retail rents. We now consider the relationship between house price data and development activity to establish whether high prices equal high development activity or whether there are other factors in play.

Table 1: Average house prices (2010)

London Borough	Average price (£)
Kensington and Chelsea	£866,295
City of Westminster	£623,963
Camden	£553,706
Hammersmith and Fulham	£494,064
City of London	£492,982
Richmond upon Thames	£430,008
Islington	£423,250
Wandsworth	£373,641
Hackney	£361,035
Southwark	£355,831
Barnet	£345,734
Tower Hamlets	£340,867
Haringey	£333,591
Lambeth	£331,534
Merton	£318,072
Ealing	£315,637
Kingston upon Thames	£311,368
Brent	£302,630
Redbridge	£286,344
Harrow	£286,017
Bromley	£283,643
Hounslow	£276,168
Greenwich	£265,237
Lewisham	£261,444
Hillingdon	£259,175
Havering	£256,611
Enfield	£255,528
Sutton	£247,133
Croydon	£245,747
Waltham Forest	£241,338
Bexley	£231,601
Newham	£221,403
Barking and Dagenham	£213,777

Source: Land Registry House Price Index, April 2010

Key:
Red = Group 1 zone
Blue = Group 2 zone
Green = Group 3 zone

Table 2: Gross private development (2000-2009)

London borough	Gross development (sq ft)
Tower Hamlets	1,450,192
Greenwich	762,636
Southwark	681,889
Wandsworth	664,057
Islington	568,977
Hillingdon	538,728
Lambeth	495,897
Hackney	483,897
Brent	475,398
Newham	465,565
Hounslow	417,900
Redbridge	398,567
Croydon	386,318
Lewisham	368,235
Barnet	357,819
City of Westminster	341,570
Bromley	324,904
Ealing	319,237
Enfield	308,904
Merton	283,322
Harrow	274,489
Havering	250,323
Richmond upon Thames	226,158
Sutton	225,324
Haringey	211,242
Camden	196,659
Kingston upon Thames	175,326
Waltham Forest	158,827
Barking and Dagenham	149,911
Bexley	117,829
Hammersmith and Fulham	100,246
Kensington and Chelsea	90,080
City of London	54,081

Source: GLA database (2000-2009)

Table 3: Gross private development (per capita)

Borough	Development per capita (sq ft)
City of London	6.596873628
Tower Hamlets	6.153694656
Greenwich	3.236377432
Islington	2.889045257
Southwark	2.376683083
Wandsworth	2.279475388
Hackney	2.217535584
Hillingdon	2.093401296
Hounslow	1.852032183
Lambeth	1.763458342
Newham	1.733540026
Brent	1.698728449
Redbridge	1.502548019
Lewisham	1.389304924
Merton	1.383691968
City of Westminster	1.378864959
Harrow	1.242937253
Richmond upon Thames	1.225859645
Sutton	1.18871408
Croydon	1.113654624
Kingston upon Thames	1.076685069
Havering	1.068515742
Enfield	1.056758714
Bromley	1.054769034
Barnet	1.031154959
Ealing	1.01496269
Haringey	0.915095455
Barking and Dagenham	0.852326931
Camden	0.805546203
Waltham Forest	0.698502872
Hammersmith and Fulham	0.566463937
Bexley	0.519673188
Kensington and Chelsea	0.480951066

Source: GLA database (2000-2009) gross development / Experian 2010 Population

4.4.13 Table 1 provides an illustration of house prices using the Land Registry House Price Index (April 2010) data, except the City of London where we have used average asking prices as Land Registry data was not available, with Boroughs ordered and classified by average house prices. The highest and lowest 8 Boroughs have been separated from the remainder – effectively an upper and lower 'quartile' – and have been named Group 1 and Group 3 zones accordingly. Group 2 is the remaining two quartiles in aggregate. As there are 33 Boroughs (including the City of London), 17 Boroughs are allocated to this middle group. For illustrative purposes we have colour coded the zones - red Group 1, blue Group 2 and green Group 3.

4.4.14 Table 2 uses the same colour scheme based on house prices but orders the Boroughs by private gross residential development per Borough in the period 2000-2009 based on the assumption of a "typical" residential unit of 83.33 sq m (897 sq ft). In order to reduce the effect of development activity resulting from the different sizes of the Boroughs, Table 3 orders the Boroughs by private gross residential development per capita. Tables 2 & 3 aggregate development built in the period 2000 - 2009 (based on the GLA database).

4.4.15 When referring to the "GLA database" we are describing all the data collected through the GLA's London Development Database since Q1 2000 for properties that gained planning permission are were subsequently commenced, ignoring properties covered by the Crossrail S106 policy, and where reliefs or exemptions are given by the CIL Regulations or proposed by the Mayor. Certain "one-off" projects such as the Olympics and Terminal 5 are removed.

4.4.16 Statistically there is a weak correlation between values and residential development activity suggesting that, at least historically, the supply of land suitable for development and/or lower existing use values has been more important than the absolute level of land value computed by residual appraisal (see Appendix 2 which demonstrates a negative correlation coefficient). This suggests that provided house prices are at a level to support a land value above existing use value, development should take place and that, in Greater London at least, development has been possible over most of the cycle across a wide spectrum of house prices. In other words, the relatively low quantum of development in higher value locations says little about the economic viability of development locations.

We conclude that there are few certainties

4.4.16 Economic viability requires an implementable project, finance and developer appetite. High end values will, all other things being equal, produce high land values and the cyclical nature of development activity suggests that the combination of high and rising values, developer confidence and available finance is the key to understanding viability.

4.4.17 Much of the strategic reservoir of development capacity in terms both of new homes and employment – identified as Opportunity and Intensification areas in the London Plan – is located outside central London, particularly to the east.

4.5 Are residential values a good lead indicator for high values in other sectors?

4.5.1 As explained earlier, the relationship between existing use value and the value of the proposed development is central to viability. In answering the question set by the Regulations, it is important to identify a measure that helps establish this. This section shows how residential values can be used as a proxy for this across other uses, given a high degree of correlation with office and shop rents.

4.5.2 In order to establish a workable cross-London proxy for viability we have taken the likely major component of development (residential) and looked at the correlation between this and other uses.

Offices

4.5.3 We have looked at the likely correlation between residential prices and office rents (where available) – see Table 4. As before, the highest group of Boroughs by house value (Group 1) is in red, the middle group (Group 2) in blue, and the bottom group (Group 3) in green. As can be seen, there is a reasonably strong correlation between high house values and high office rents. (See also Appendix 2 for correlation co-efficiency analysis).

Retail

4.5.4 Table 5 does the same for retail rents. As with offices, there is also a reasonably strong correlation with retail rents (£Zone A) obtained for all Boroughs where possible.

'Other' categories

4.5.6 'Other' categories include health, education, leisure etc and can be split into two generic categories: commercial and non-commercial. By 'commercial' we mean private sector financed activities rather than non-commercial public sector development for the public good.

4.5.7 In recent years the biggest "other" schemes have included:

- Airport terminal buildings
- Football stadia
- Hospitals
- Higher education facilities

4.5.8 High house prices correlate with high disposal income and therefore, all other things being equal, the likely buying power for commercial activities and therefore the likely demand for this type of floor space in a Borough.

4.5.9 We have confirmed this by comparing house values with disposable income per person of working population in Table 6

4.5.10 We acknowledge that some of the largest development will draw their customers from well beyond the Borough in question, e.g. airports and football stadia.

4.5.11 There is no straightforward way of dealing with viability of non-commercial activities. Some will be charities occupying for charitable purposes. The remainder will be mainly public and local government where viability will be a combination of political desire and cost/benefit analysis.

4.5.12 For current purposes we have assumed that viability of non-commercial uses will match viability for commercial uses except in the case of the state-funded health and education sectors where the pressures on constrained public resources and their likely effect on viability decisions by the relevant authorities have led the Mayor to be minded to set nil rates for these uses. Had we not made this assumption we conclude that it would be difficult to provide a conclusive view about the effects on economic viability when the rationale for development is not based on economic factors.

Table 4: Office rents

London borough	Prime office rent (£)
City of Westminster	£80.00
Kensington and Chelsea	£50.00
City of London	£47.50
Southwark	£45.00
Tower Hamlets	£41.00
Hackney	£38.00
Lambeth	£37.50
Camden	£35.00
Hammersmith and Fulham	£35.00
Islington	£30.00
Greenwich	£30.00
Merton	£29.50
Richmond upon Thames	£28.50
Ealing	£28.00
Wandsworth	£27.50
Hillingdon	£23.00
Croydon	£23.00
Kingston upon Thames	£21.00
Hounslow	£19.00
Barnet	£18.00
Harrow	£18.00
Bromley	£18.00
Sutton	£15.00
Brent	£14.50
Redbridge	£12.00
Barking and Dagenham	£12.00
Haringey	*n/m*
Lewisham	*n/m*
Havering	*n/m*
Enfield	*n/m*
Waltham Forest	*n/m*
Bexley	*n/m*
Newham	*n/m*

Source: JLL, Focus

Table 5: Retail rents

London Borough	£Zone A
City of Westminster	£925
Kensington and Chelsea	£385
Kingston upon Thames	£315
Hammersmith and Fulham	£245
Croydon	£245
Bromley	£220
Richmond upon Thames	£205
City of London	£200
Camden	£200
Ealing	£155
Wandsworth	£125
Harrow	£125
Merton	£120
Lewisham	£110
Hillingdon	£110
Enfield	£110
Lambeth	£100
Greenwich	£100
Sutton	£100
Hounslow	£80
Hackney	£75
Islington	£65
Barnet	£65
Brent	£60
Bexley	£35
Southwark	*n/m*
Tower Hamlets	*n/m*
Haringey	*n/m*
Redbridge	*n/m*
Havering	*n/m*
Waltham Forest	*n/m*
Newham	*n/m*
Barking and Dagenham	*n/m*

Source: JLL, Focus

Table 6: Disposable income

Borough	Disp / work. pop
City of London	£106,546
City of Westminster	£44,937
Kensington and Chelsea	£43,696
Richmond upon Thames	£40,589
Camden	£35,204
Bromley	£34,215
Barnet	£32,524
Hammersmith and Fulham	£32,509
Wandsworth	£30,495
Haringey	£30,089
Kingston upon Thames	£29,505
Croydon	£29,102
Islington	£29,065
Hackney	£28,737
Harrow	£27,984
Merton	£27,908
Brent	£27,819
Sutton	£27,793
Hillingdon	£27,640
Lambeth	£27,363
Enfield	£27,280
Greenwich	£27,254
Ealing	£27,106
Havering	£26,489
Hounslow	£26,417
Redbridge	£26,391
Waltham Forest	£26,211
Bexley	£25,281
Lewisham	£24,755
Tower Hamlets	£23,712
Southwark	£22,850
Barking and Dagenham	£21,955
Newham	£18,526

Source: Experian 2009 Household Disposable Income/ Working Age Population

4.6 Flat or variable rates?

4.6.1 The Charge is to apply to a large area, and there are marked contrasts in value/viability within individual Boroughs, let alone Greater London as a whole. Inevitably the impact of the levy on the decision to develop will not be the same when considering projects with widely different viability characteristics. The Mayor's CIL must therefore be set at a level which will be broadly affordable across Greater London.

Flat or variable rate?

4.6.2 The options open to the Mayor are to propose a **flat** rate and apply it uniformly across Greater London or set **differential** rates by use or geography, or both, accepting that such an approach must be one that can be applied sensibly across the whole of Greater London.

4.6.3 The Regulations insist on a viability test rather than one based on benefits or impacts

Viability – differential rates

4.6.4 A flat rate would be simpler, and might in any event be something that could be absorbed into the development cost structure across Greater London. However despite the historically weak correlation between end value, land value and development activity, a differential approach supports the spatial strategy in the London Plan which identifies substantial development capacity in "lower value" boroughs like Newham and Barking and Dagenham. In these places, it is economic viability that is more likely to be a challenge, rather than the existence of suitable sites.

Use type

4.6.5 Viability judged by use type alone is likely to give distorted results. In the centres where we collect data, office rents vary between £12 psf and £80 psf, retail rents vary from £30 and £925 psf in terms of Zone A and residential (average) Borough house prices from £215,000 to £865,000 based on the Land Registry House Price Index 2010. There is too wide a difference in value across the use types to make them a useful proxy for viability when looking across the whole of Greater London. To give an example, a corner shop on a local parade and a high street fashion store in the West End are both retail but command vastly different rents and capital values.

Geographical

4.6.6 Geographical differentiation looks better in comparison, although it is accepted that there can still be a wide cross-section of values within a Borough boundary. For example:

- Hillingdon has a high house value suburban population in the north of the Borough and a denser, but a lower house value population in the south close to Heathrow Airport.
- Office rents at the south of Camden, Hackney and Islington will be markedly different from the north of these Boroughs.

- Particular commercial developments may be uncharacteristic of the Borough as a whole. For example Heathrow Airport (Hillingdon), Canary Wharf (Tower Hamlets), Westfield Shopping Centre at Stratford (Newham) - under construction.

4.6.7 Neither measure of differentiating London wide viability is without its limitations due to the diverse viability characteristics across Greater London. However, despite these issues we judge geography to be more appropriate than uses when considering viability across Greater London as a whole – the test specified by the Regulations.

4.6.8 We therefore look at value characteristics, Borough by Borough. Our starting point is private residential uses as these are not covered by the Mayor's S106 policy, and based on historical experience as derived from the GLA database they are likely to represent the largest percentage of development by floor area. We did consider whether to use geographical units, such as wards or super output areas which are smaller than Boroughs. There are likely to be problems here with data availability, sample sizes and with complexity (all things that CIL guidance indicates should be taken into account). Arguably the Boroughs are better placed to make detailed viability judgements within their boundaries and can reflect this within their own CILs and use of S106.

Conclusion

4.6.10 A simple, low, flat and anticipated Levy could be absorbed into the economics of the development process. However, in our opinion, a differential rate is a preferable solution as it better reflects the different economic circumstances across Greater London, the parts of London with the greatest land supply, and priorities in the London Plan.

4.6.11 In seeking a method of best differentiating between locations with differing viability characteristics available data and logic suggests a Borough by Borough analysis as being appropriate when setting the Mayor's CIL. A more granular approach within a Borough can be adopted when/if that Borough set its own CIL.

4.6.12 House price data is available on a Borough by Borough basis and is readily available and closely tracks viability. Other uses are reasonably well correlated at the Borough level.

4.6.13 Overall we conclude that when looking at viability across London (excluding development covered by the Crossrail S106 policy) house prices are a practical way of differentiating by viability for commercial and residential uses. However based on past experience land availability rather than value is likely to have been more important in encouraging development.

4.7 Methodology

4.7.1 Having determined that, in our opinion, a differential, borough by borough Levy is the best fit with the relevant provisions in the Planning Act 2008, supporting Regulations and guidance, we now proceed to determine the level of Levy and to consider its impact on economic viability.

Exemptions and zero rated development

4.7.2 Almost all development is expected to contribute to CIL but there are exemptions and/or reliefs for:

- small development (under 100 sq m, or one additional residential unit),
- properties used by charities for charitable purposes.
- affordable housing

4.7.3 Under the Regulations, schools and hospitals (unless run by charities for charitable purposes) are included within the definition of "development" for the purposes of CIL. However, Regulation 13 allows the Mayor to set differential rates, which can include nil rates. Analysis of the GLA database has shown that the exemption of schools and hospitals does not significantly impact on levels of chargeable development and therefore the Levy – it decreases our predicted total development by approximately 5%. As a result, for the purposes of this analysis, we are instructed to assume that schools and hospitals (not already exempted by charitable status) are given a nil rate.

Data analysis

4.7.4 Our evidence of past development activity comes from the GLA database, which contains details of development undertaken pursuant to planning permissions granted between 2000 and 2009, less all developments covered by Crossrail S106 policy, as well as schools and hospitals.

- We first map the development cycle
- We calculate gross square feet built in Gross External Area terms.
- We remove an allowance for the floor area of "affordable housing" which will benefit from reliefs including adjustments to the floor area allocated to existing buildings (Regulations 50-52).
- We remove certain "non repeatable" projects e.g. Olympics and Terminal 5.
- We remove properties below the "de minimis" threshold (100 sq m) or one additional residential unit (Regulation 42).
- We assume development lost due to exemptions (e.g. Charity for charitable purposes) will be made up by the unrecorded activity pursuant to the General Permitted Development Order.
- We look at the make up of development starts divided between private (and affordable) residential, offices, retail, hotel and other.

4.7.5 As private residential is the dominant use we have looked at private residential development as a proportion of all uses that would be captured by the CIL over the period 2000-2009 – from this

analysis we establish that, historically, private residential has only once been less than 50% of the total development, and never more than 66%, with an average of 55% (see Table 7). From this analysis we conclude that over the medium term it is reasonable to assume that private residential development is likely to average approximately 55% of development to be charged under CIL and not subject to Crossrail S106.

Table 7: historic analysis

	Private residential (gross development)	Total (gross development)	%
2000	4,591,743	7,529,465	60.98%
2001	10,494,003	20,573,491	51.01%
2002	12,652,185	29,481,602	42.92%
2003	12,436,008	23,550,177	52.81%
2004	14,334,060	28,051,072	51.10%
2005	14,710,800	26,165,435	56.22%
2006	14,975,415	26,611,207	56.27%
2007	17,214,327	29,340,588	58.67%
2008	16,295,799	25,006,095	65.17%
2009	9,295,611	15,677,606	59.29%
Total	**126,999,951**	**231,986,737**	**54.74%**

Forecasting

4.7.6 Our approach to forecasting is to predict likely future residential development – base case based on comparison with historical experience and then flex to consider a "bear" and "bull" scenario. By "grossing up" our residential forecast is turned into an overall forecast of development activity which will be captured by the CIL (other than that covered by the Crossrail S106 policy which will continue in operation). Because CIL is calculated using net increase in floor area rather than gross area we finally adjust our forecast to reflect this method of measurement.

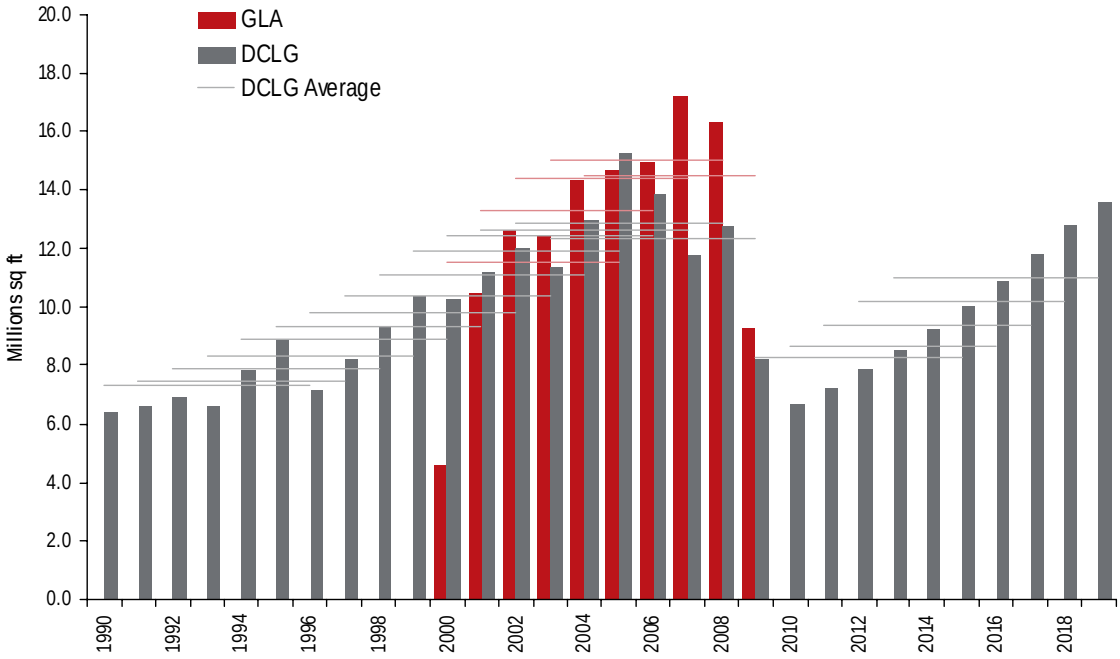
Residential forecast

Base Case Scenario – with the forecast from 2010-2019 based on a "fair market average" number of starts per year. This removes the peaks & troughs of the market in recession or boom.

Bear Case Scenario – with the forecast from 2010-2019 based on a "depressed market average". This average lags the base forecast by 10%

Bull Case Scenario – with the forecast from 2010-2019 based on an "improving market average". This average leads the base forecast by 10%

Figure C: Residential development – historical experience and base case prediction with 7 years rolling averages



4.7.7 7 year rolling averages of private residential development are forecast, to reflect the anticipated Charge period (April 2012 to April 2019). The process is repeated as a "double check" using DCLG/National House Building Council data.

Figure D – Forecast of 7 year rolling average (units) – residential development

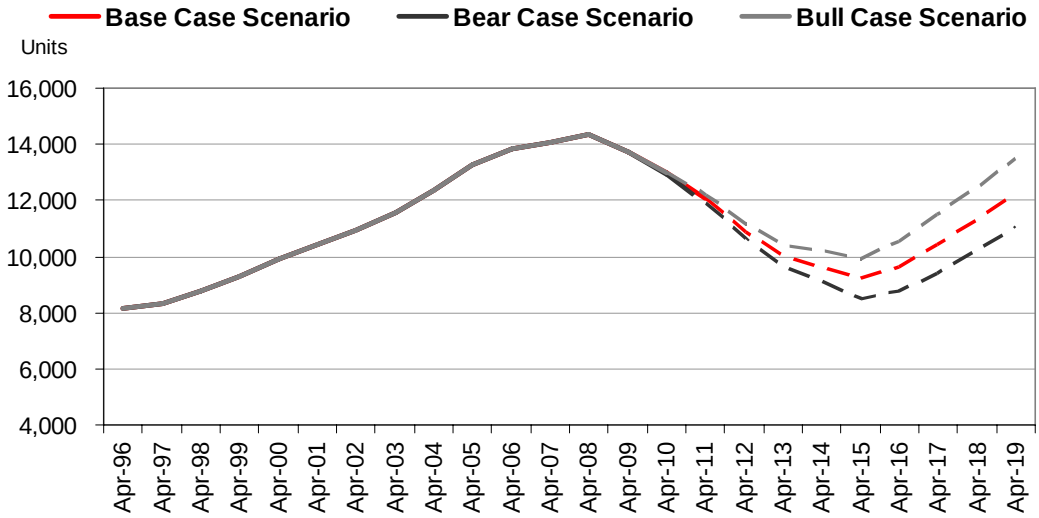
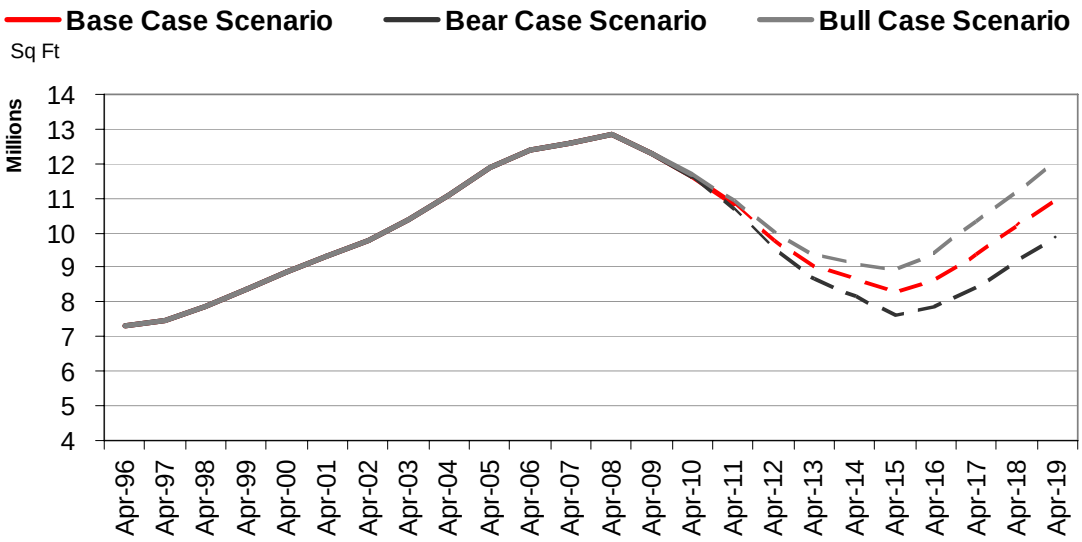


Figure E – Forecast of 7 years rolling average (gross external area sq ft) – residential development



Residential forecasting results

4.7.8 Based on the 7-year average April 2012 – April 2019:

Base case – delivery of approx 12,249 homes per annum / 10.99m sq ft per annum

Bear case – delivery of approx 11,024 homes per annum / 9.89m sq ft per annum

Bull case – delivery of approx 13,474 homes per annum / 12.07m sq ft per annum

(Source: Jones Lang LaSalle; DCLG; National House Building Council)

4.7.9 Taking the average of the 7 year rolling averages of GLA and DCLG/NHBC datasets (2000-2009) respectively, this suggests that if history, post 2000, repeats itself, gross development (private residential) is likely to be in the bracket of 12.44m sq ft pa (DCLG/NHBC) to 13.67m sq ft pa (GLA) over the next 7 years. The DCLG/NHBC data over 20 years would give an equivalent figure of 10.4m sq ft pa.

4.7.10 The DCLG/NHBC data is generally lower than the GLA and more markedly so when looking back over 20 years. Given current market conditions we have adopted a base case forecast for residential of an average of 10.99m sq ft pa over the next seven years using the DCLG/NHBC figures as our basis.

'Grossing up'

4.7.11 Assuming private residential remains 55% of all development captured by the CIL(not subject to the Crossrail S106 policy) as outlined in Para 4.2, we use this percentage to gross up to the predicted overall annual gross development of 20.1m sq ft (approx 140.5m sq ft over 7 years).

Net increase

4.7.12 While the above gross development profile provides an overall annual gross development figure of 20.1m sq ft, the Regulations require the charge to be calculated on the net

increase in floor area above the area of existing buildings. We use a ratio of 73% which reflects the ratio of net increase to gross external area of **all** data in the GLA database (2000-2009) that will be captured by the CIL (not subject to the Crossrail S106 policy). With this adjustment, the annual projection drops to 14.65m sq ft pa (approx 102.6m sq ft over 7 years). This percentage is calculated from historic GLA data (excluding buildings covered by the S106 policy) and calculating net increase in gross internal area as a percentage of total gross internal area.

Gross Internal Area

4.7.13 As the CIL applies to the gross internal area of the net increase in development (Regulation 14), the net increase figures above are therefore adjusted once more to reflect the gross internal area – we have again assumed a ratio of 98% for this, giving us a figure of 14.36 m sq ft (approx 100.5m sq ft over 7 years).

Implementation

4.7.14 Regulation 128 states that liability to CIL does not arise if planning permission is granted prior to a Charging Schedule coming into effect.

4.7.15 Therefore, based on the comparison of historical permission dates against commencement starts in the GLA database, we have determined that (of the permissions implemented) on average only 40% of permissions are implemented within the first 12 months. For modelling purposes we have assumed that the remaining 60% is delivered over a further four years. These commencement rates are therefore applied, and reduce the projections of likely chargeable development in the first five years.

4.7.16 As a result, we project a total development quantum for net increase in development (GIA) in Greater London (not covered by S106 policy or built pursuant to planning permissions granted prior to the Charging Schedule coming into effect, which is assumed will be in Spring 2012) of 82.3m sq ft over 7 years with annual contributions calculated on between 4.6m sq ft and 17.8m sq ft.

The zones

4.7.17 To undertake our differential approach we are adopting the same split between the Boroughs as we used to analyse the data in 4.4, and which we set out in Table 1. Inevitably a judgement has to be made as to where to draw the boundaries. We believe that a three way division between top quartile, inter quartiles and bottom quartile is appropriate – we do not see sufficient differentiation between the middle two quartiles to allocate them to different charging zones. We have looked back at the ranking (highest to lowest house prices by Borough) over the past 4 years and we find that the results are broadly similar. The top quartile (Group 1 zone) Boroughs are consistent over this period. The bottom quartile (Group 3 zone) is harder to apply a boundary to as there are 2 or 3 Boroughs where the ranking, and therefore zone, changes according to the month used for analysis. Using this three zone approach we apportion our projected development pipeline based on the historical experience of the net increase in residential development as contained in the GLA database. For example, 17.69% of such

development was in the Group 1 zone. This percentage is therefore applied to the projected development. The full listing is stated below.

Group 1 zone	17.69%	(14,563,573 sq ft)
Group 2 zone	64.52%	(53,114,573 sq ft)
Group 3 zone	17.79%	(14,642,714 sq ft)
Total	100%	(82,321,145 sq ft)

Group 1 zone boroughs are Kensington & Chelsea, Westminster, Camden, Hammersmith and Fulham, City of London, Richmond upon Thames, Islington, Wandsworth.

Group 2 zone boroughs are Hackney, Southwark, Barnet, Tower Hamlets, Haringey, Lambeth, Merton, Ealing, Kingston-upon-Thames, Brent, Redbridge, Harrow, Bromley, Hounslow, Greenwich, Lewisham, Hillingdon.

Group 3 zones are Havering, Enfield, Sutton, Croydon, Waltham Forest, Bexley, Newham, Barking & Dagenham.

4.7.18 The effects at the boundaries are that at the lower end of each group there are Boroughs paying a higher percentage of value than those at the top of the next group. The effects are inevitable unless there is a structure with 33 zones directly proportional to house prices. Such a structure would be complex and could be taken as a level of spurious accuracy given the significant number of site specific factors that bear on viability which cannot realistically be assessed across the whole of Greater London.

Indexation

4.7.19 According to regulation 40 (5) of the CIL Regulations, indexation is to be applied to the Levy from the year that the Charging Schedule comes into effect to the year that the permission is granted. The rate of indexation to be applied is as per the BCIS All-in Tender Price Index. At the time of writing, the furthest available projection was 3.3% pa which we have applied until 2019 (http://www.bcis.co.uk)

Target total

4.7.20 Having amended the projected development data to reflect all of the above, it is then applied to the target of £300m net of administrative charges in order to achieve the appropriate Levy level (per sq m).

Note: Regulation 61 allows the collecting authority to charge up to 4% of CIL collected for administration purposes. In addition, the charging authority, where not a collecting authority, can charge the balance up to 5% (i.e. an additional 1%). Therefore, while Levy figures (and target) are quoted net of administrative costs, the analysis uses a target of £315m (i.e. £300m plus 5% administrative costs), and assumes revenue inclusive of recovery of administrative costs.

4.8 Consultation Responses (initial consultation)

Median house prices

4.8.1 It has been suggested by one consultee that the use of median house prices would be a more suitable indicator of house prices across London. It was stated by this respondent that "the use of average house price data, however, may lead to anomalies in the results if that data is too widely diluted by specific location comparables or if there are too few comparables altogether….. It is considered that median data would provide a more resilient figure on which to base the hierarchy".

4.8.2 The median data relates to or constitutes the middle value of an ordered set of values whereas the mean is a mathematical average of the set. The mean may be skewed, however, by a relatively small number of high value transactions raising the average whilst not being representative for viability purposes of the area as a whole.

4.8.3 Inevitably whether using a mean or median approach there can be issues about the representativeness of the figure across an entire Borough.

4.8.4 Whilst we can see arguments for and against the use of median data there is in practice little difference in the rankings whichever method is used. As a result we have kept to the more readily used and understood average house price data.

Intra-borough viability

4.8.5 The considerable variability in values within boroughs was also highlighted in the preliminary consultation process. We acknowledge that average or median house prices can disguise variability within a borough. However, our approach has been to set a Mayor's CIL level that it should be possible to absorb into the general cost structure allowing the Boroughs, with their more local approach, to graft on their CIL if they wish to differentiate at the local level. This approach has been taken by London Borough of Wandsworth.

4.8.6 The other London Borough to publish a draft charging schedule (Redbridge) has chosen a single rate across the Borough.

Zones

4.8.7 Some consultees have suggested that there should be more than three zones – some have referenced the approach taken in the GLA Strategic Housing Land Availability Assessment (SHLAA) and Housing Capacity Study (HCS) Viability Assessment, undertaken by BNP Paribas Real Estate and published in August 2010.

4.8.8 The SHLAA uses a sample frame of average sales price data per Borough extracted from the Land Registry HPI for March 2010. From this information, the Boroughs are then grouped according to average house price and classified into four bands – "low", "medium 1", "medium 2" or "high value areas". We have adapted the SHLAA methodology and have applied it to the April 2010 data we have used. As there are 33 London boroughs (including the City of London), and to reflect the greater gap in mean house prices between Kingston-upon-Thames and Brent than the gap between Kingston-upon-Thames and Ealing, we have included 9 boroughs in the amended Group zone 2, as illustrated below in Table 8.

Table 8:

MEAN HOUSE PRICES (APR 2010)

Kensington and Chelsea	£866,295
City of Westminster	£623,963
Camden	£553,706
Hammersmith and Fulham	£494,064
City of London	£492,982
Richmond upon Thames	£430,008
Islington	£423,250
Wandsworth	£373,641
Hackney	£361,035
Southwark	£355,831
Barnet	£345,734
Tower Hamlets	£340,867
Haringey	£333,591
Lambeth	£331,534
Merton	£318,072
Ealing	£315,637
Kingston upon Thames	£311,368
Brent	£302,630
Redbridge	£286,344
Harrow	£286,017
Bromley	£283,643
Hounslow	£276,168
Greenwich	£265,237
Lewisham	£261,444
Hillingdon	£259,175
Havering	£256,611
Enfield	£255,528
Sutton	£247,133
Croydon	£245,747
Waltham Forest	£241,338
Bexley	£231,601
Newham	£221,403
Barking and Dagenham	£213,777

Source: Land Registry House Price Index, April 2010

For a comparison, a possible rate structure using 4 zones is set out in Appendix 4. These can be compared with the rates in our "Preferred Scenarios and calculations" section that follows, which is based on 3 zones.

Industrial development

4.8.9 Three respondents referred to the possible impact of the CIL on the viability of industrial development, and commented that the correlation co-efficiency analysis does not extend to industrial development.

4.8.10 In order to address these comments we have considered further the correlation between house prices and industrial land values. Industrial land values in our experience are for the most part in a band of between £0.7m per acre (e.g. east London boroughs, traditionally industrial but with modern day connection issues) and £1.2m per acre (e.g. west London boroughs, in proximity to Heathrow airport) with a range of values in the middle ground (e.g. other London boroughs in proximity of the North Circular Road and other arterial routes).

4.8.11 These land values do tend to correlate with the residential hierarchy provided in the Draft Charging Schedule – many of the green, Group 3 zone boroughs have the lower industrial land values as well as the lower average housing prices with many of the blue, Group 2 zone boroughs having slightly higher land values alongside higher levels of house prices. (The red Group 1 boroughs do not have significant industrial development; bar the odd "pocket" e.g. Nine Elms (Wandsworth), Wood Lane (Hammersmith and Fulham)).

4.8.12 This is further illustrated by using the data commissioned from URS and DTZ for the GLA's "London's Industrial Land Baseline" report, which illustrates the Total Built-on Industrial and Vacant Land (per hectare) in London in 2010. The table below orders the boroughs (in the original colour coding used in this Draft Charging Schedule, Table 1) according to the amount of land occupied by "Core" industrial uses (i.e. general/light industrial and warehouses) in each borough.

Table 9

Borough	Industrial (ha)
Ealing	421.5
Barking and Dagenham	381.2
Bexley	335.7
Enfield	319.6
Hillingdon	311.2
Brent	307.4
Hounslow	302.8
Havering	270.6
Newham	242.6
Greenwich	174.3
Croydon	147.8
Merton	145.8
Tower Hamlets	133.9
Waltham Forest	131.2
Haringey	126.7
Southwark	122.8
Sutton	120.9
Wandsworth	112.4
Lewisham	96.9
Bromley	89.9
Barnet	82.5
Lambeth	81.5
Hammersmith and Fulham	80.7
Hackney	61.9
Kingston-upon-Thames	61.5
Harrow	60.6
Redbridge	57.7
Islington	53.8
Camden	53.2
Richmond-upon-Thames	36.5
Kensington and Chelsea	14.4
Westminster, City of	11.7
City of London	-

Source: London's Industrial Land Baseline, June 2010 (DTZ/URS)

4.8.13 If we exclude the City of London as it has no industrial presence, and split the remaining 32 London Boroughs in half, the bottom half in terms of industrial concentration is predominantly blue (medium house price) and red (high high price) boroughs. In those boroughs, there is generally less industrial floorspace, and with medium to high residential values there is less likely to be a change of use to industrial.

4.8.14 However, the top half in terms of industrial concentration are all from boroughs in the blue (medium) and green (low) house price zones. Of these boroughs, we are satisfied that as a generality the blue boroughs (Ealing, Hillingdon, Brent, Hounslow, Greenwich, Merton, Tower Hamlets, Haringey, Southwark), are also regarded as superior industrial locations to those coloured in green, and therefore would likely have a higher (industrial) land value.

4.8.15 We are therefore satisfied that in terms of land values and residential house prices across the boroughs, there is a sufficient correlation to justify our approach.

4.8.16 In terms of the level of the Charge, we have considered the argument that industrial development should have a separate charging rate, due to its unique viability characteristics. Whilst the CIL will undoubtedly affect the viability of any development, if all uses are charged the same within a borough then, all things being equal, the imposition of CIL will not change the relative attractiveness of different uses provided values in excess of Existing Use Value (EUV) are achieved.

4.8.17 For the reasons explained above regarding the locations where industrial development has occurred and is likely to take place, there is a naturally "flatter" level of charge for industrial uses with the bulk of development being in boroughs with a proposed CIL of £20 or £35 per sq m of net increase in floor space.

4.8.18 Using the worst case of a cleared site of one acre (0.4 hectares) and a 50% site cover (plus 10% for ancillary office space) we calculate a typical GIA for such a development to be in the order of 2,226 sq m (23,960 sq ft). Assuming 100% net increase in floor space, and a CIL rate of £35 per sq m, there would be a charge of £77,905, i.e. 7.8% of land value of say £1m per acre, or 6.5% of a land value of say £1.2m per acre.

4.8.19 The same property in a poorer location, attracting a charge of £20 per sq m (£1.86 per sq ft), would generate a charge of £44,517, i.e. 6.36% of land value of say £700,000 per acre.

Example 1	
Value per acre	£1,000,000 - £1,200,000
1 acre plot	4,047 sq m
50% site cover	2,024 sq m
plus 10% for ancillary space	2,226 sq m
CIL @ £35 sq m	£77,905
CIL / Value per acre	7.79% - 6.5%
End value of scheme, say	£4,000,000
CIL / End value of scheme, say	2%

Example 2	
Value per acre	£700,000
1 acre plot	4,047 sq m
50% site cover	2,024 sq m
plus 10% for ancillary space	2,226 sq m
CIL @ £35 sq m	£44,517
CIL / Value per acre	6.36%
End value of scheme, say	£3,000,000
CIL / End value of scheme, say	1.5%

4.8.20 In conclusion on our calculations, CIL at the levels proposed is likely to be at a maximum 2% of the end value of the developed property. This is a relatively modest amount given the likely movements in cost and value over the development cycle.

4.8.21 Housing land values are usually in excess of industrial land values and the imposition of CIL will not change this. Therefore in order to promote and encourage industrial development strong planning policies will be needed to encourage industrial uses. Within an area where industrial uses are encouraged (and other uses discouraged) we do not see that the possible reduction in land value as a consequence of CIL will be sufficient to discourage development.

4.8.22 Where the choice is between the existing building and its development it should be noted that industrial buildings tend not to be built on more than one or two levels so the proportion of floor area that is a "net increase" above the floor area of existing buildings is likely to be more modest than for other uses (such as residential) where high rise might replace low rise. As a result we anticipate modest levels of CIL payable where new buildings replace existing property.

Methodology

4.8.23 Some consultees made reference to their preferences for "real life" residual land values to be offered to support contentions for setting CIL at the proposed level(s). We did consider at the outset the practicalities of doing this across a wide range of different uses and locations in London. However, there are practical difficulties. In their viability evidence, the London Borough of Redbridge's consultants used over 40,000 appraisals for one Borough alone.

4.8.24 Overall, we were of the opinion that it is better, when taking a broad view across the whole of London and across a property cycle, to look at historical variability in asset values (and accordingly land values) and then to consider the likelihood of CIL at the proposed levels being a significant determinant of viability.

4.8.25 We recognise that at the margin there will always be examples on the cusp of viability where CIL could "tip the balance". However, for the most part, we consider that it is far more likely that viability will vary considerably across the cycle with CIL being a relatively minor component of overall cost subsumed within greater movements in cost and value.

4.9 Preferred scenarios and calculations

4.9.1 Having predicted development, apportioned this into zones, established the target and indexation we now proceed to establish a preferred differential rate structure and calculate predicted proceeds.

Variables to date

4.9.2 There are numerous iterations that have been considered prior to our undertaking this report – see Appendices 2 and 4. These iterations have included varying:

- Levy structures (flat versus differential),
- timescales (6/7 years),
- differentiation between zones
- application of indexation
- mean versus median house prices
- three versus four zones

4.9.3 The preferred scenario, however, includes no finite term and determines the required Levy period in which the target is reached.

Preferred scenario

4.9.4 This scenario is the one that is considered to be the best fit, having regard to our preference to make the Levy one that is proportionate to house values in each zone (see section 7). The Levy is the year one levy subject to indexation.

- **£50 per sq m (£4.65 per sq ft) on Group 1 zone**
- **£35 per sq m (£3.25 per sq ft) on Group 2 zone and**
- **£20 per sq m (£1.86 per sq ft) on Group 3 zone**

4.9.5 The rates are quoted net of adjustment for administration (maximum 5%). The £15 per sq m gap differential between each zone is a matter of judgement and is examined again in section 4.10.

Results

4.9.6 Based on these rates, the target of £300m (excludes admin), is being achieved towards the end of the financial year 2018/2019.

Group 1 £50psm, Group 2 £35psm, Group 3 £20 psm

Year	Total	Cumulative
2012-2013	£14,622,792	£14,622,792
2013 - 2014	£22,527,858	£37,150,650
2014 - 2015	£32,122,418	£69,273,068
2015 - 2016	£43,701,820	£112,974,888
2016 - 2017	£57,602,372	£170,577,260
2017-2018	£64,540,140	£235,117,400
2018-2019	£64,882,600	£300,000,000

[NB figures exclude administrative costs of 5%]

4.10 Assessment of impact on economic viability

Economic viability

4.10.1 As described earlier in this paper economic viability characteristics change substantially across the economic and property cycles. At low points where money is scarce and occupational demand is poor, schemes in many sectors become unviable. In good times the reverse is the case.

4.10.2 We have made the case in section 4.5 for a differential Levy based on average house prices, which correlate well with values in the commercial sector although there is not a good correlation between houses prices and development activity. Land availability and other factors have been more significant than levels of house prices/levels of land value in encouraging past development activity, but provided a minimum level of house prices is achieved to establish a positive residual land value above existing use value, development will be viable in economic terms. The question arises, however: will CIL, at the levels proposed, materially impact the property cycle and the quantum of development given this historical experience?

Testing the impact of CIL

4.10.3 Our way of responding to this question is to look at the size of CIL in the context of the other "moving parts" in the development appraisal.

4.10.4 For the purpose of considering this question we have adopted a typical residential unit size outlined in Section 4.4 of 83.3 sq m gross internal area which represents on average a net increase of 61.0 sq m above existing floor area (based on a ratio of 73% net increase to gross development (see 7.5).

CIL Calculation (before indexation)

Group	Net increase in GIA	CIL
1	61.0m^2 @ £50	£3,050
2	61.0m^2@ £35	£2,135
3	61.0m^2@ £20	£1,220

CIL as percentage of Group 1 highest Borough average house price 0.35%

CIL as percentage of Group 1 lowest Borough average house price 0.82%

CIL as percentage of Group 2 highest Borough average house price 0.59%

CIL as percentage of Group 2 lowest Borough average house price 0.82%

CIL as percentage of Group 3 highest Borough average house price 0.48%

CIL as percentage of Group 3 lowest Borough average house price 0.57%

4.10.5 On this basis, the suggested rates represent less than 1% of the average house prices as set out in Table 1.

4.10.6 The highest CIL will apply to previously undeveloped sites where all development will be net increase. For such a development, the CIL calculation for a typical residential unit of 83.33 sq m would be:

Group	Net increase	CIL
1	83.33m^2 @ £50	£4,167
2	83.33m^2@ £35	£2,916
3	83.33m^2@ £20	£1,667

CIL as percentage of Group 1 highest Borough average house price 0.48%

CIL as percentage of Group 1 lowest Borough average house price 1.12%

CIL as percentage of Group 2 highest Borough average house price 0.81%

CIL as percentage of Group 2 lowest Borough average house price 1.13%

CIL as percentage of Group 3 highest Borough average house price 0.65%

CIL as percentage of Group 3 lowest Borough average house price 0.78%

4.10.7 On this basis, (i.e. where a site is previously undeveloped) the levy does in some cases marginally exceed 1% of average house prices. However in circumstances where there is no existing building, the hurdle of existing use value which must be exceeded to achieve a viable development is likely to be lower, and therefore the capacity to absorb CIL is likely to be higher.

4.10.8 In all cases payments in the order of 0.35% - 1.1% are relatively modest and might, for example, be compared with stamp duty land tax of between 1% and 4% of purchase price when transactions occur.

4.10.9 By contrast house prices, as provided by the Land Registry, have risen by 5.7% pa since 1990 with even higher percentage gains in the non-recessionary years when most building took place. Similarly, using BCIS Regional TPI: Greater London data, it can be seen that building costs have risen by 2.7% pa on average with high volatility (+11% to -12.9% in the years with the highest positive and negative movements in building costs – see Figure F).

4.10.10 Similar conclusions can be drawn from an analysis of the volatility of commercial markets (see Figure G).

4.10.11 Major movements in costs and values over the development cycle are likely to have far greater impacts on viability than CIL at the levels suggested in this paper.

Figure F: Greater London House Price Changes (2)

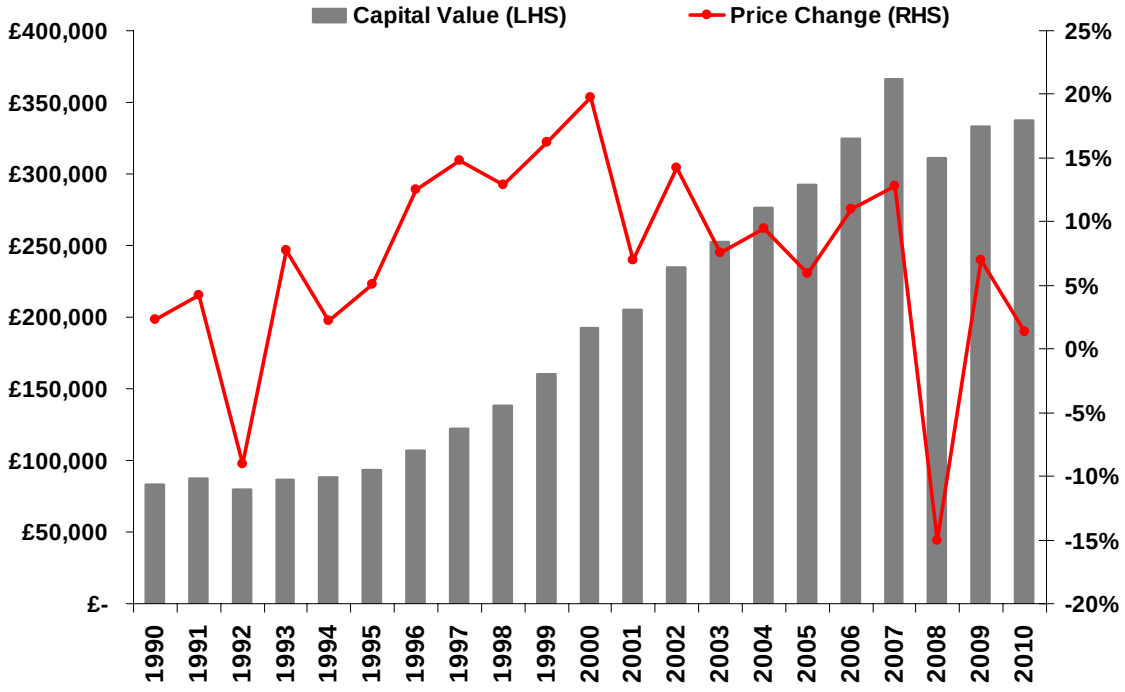
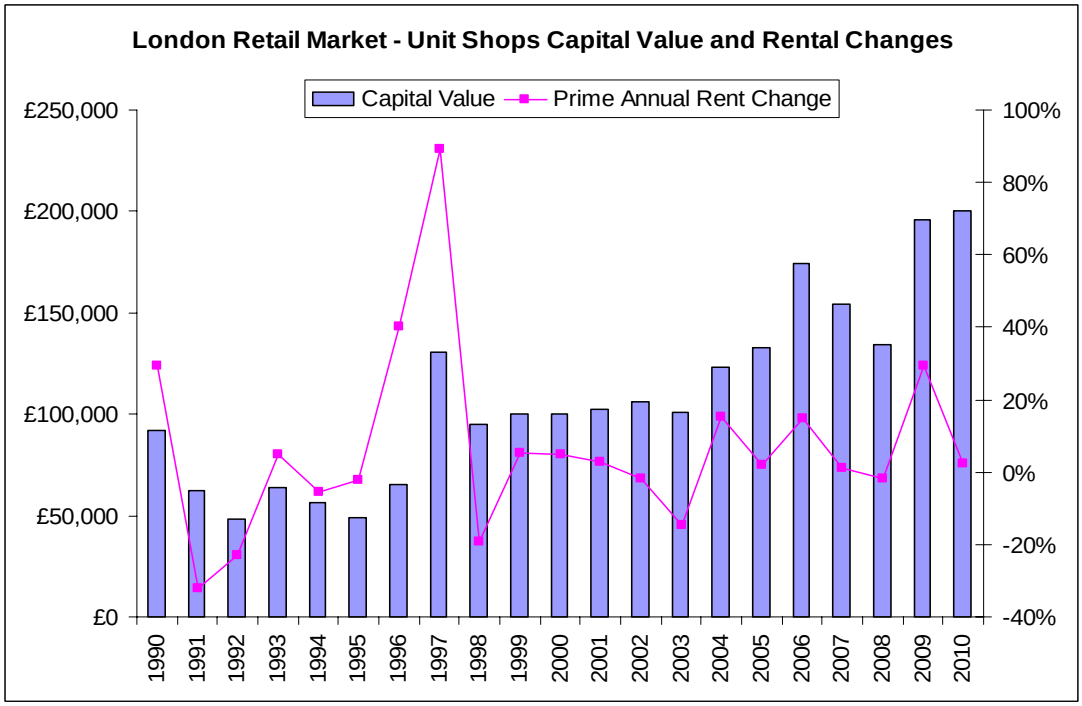


Figure G: London Retail Market –Capital Value and Rental Changes



Source: Jones Lang LaSalle; RADAR

Sensitivity

4.10.12 The following worked examples demonstrate the impact of the Levy on land values in the context of a market exhibiting marked changes in sales prices. The appraisals are in a simplified form and should be regarded as illustrative only.

4.10.13 Assumptions:

- Values per sq m based on average house prices as listed in the Land Registry House Price Index April 2010, and an average unit size of 83.3 sq m.
- based on a hypothetical unit in Group 1 zone (Examples 1-3) and Group 3 zone (Examples 4-6).
- Build cost = £1830 per sq m
- Construction period 2 years
- Finance rate 6% pa

Example 1: Group 1 - house value say £465,000

End value		£5,081	psm
Less 20% profit on costs (inc land)		-£847	
		£4,234	psm
Less build cost	£1,830		
plus fees and finance	say	-£2,250	
		£1,984	psm
Less finance on land and purchasers costs			
	LAND VALUE	£1,670	psm

4.10.14 If we increase the end value in Example 1 by say 5% (but the other costs remain constant):

Example 2: (5% increase in value)

End value		£5,335	psm
Less 20% profit on costs (inc land)		-£889	
		£4,446	psm
Less build cost	£1,830		
plus fees and finance	say	-£2,250	
		£2,196	psm
Less finance on land and purchasers costs			
	LAND VALUE	£1,848	psm

4.10.15 A 5% increase in capital value results in a land value increase of approximately £178 per sq m, or 10.7% compared to a proposed Group 1 zone CIL rate of £50 per sq m (net of adjustment for administration costs).

Example 3: (5% increase in value and costs)

End value		£5,335 psm
Less 20% profit on costs (inc land)		-£889
		£4,446 psm
Less build cost	£1,922	
plus fees and finance	say	-£2,363
		£2,083 psm
Less finance on land and purchasers costs		
	LAND VALUE	£1,753 psm

4.10.16 A 5% increase in BOTH capital values and costs still results in a land value increase of approximately £83 per m, or 5%. This is still greater than the Group 1 zone CIL rate of £50 per sq m (net of adjustment for administration costs).

Example 4: Group 3 - house value say £250,000

End value		£3,000 psm
Less 20% profit on costs (inc land)		-£500
		£2,500 psm
Less build cost	£1,830	
plus fees and finance	say	-£2,250
		£250 psm
Less finance on land and purchasers costs		
	LAND VALUE	£210 psm

Example 5: (5% increase in value)

End value		£3,150 psm
Less 20% profit on costs (inc land)		-£525
		£2,625 psm
Less build cost	£1,830	
plus fees and finance	say	-£2,250
		£375 psm
Less finance on land and purchasers costs		
	LAND VALUE	£316 psm

4.10.17 A 5% increase in capital value results in a land value increase of approximately £106 per sq m, or 50%, compared to a Group 3 zone CIL rate of £20 per sq m (net of administration costs).

Example 6: (5% increase in value and costs)

End value		£3,150	psm
Less 20% profit on costs (inc land)		-£525	
		£2,625	psm
Less build cost	£1,922		
plus fees and finance	say	-£2,363	
		£263	psm
Less finance on land and purchasers costs			
	LAND VALUE	£221	psm

4.10.18 A 5% increase in BOTH capital values and costs still results in a land value increase of approximately £11 per sq m, or 5%. A CIL charge of £20 per sq m (net of administrative costs) does therefore exceed this increase.

4.10.19 However, there is still a positive land value after deducting CIL at £20 per sq m plus 5% for administrative costs (£200 per sq m) and so, while the levy is not absorbed fully by the increase in value (net of an increase in costs), the Charge does not make the development unviable if land value is negotiated lower to reflect the levy.

4.11 Conclusion

4.11.1 A dependable public transport infrastructure capable of moving an expanding working and residential population is necessary if the objectives in the London Plan, and the wider economic objectives of the government, are to be met.

4.11.2 The differential approach to setting the Levy (as distinct from a flat rate), whilst not perfect, gives some assistance to Boroughs with poorer fundamentals such as lower average house prices and helps support the spatial strategy in the London Plan.

4.11.3 The £15 differential between groups means that CIL as a percentage of house price is similar for Groups 1 and 2 and slightly lower for Group 3 where the real estate fundamentals (end values relative to cost) are weakest and the priorities in the London Plan are strongest.

4.11.4 Some schemes at the lower end of a group will inevitably be paying a higher percentage of value than those at the top of the next group. This effect would only be avoided if there is a structure with 33 zones directly proportional to house prices. However, such a structure would be more complex and suggests a more exact relationship between end value and viability than is borne out by the historical evidence.

4.11.5 The removal of any "double count" between the S106 and CIL policies removes any unfairness that would otherwise have occurred.

4.11.6 Using average house prices per Borough as a proxy for economic viability is the most workable approach as it matches with the sector with the highest likely development (residential), which correlates well with commercial activity.

4.11.7 Generally speaking, the higher the value of a completed development over and above the existing use value, the more attractive the development. However, attractiveness needs to be aligned with opportunity. Historical experience suggests that development has been high in some Boroughs with below average house prices, and weak in some Boroughs with high average house prices, suggesting that increasing costs (by CIL) is less likely to impact on development volumes than availability of suitable land.

4.11.8 Movements in variables such as construction costs and capital values over the development cycle are likely to have far greater impacts on viability than CIL at the levels suggested in this paper.

4.11.9 Based on the preferred scenario, the target of £300m (excluding admin) is raised towards the end of the financial year 2018/2019.

4.11.10 Despite the issues raised in the preliminary public consultation stage, we are satisfied that the approach as outlined in this version of the draft Charging Schedule is the most appropriate and equitable approach for London, and that any changes made between the two versions satisfactorily reflects the views of the respondents in that process.

4.11.11 Overall we conclude that CIL at the levels proposed will not put at serious risk the overall development of Greater London because of any impact on development viability.

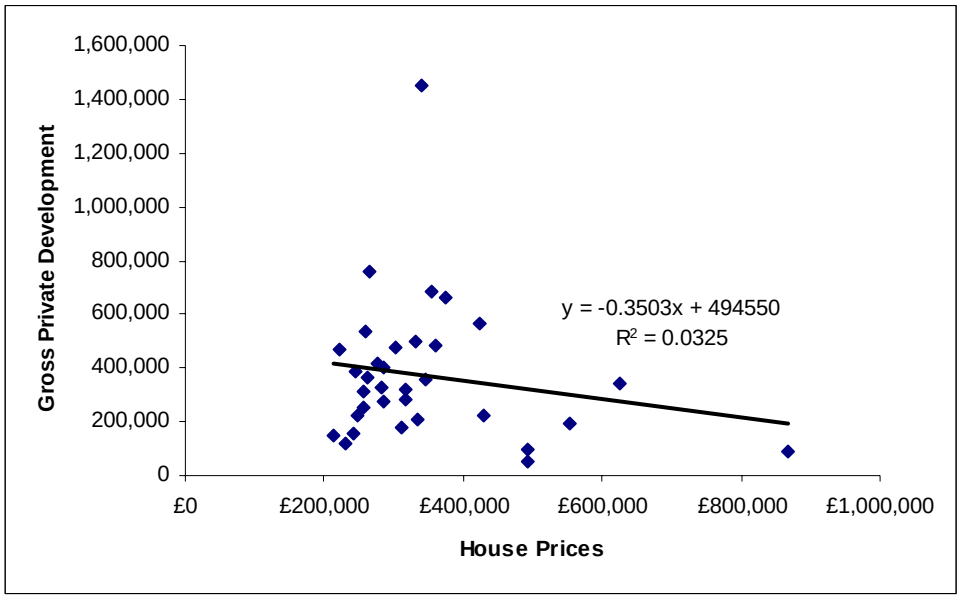
4.12 Appendix 1 – List of other scenarios considered

- Flat rate (6 years) - UNINDEXED
- Flat rate (7 years) – UNINDEXED
- Flat rate (6 years) – INDEXED
- Flat rate (7 years) – INDEXED
- Differential rate – 3 zones, top charge 25% higher/ lowest charge 25% lower than the Group 2 zone (6 years) – UNINDEXED
- Differential rate – 3 zones, top charge 25% higher/ lowest charge 25% lower than the Group 2 zone (7 years) – UNINDEXED
- Differential rate – 3 zones, top charge 25% higher/ lowest charge 25% lower than the Group 2 zone (6 years) – INDEXED
- Differential rate – 3 zones, top charge 25% higher/ lowest charge 25% lower than the Group 2 zone (7 years) – INDEXED
- Differential rate – 3 zones, Group 2 zone at £25 per sq m, top zone 25% higher/ bottom zone 25% lower (no finite timescale) – UNINDEXED
- Differential rate – 3 zones, Group 2 zone at £25 per sq m, top zone 25% higher/ bottom zone 25% lower (no finite timescale) – INDEXED
- Differential rate – 3 zones, lowest Charge at £25 per sq m, middle Charge zone 25% higher, highest Charge 25% higher still (no finite timescale) – UNINDEXED
- Differential rate – 3 zones, lowest Charge at £25 per sq m, middle Charge zone 25% higher, highest Charge 25% higher still (no finite timescale) – INDEXED

4.13 Appendix 2 – correlation co-efficiencies

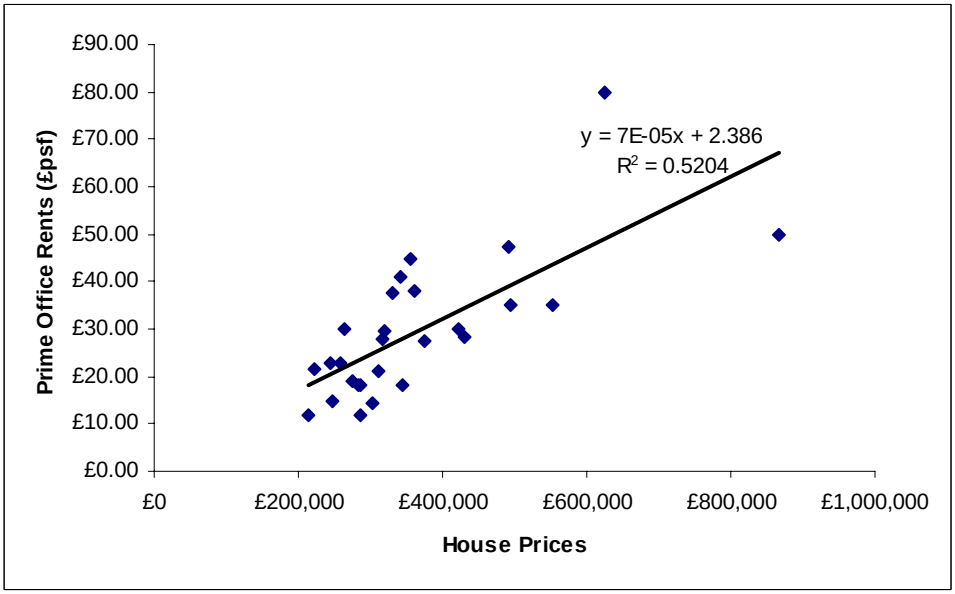
4.13.1 House prices and gross development levels

Correlation co-efficient: -0.18



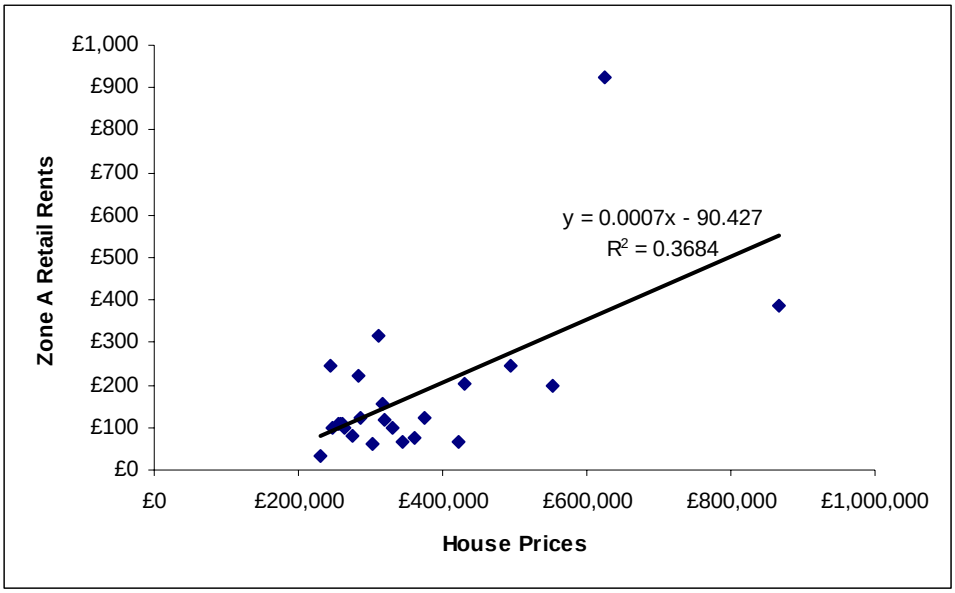
4.13.2 House prices and office rents

Correlation co-efficient: 0.71



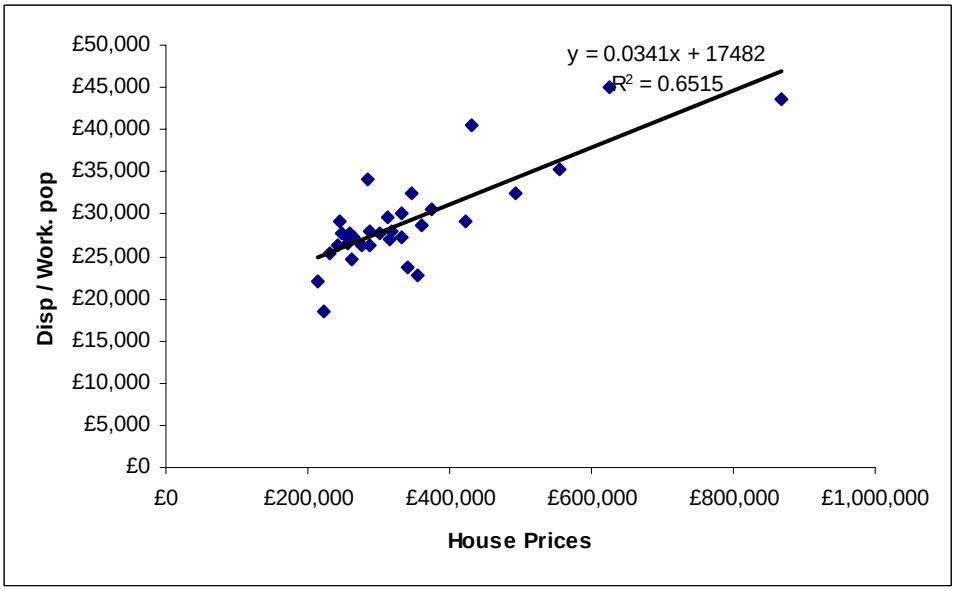
4.13.3 House prices and retail rents

Correlation co-efficient: 0.61



4.13.4 House prices and disposable income

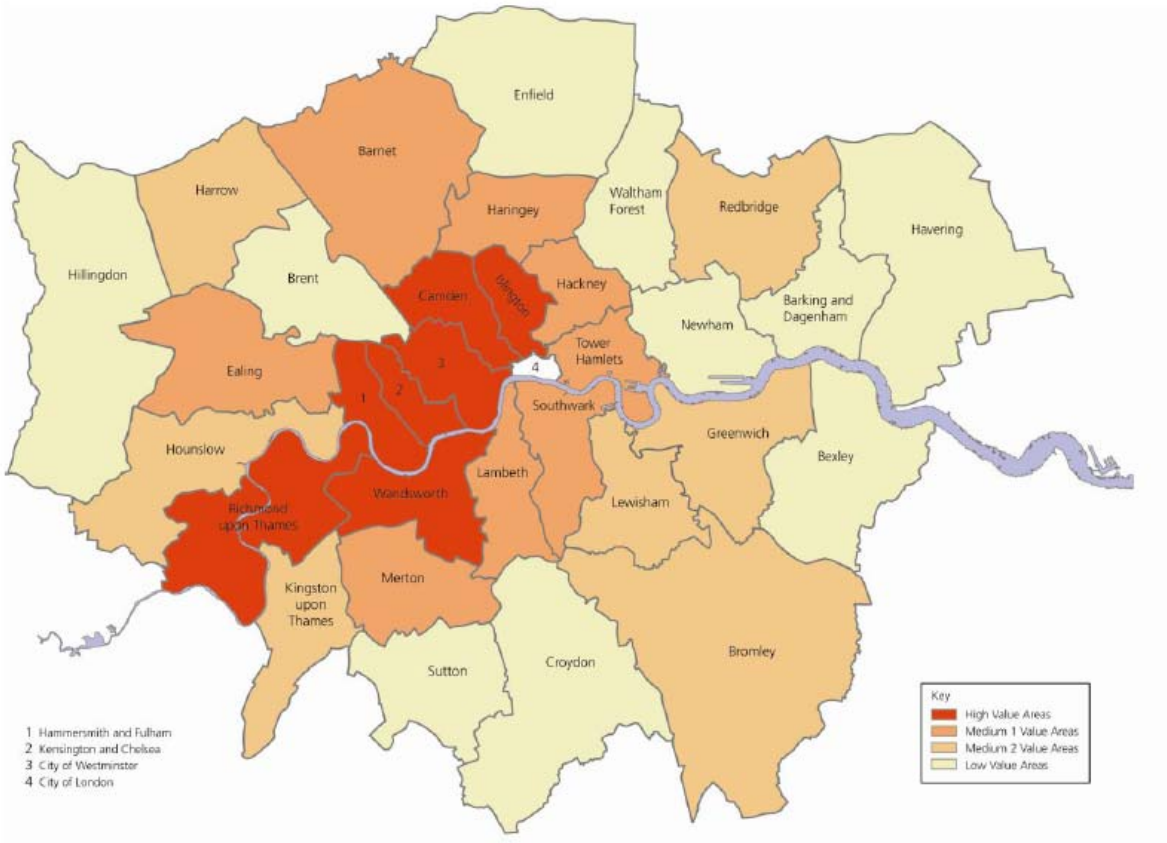
Correlation co-efficient: 0.81



4.14 Appendix 3 – approach taken by SHLAA

4.14.1 The GLA Strategic Housing Land Availability Assessment (SHLAA) and Housing Capacity Study (HCS) Viability Assessment (August 2010) adopts a similar methodology in classifying the Boroughs according to average house prices. As figure B demonstrates, while they adopt four zones – low, medium 1, medium 2 or high value areas – they also use the top 8 Boroughs as their top zone.

Figure B: Classification of Boroughs by Average Sales Price (SHLAA)



Source: Land Registry HPI, March, 2010

4.15 Appendix 4

Rejected scenario

This is the 4-band scenario which was rejected. The Levy is the year one levy subject to indexation.

- **£50 per sq m (£4.65 per sq ft) on Group 1 zone**
- **£40 per sq m (£3.72 per sq ft) on Group 2 zone**
- **£30 per sq m (£2.79 per sq ft) on Group 3 zone and**
- **£20 per sq m (£1.86 per sq ft) on Group 4 zone**

The rates are quoted net of adjustment for administration (maximum 5%).

5 Conclusions

5.1 In setting the CIL rates set out in section 3 of this document, 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. It gives an overview of London's likely infrastructure needs and of the likely order of resources likely to be available to meet them. It shows the vital strategic importance of Crossrail to the development of Greater London, which has been recognised at national and regional levels. It shows that the sum to be raised through the CIL has been arrived at in discussions between the Mayor and central government, and the balance between CIL and other sources of funding.

- 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 Section 4. This explains the basis on which the sums set out in Section 3 were arrived at, and at how differential charge rates for each London borough 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.

The Mayor has also had regard to the results of the consultation on the preliminary draft charging schedule. His conclusions on the points raised are explained below (with a more detailed report on the consultation set out at Annex 3).

5.2 The Mayor has satisfied himself that the evidence meets the standards required in the CIL legislation. Section 212 (4) (b) of the Planning Act 2008 requires the use of "appropriate available evidence" (our emphasis) to inform charging schedules. As Government guidance recognises "the available data is unlikely to be fully comprehensive or exhaustive"[15]. Regulation 14 states that the evidence has to consider 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 "take a strategic view across their area and not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area" [16].

5.3 The Mayor has reviewed the available evidence about the extent and nature of London's overall infrastructure needs to support its projected growth and, in particular, the needs for transport infrastructure and the availability of funding from all sources. He has also had regard to the funding agreement he has concluded with ministers for Crossrail, the range of funding sources it envisages and the particular role it gives to the CIL to help address the funding gap for the project. He has also had regard to the fact that Crossrail

[15] DCLG, Community Infrastructure Guidance – Charge setting and charging schedule procedures (March 2010), para. 23.
[16] Ibid, para 21

is explicitly mentioned in the CIL Regulations – which have been approved by Parliament – as an appropriate use of CIL.

5.4 Turning to the details of the proposals, some respondents to consultation on the preliminary draft charging schedule suggested that inadequate evidence had been produced regarding the viability of industrial uses. The Mayor sought additional evidence on this point, and this is set out in paragraphs 4.8.9 – 4.8.24 above.

The Mayor's Conclusions

5.5 In addressing the requirements of the Regulations, the Mayor has concluded that the approach outlined in Section 4 is appropriate given the availability of data and the nature of the judgement he has to make – the effects on viability across Greater London.

5.6 A number of consultees suggested that a more spatially differentiated approach should be taken, with two or three zones per borough to reflect differences in housing markets at local level. Aside from the lack of consistent and robust data to enable this to occur across the whole of Greater London, the Mayor is conscious that this could lead to London having as many as 65- 96 different zones, the boundaries of each of which he would have to define. This would obviously add to the complexity faced by collecting authorities and by developers. It would also be likely to lead to a larger number of cases in which developments in a small area of London may pay significantly different levels of the CIL. He has also had regard – as he is required to do by section 211 of the 2008 Act – to Government guidance on setting CIL rates, which advises against having large numbers of different rates within an area[17]. For all of these reasons, he proposes to continue to use boroughs to define charging zones.

5.7 There was also support for increasing the number of charging bands, from three to four – or more. The Mayor has carefully considered this matter. As the evidence set out in chapter 4 shows, there is no necessity in development viability terms to make such a change. Some consultees pointed to the fact that the viability assessment for the Strategic Housing Land Availability Assessment (SHLAA) used to inform the draft replacement London Plan uses four home value bands, but this report was compiled for a different purpose – the additional band helped to emphasise the results of the analysis and help inform consideration of the SHLAA. The Mayor is not convinced that the benefits of moving to four bands would outweigh the additional complexity that would be involved – a factor referred to in the statutory guidance to which he is required to have regard.

5.8 A further point made by one consultee was that use of median home prices instead of average prices would be better in defining charging bands (the other consultees who referred to average house prices did so without demur). It was suggested that this would help deal with circumstances in which average prices were distorted by having a small number of extremely highly (or lowly) priced homes. As paragraphs 4.8.1-4.8.4 above suggest, using median prices makes little difference to the rankings, and would have resulted in only one borough moving into a lower charging band (this would still have been the case if four bands were used instead of three). On this basis, the Mayor has concluded there is little to be gained by using median prices rather than average ones.

[17] ibid, paragraph 38

5.9 Several consultees suggested that lower or zero rates should be set for particular uses. Of these, the most significant (in terms of the proportion of development in Greater London to which it applies) is industrial land, and the Mayor has considered this matter in the light of additional evidence from his professional consultants. This tends to show that industrial use values do correlate sufficiently with other measures of value that there is no justification in viability terms to set a different, lower, CIL rate for industrial uses.

5.10 A number of suggestions were made for particular uses for which zero rates should be set. Most of these (such as sheltered homes for the elderly, agriculture and horticulture and provision of particular forms of public infrastructure) were not based on questions of development viability, as required by the CIL regulations. Many of them would not in any case be liable to pay CIL, as they could come within the nil rate for social housing set out in the Regulations, or would involve forms of development that either do not consist of buildings to which people usually go or would be buildings to which people only go to for the purposes of inspection. In other cases there would be a clear risk of providing a particular firm or group of firms with a selective advantage, which would give rise to the risk of challenge as a State Aid under EU legislation.

5.11 A particular case was made by several consultees that zero rates should be set for forms of social infrastructure (such as libraries, community centres and sports facilities) in addition to health and education. The Mayor does not consider this is appropriate. Given the projected growth in London's population, there is a specific case for setting zero rates for health and education, and the demands this – and the likely growth in key age groups – will place on provision and the likely position regarding the availability of public resources to fund their expansion (it is for this reason there are specific policies dealing with each of these uses in the draft replacement London Plan). He is satisfied that setting zero rates for these uses will not have a significant effect on the viability of other uses. While he does not question the importance of the other forms of infrastructure mentioned, he does not consider that the likely need for additional provision will be the same either in quantitative or qualitative terms. He also has to have regard to the cumulative impact of additional zero rates on development viability for the remainder paying CIL. On a practical point, some of the uses urged for zero rates would be difficult to define with the necessary provision, particularly given their treatment under the Use Classes Order.

5.12 For the reasons given in the previous paragraph, the Mayor does consider that it is appropriate to retain the proposed zero rate for health and education cases. He has sought advice from the NHS London Healthy Urban Development Unit on the former, and their advice is that:

> "HUDU welcomes the proposed nil charge rate for development used wholly or mainly for the provision of any publicly-funded medical or health services. The Spending Review 2010 has reduced NHS capital funding by 17%, with the expectation that NHS organisations will achieve £20 billion savings through quality and productivity improvements by 2014. The Operating Framework for the NHS in England 2011/12 states that there will be no automatic capital allocations for PCTs, with necessary funding being granted on a case-by-case basis. The priority for capital funding will be on maintenance and essential smaller improvement schemes. It is likely that capital funding for new build schemes will be tightly constrained. As a

result a nil charge rate is essential to ensure that the Mayoral CIL does not undermine the viability of new provision in London."

5.13 As far as education is concerned, recent school provision has been dependent upon the Building Schools for the Future programme, which has now been brought to an end. As a result, boroughs will be even more dependent on meeting the funding gap using their own capital programmes, for which CIL/S106 can make a modest contribution. However, this is in the context of the reductions in grant referred to in Chapter 2 of this document. The consequence is that boroughs' ability to fund new/expanded schools to support growth has diminished In light of this a nil charge rate of Mayoral CIL for education establishments will assist with their delivery given significant budgetary constraints. This is especially important given that there will be no opportunity for the Mayor to pass any CIL funds back to the local education authorities.

5.14 Some consultees called for lower or zero rates to be set for particular areas of Greater London, or for classes of areas (commonly all London Plan opportunity and intensification areas). This would, of course, lead to some of the practical difficulties mentioned in paragraph 5.5. In addition, the Government statutory guidance emphasises that where a zero rate is being considered for a particular place there should be a particularly compelling case to avoid State Aid issues arising[18]. The smaller the area (and the number of developers concerned), the greater the risk under EU law. Opportunity and Intensification areas are not identified in the London Plan for reasons of viability (they include Tottenham Court Road and the City Fringe, for example), but rather because of the scale of their development potential. For these reasons, the Mayor considers that the best approach is to leave it to boroughs to recognise local variations in viability through their own CIL proposals (something that one of the boroughs that has brought CIL proposals forward – Wandsworth – has chosen to do).

5.15 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 Plan. Of the 33 Opportunity Areas[19], seven fall wholly or partly within the boroughs in the lowest charge band shown in section 3, with indicative capacity for 94,000 homes (about 40 per cent of the total indicative number of new homes in Opportunity Areas across London as a whole) and 103,500 jobs (about 21 per cent of the indicative number of additional jobs in Opportunity Areas as a whole).

5.16 The Mayor has also considered the location of London's housing capacity, based on the findings of the 2009 London Strategic Housing Land Availability Assessment and Housing Capacity Study 2009 and shown in Table 3.1 of the draft replacement London Plan (taking account of suggested changes put forward during the draft Plan examination in public). This shows that there is identified capacity for 53,050 new homes in the eight Charging Zone 1 boroughs (24% of boroughs, with 16.5% of identified housing capacity), 197,950 in the seventeen Charging Zone 2 boroughs (51% of boroughs, with 61.5% of capacity) and 71,100 in the eight Charging Zone 3 boroughs (24% of boroughs, with 22% of capacity).

5.17 As described in section 4, a number of different options were considered in coming to this judgement, in particular the option of a flat rate levy Londonwide. The Mayor

[18] ibid, paragraphs 39 and 40e

[19] Opportunity Areas are identified in the London Plan and typically have capacity for at least 5,000 jobs or 2,500 homes. Intensification Areas can typically support redevelopment at higher densities and have significant capacity for new homes and jobs but at a lesser level than for Opportunity Areas.

considered that a better 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 the CIL without undue effect on viability. It also helps ensure that particular viability impacts on parts of London including substantial reservoirs of development capacity identified in the London Plan as either Opportunity or Intensification Areas can be taken into account.

5.18 On this basis of the evidence described in this document, the Mayor has concluded that the proposed rates set out in Section 3 do represent an appropriate balance as required in the Regulations. He also considers that the banding of boroughs into Charging Zones as shown in section 3 is an appropriate way of addressing viability across the different parts of Greater London.

5.19 **Taking account of all this evidence, the Mayor has concluded that the charging proposals outlined in section 3 are not likely to put Greater London's overall development at risk, as required in paragraphs 8 and 20 of the Government's guidance on charge setting and charging schedule procedures[20]. He is satisfied that none of the changes made to CIL Regulations since publication of the preliminary draft charging schedule, or amendments to the Planning Act 2008 raise any matters requiring a different judgement or approach.**

5.20 Under Regulation 14(3), London boroughs are required to take into account CIL rates set by the Mayor when considering the potential effects of their own proposed CIL rates on development. The Mayor is not required to take account of borough rates and at time of writing no borough has yet finally set a CIL (see paragraph 5.21). However, he has considered what evidence there is about the value of contributions made under section 106 in Greater London to assess the effects of setting the rates set out in Section 3 on local priorities.

5.21 The most comprehensive and robust estimate of the number of section 106 agreements and their value is the research commissioned by the Department for Communities and Local Government on "The Incidence, Value and Delivery of Planning Obligations in England in 2007-8".[21] This suggests that in 2007-8 the value of section 106 agreements dealing with matters other than affordable housing in Greater London was £302,605,210 with agreements for affordable housing worth a further £1,324,270,333[22] It also suggests that agreements were concluded in connection with 7.1% of all planning applications in London[23]. The proposed CIL rates set out in this document would result in average annual payments of £42,857,000. It will be levied against a far higher proportion of developments than the 7.1% from which obligations were sought (although it is recognised that a proportion of these will be de minimis for CIL purposes). It is also important to bear in mind that the amounts concerned are not inelastic – it would be wrong to assume that every £1 paid from CIL should simply be subtracted from the total that could be raised by boroughs through section 106 and their own CILs. On the basis of the available evidence the Mayor does not consider that taking London as a whole (as he is required to do under the Regulations) the rates he is proposing will have an undue effect on boroughs' ability to raise resources through the CIL or section 106.

[20] Communities and Local Government, Community Infrastructure Levy Guidance: Charge setting and charging schedule procedures (March 2010)
[21] DCLG, March 2010
[22] ibid., Table 3.2
[23] ibid., Table 2.6

5.22 The Mayor's views in this regard have been strengthened by the CIL proposals brought forward by the London boroughs of Redbridge and Wandsworth since his preliminary draft charging schedule was published in January. Redbridge have proposed a rate twice that of that proposed for the borough by the Mayor, at £70 per square meter, while Wandsworth have proposed rates ranging from zero to five times the rate proposed by the Mayor (with a borough CIL of £250 for residential, and £100 for other, development in most of the borough). In both cases, the available evidence suggests that both the borough and the Mayoral CIL could be levied without an unacceptable effect on development viability.

5.23 Finally, the Mayor has considered the arguments made by a number of consultees about his proposal not to make either of the discretionary reliefs – for exceptional circumstances and for charities' developments for investment purposes. On the former, it appeared that some of those urging the Mayor to allow the relief were under the impression that it gave him wider discretion to consider the viability of individual developments for CIL purposes than is in fact the case. Others argued that in practice only "major" developments would be likely to seek to take advantage of the relief. In the year to 30 September 2010, there were 1,481 "major" applications determined in London, of which 585 were for residential developments. By way of comparison, in 2010 the Mayor had 258 applications referred to him (and an annual average of 286 over the last five years). While it is of course impossible to say what proportion of major developments would be eligible to claim relief – and would then go on to do so – it can be seen that there is the scope for this to lead to a substantial additional burden. No convincing case was made for allowing discretionary charitable relief (the matter was raised by a single respondent).

5.24 The Mayor can choose to introduce both reliefs without having to go through the full CIL-setting procedure if he subsequently considers this would be appropriate. For that reason, he intends to include the question of their application as part of a formal biennial review mechanism. These reviews will include consideration of the continued appropriateness of the rates set as well as whether reliefs should be extended. The results of these reviews (the fist is likely to take place during 2014) will be published in the London Plan Annual Monitoring Report for the appropriate year.

Equalities

5.25 When exercising his functions the Mayor must have regard to the need to promote equality of opportunity for all persons irrespective of their race, sex, disability, age, sexual orientation or religion; to eliminate unlawful discrimination; and to promote good relations between persons of different racial groups, religious beliefs and sexual orientation (Section 404 Greater London Authority Act 1999).

5.26 In addition, the Mayor and GLA have "general public body duties" under equal opportunities legislation (The amended Sex Discrimination Act 1975, the Race Relations Act 1976 and the Disability Discrimination Act 1995 ("the DDA")) to exercise their functions with *due regard* to the need to eliminate unlawful race, sex and disability discrimination and unlawful harassment of disabled persons and sexual harassment, and to promote equality of opportunity for those groups.

5.27 Further, the Mayor is required to have due regard to the need to take steps to take account of disabled persons' disabilities even where that involves more favourable

treatment, to promote positive attitudes towards disabled persons and to encourage participation by disabled persons in public life.

5.28 In a recent case[24], the Court of Appeal has emphasised that *"due regard"* requires an analysis of the relevant material with the specific statutory considerations in mind, does not require that the considerations raised in the analysis are decisive in the particular case and finally, that the weight to be given to the requirement that "due regard" is to be had is for the decision maker to decide.

5.29 The Mayor has considered the potential impacts of his CIL proposal with these duties in mind. In doing so he has drawn upon the impact assessment of the CIL itself, prepared by the Department of Communities and Local Government[25], the Integrated Impact Assessment of the London Plan alterations to enable use of the planning system to secure contributions towards the cost of Crossrail[26], and information about where particular ethnic groups live[27]. He has also noted that no consultee has suggested either that his approach is incorrect or insufficient, or that the evidence on which he has drawn is incorrect or incomplete.

5.30 The Mayor has concluded that his proposals for a Mayoral CIL will not have an adverse impact on any social group. By helping to deliver Crossrail, they will facilitate economic growth and liveability, helping to create sustainable opportunities for all and, in particular, linking boroughs like Newham with large ethnic minority populations and substantial deprivation with parts of London where job opportunities will be created such as the Isle of Dogs, the City and the West End.

5.31 Consideration has been given to whether the geographical banding proposed in Section 3 would have undue impacts on particular groups within the community. There are parts of London with particularly large Black, Asian and Minority Ethnic (BAME) populations, and consideration has been given to whether the banding arrangements for the charge set out in Section 3 would affect those parts of the capital unduly. Together, the eight London boroughs in Charging Zone 1 (24% of the whole) have 15% of the BAME population of Greater London, while the 17 boroughs in Charging Zone 2 (51% of the whole) have 65% of London's BAME population. The eight boroughs in Charging Zone 3 (24% of the whole) have 20% of the BAME population. In short, 85% of London's BAME population live in boroughs in the two lower Charge Zones. There is no evidence that across London, boroughs with large BAME populations would be unduly affected by the Mayor's proposals.

5.32 The other communities referred to in section 404 of the 1999 Act have a more dispersed pattern of settlement and the proposed charging arrangements are unlikely to have significant effects on them.

5.33 The Mayor is satisfied, therefore, that having had due regard to his equalities duties, these proposals will not have significant effects.

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[24] Harris v London Borough of Haringey [2010] EWCA Civ 703
[25] Communities and Local Government, Community Infrastructure Levy Impact Assessment (2008),
[26] Mayor of London/Entec, Proposed Alteration to the London Plan: Crossrail Funding – Integrated Impact Assessment (May 2009)
[27] Greater London Authority Demography Update 11-2009: ONS mid-2007 Ethnic Group Population Estimates (October 2009)

Strategic Environmental Assessment

5.34 As described in detail in Annex 1, the Mayor has considered the need for Strategic Environmental Assessment of the draft charging schedule. He has come to the conclusion that this falls within the definition of a financial or budget plan or programme, and as such an Assessment is not required. He has noted that no consultee has taken issue with this approach or suggested that an Assessment is required.

6 Responding to this document

This chapter constitutes the "statement of the representations procedure" required by regulation 16 of the CIL Regulations 2010.

How to give your views

The draft schedule and this document are open to public consultation from Wednesday 8 June to Friday 8 July 2011.

You can also view this document online and download it from http://www.london.gov.uk/priorities/planning

Please respond in writing or by email, referencing your comments to the relevant section of the Mayoral Draft CIL Charging Schedule (Chapter3 of this document):

- by email to mayor@london.gov.uk with "Draft CIL Charging Schedule" in the title. If you send in a response by email it is not necessary to also send us a hard copy.
- By post (no stamp required) to:

  Boris Johnson, Mayor of London
  Draft CIL Charging Schedule
  FREEPOST LON15799
  GLA City Hall post point 18
  The Queen's Walk
  London SE1 2BR

Please respond by 6pm on Friday 8 July 2011.

Please note that all responses will be made available for public inspection.

All those making representations in response to this document have the right to be heard by the examiner appointed to conduct the public examination of this draft schedule.

Please indicate in your response whether you would wish to be notified:

- **when the draft schedule has been submitted to the examiner in accordance with section 212 of the Planning Act 2008 and/or**
- **when the recommendations of the examiner and the reasons for those recommendations are published and/or**
- **the Mayor formally approves the charging schedule.**

If you wish to be notified of any of these events, please indicate an address that you would like us to use.

Further details about the arrangements for the examination will be given in due course.

Annex 1: Strategic Environmental Assessment

Proposals for a Mayoral Community Infrastructure Levy

A1.1 The following documents the consideration of whether the proposed Charging Schedule for a Mayoral Community Infrastructure Levy ('CIL') should be subject to a Strategic Environmental Assessment ('SEA').

A1.2 Under the European Directive 2001/42/EC[28], known as the 'SEA Directive', SEA is required for certain categories of plans and programmes (Article 3(2)) where they are determined to be likely to have a significant environmental effects (Article 3(3) and 3(4)). A screening exercise is required in order to determine whether the plan or programme is likely to have significant environmental effects, and hence whether SEA is required[29].

A1.3 However, under Article 3(8) of the SEA Directive certain types of plans and programmes are not subject to the requirements for SEA outright, and these include:

- plans and programmes the sole purpose of which is to serve national defence or civil emergency; and
- financial or budget plans and programmes.

A1.4 In this instance the proposed Charging Schedule has been defined as a financial document and in accordance with Article 3(8) is exempt from the requirement to undertake SEA. This definition has been confirmed by central government when determining whether the development of a Charging Schedule for CIL should be subject to a Sustainability Appraisal. This was outlined at Paragraph 19 of the national guidance document on charge setting and charging schedule procedures produced by CLG. This paragraph states *'Charging schedules will be short financial documents so will not require a Sustainability Appraisal'*.[30] Therefore, a screening of significant environmental effects of the proposed Charging Schedule is not necessary. Figure 1 below summarises the decision route taken to reach this position.

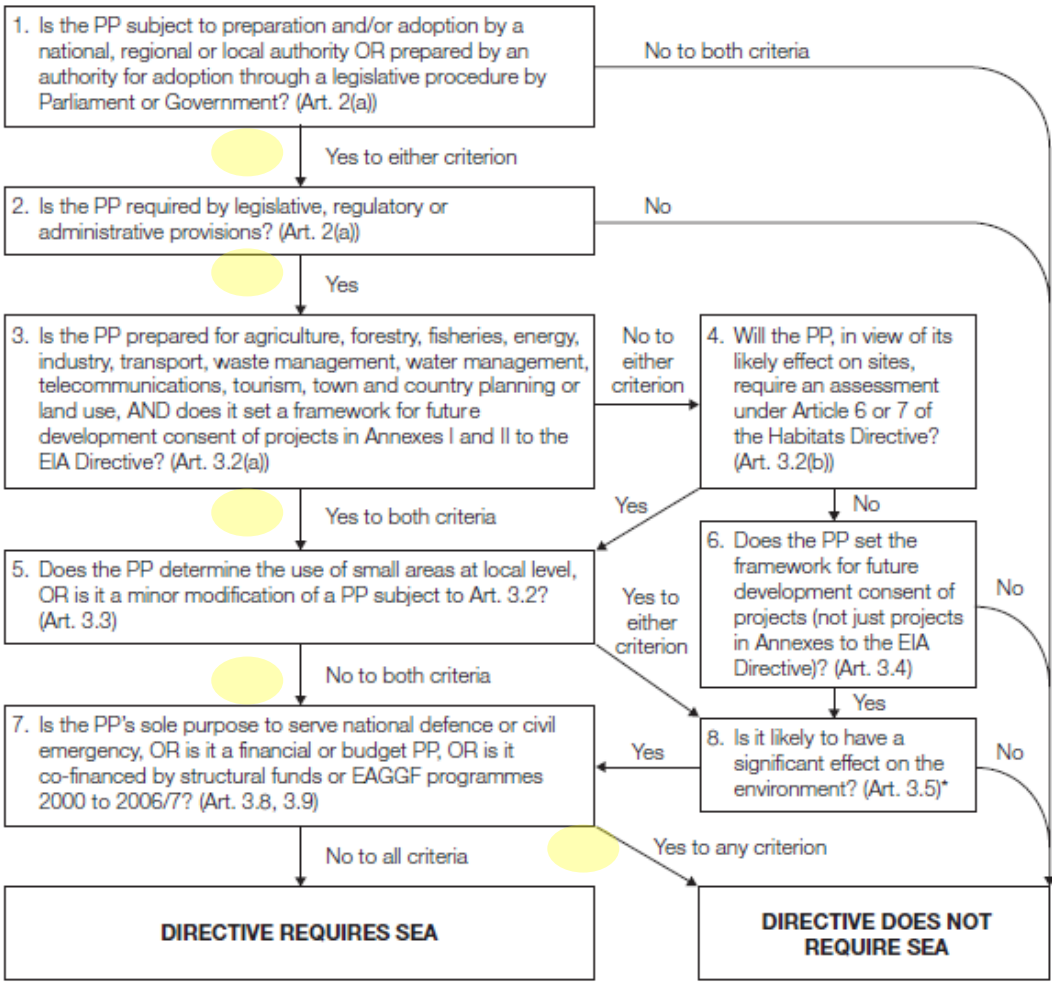
A1.5 It should be noted that the Crossrail project itself has been subject to a detailed environmental assessment process[31], as has the alteration to the London Plan which introduced policy on the use of planning obligations for the funding of Crossrail given the statutory requirement to undertake Sustainability Appraisal (which shall incorporate

[28] Transposed into English law through *The Environmental Assessment of Plans and Programmes Regulations 2004 (Statutory Instrument 2004 No.1633)*.
[29] A Practical Guide to the Strategic Environmental Assessment Directive. Office of the Deputy Prime Minister, 2005.
[30] Para 19, page 8, Community Infrastructure Levy Guidance – Charge setting and charging schedule procedures. Communities and Local Government, 2010.
[31] Details can be found here: http://www.crossrail.co.uk/railway/getting-approval/crossrail-bill-supporting-documents/environmental-statement

SEA) for all London Plan policy. This process is documented in the report Crossrail Funding - Integrated Impact Assessment[32].

A1.6 Therefore, the Mayor is content that the appropriate SEA processes have been undertaken on the relevant stages of the wider Crossrail initiative and due to the financial nature of the proposals presented here they are exempt from the SEA requirements.

Figure A1: Determination of the requirement for SEA



*The Directive requires Member States to determine whether plans or programmes in this category are likely to have significant environmental effects. These determinations may be made on a case by case basis and/or by specifying types of plan or programme.

Source: A Practical Guide to the Strategic Environmental Assessment Directive, page 13. Office of the Deputy Prime Minister, 2005.

[32] Details can be found here: http://legacy.london.gov.uk/mayor/planning/crossrail/docs/impact-assessment.pdf

Annex 2: Distribution of Crossrail Benefits

July 2010 Update

Introduction

A2.1 This note explains the updated work on the distribution of the benefits of the Crossrail project across London which has been published to support the Mayor's proposals for a Community Infrastructure to raise £300 million towards the cost of the project. In particular, it sets out the basis for the table of benefits set out as Figure 1 in the Preliminary Draft Charging Schedule published by the Mayor for public consultation in January 2011 (table reproduced overleaf).

Background

A2.2 The data used in the table are an update of those in a report on the Distribution of Crossrail Benefits, published in February 2009 (available on the Crossrail website[33]). This in turn was based on work underlying the Crossrail Business Case in 2005[34] and 2007 work on the wider economic benefits of Crossrail by Colin Buchanan and Partners[35].

A2.2 Following publication of the 2009 report, the Crossrail Business Case has been refreshed[36]. The updated document uses updated figures for transport and wider economic benefits. It is the second of these that Figure 1 deals with; however it is worth noting that while the 2009 analysis showed transport benefits of £16.7 billion, the new document shows benefits of £18.8 billion (in both cases presented as a 60 year Present Value at 2002 prices).

The 2010 Update

A2.3 The 2010 update to the 2005 Business Case takes account of:

- Fully updated details of details about the construction of Crossrail, including requirements/scope, design, schedule, cost estimate, risks and inflation.
- Updated information about operating, maintenance and longer term renewal costs to provide planned Crossrail services.

[33] http://www.crossrail.co.uk/assets/library/document/c/original/crossrail_distribution_of_benefits_feb_2009.pdf
[34] http://www.crossrail.co.uk/assets/library/document/e/original/economic_appraisal_of_crossrail_2005.pdf
[35] http://www.crossrail.co.uk/assets/library/document/t/original/the_economic_benefits_of_crossrail-october_2007.pdf
[36] http://www.crossrail.co.uk/assets/library/document/c/original/crossrailbusinesscasefinal300710.pdf

Figure 1 (in the Preliminary Draft Charging Schedule published by the Mayor in January 2011)**: Estimated annual transport and earnings benefits from Crossrail for Londoners by borough of residency (£ million, 2026 at 2010 prices)**

London borough	Benefits
Westminster	115
Newham	99
Greenwich	98
Tower Hamlets	90
Ealing	89
Southwark	72
Redbridge	71
Camden	68
Brent	66
Wandsworth	65
Lewisham	65
Lambeth	63
Islington	61
City of London	59
Haringey	59
Barnet	55
Kensington and Chelsea	52
Hackney	50
Bexley	50
Hammersmith and Fulham	50
Waltham Forest	49
Hillingdon	47
Bromley	46
Havering	45
Enfield	41
Barking and Dagenham	41
Croydon	36
Richmond upon Thames	31
Merton	25
Hounslow	22
Harrow	22
Kingston upon Thames	17
Sutton	15
Total	1,834

- Updated modelling of demand for Crossrail services, using the population and employment projections used for the London Plan and committed rail network improvements (such as the Department for Transport's High Level Output Specification (HLOS) and Transport for London's November 2008 Business Plan deliverables).
- Changes to forecasts of economic growth (Gross Domestic Product), consistent with those set out in the December 2009 Pre-Budget Report.
- An updated assessment of Wider Economic Benefits (see below), taking account of changes to the methodology for assessments of this kind adopted by the DfT in their WebTAG guidance[37].

Wider economic benefits

A2.4 The economic benefits of a transport scheme can be looked at in two ways:

- In terms of the more narrowly defined transport benefits. The Crossrail assessment of transport looked at three aspects: time savings, congestion relief and accessibility/ambience. These are looked at through the use of models estimating the extent and distribution of transport demand taking account of expected population growth (in this case, a model called Railplan, which models public transport use across London and the South East. These are then given a value in money terms. These benefits are taken into account in the benefit/cost ratio used in appraising schemes.
- In terms of the wider economic benefits that a transport scheme will bring. The capacity of the public transport system (and the rail network in particular) is a key constrain upon the growth of central London. Without Crossrail, it will be physically impossible for some areas – such as the northern part of the Isle of Dogs – to realise their full potential. One of the strongest arguments for Crossrail is the relief it will bring for this constraint; this will enable more development and jobs in central London (where the most productive and highest paying jobs tend to locate) and make it easier for people in outer areas to access these opportunities. It is these benefits that Figure 1 deals with.

A2.5 There are four elements looked at in assessing these benefits:

- The additional scope the scheme brings for people across London to move to more productive jobs
- The benefits which come from increasing the accessibility of firms and workers to each other, with the importance of one firm/worker to each other declining over distance. New guidance requires that these "agglomeration" benefits are calculated separately for consumer services, producer services, construction and manufacturing), and that allowance is made for the reduced importance of firms/workers the further away from the modelled area they are.
- The improvements that the additional jobs and accessibility will bring in terms of improved labour force participation rates
- The efficiency benefits to firms that arise from reduced transport costs, where these are not passed on to customers because of a lack of competition. It is not possible to

[37] Dft WebTAG Unit 3.5.14: The Wider Impacts Sub-Objective.

identify the spatial distribution of these benefits across different parts of London, so they are excluded in Figure 1.

A2.6 The revised DfT guidance referred to earlier resulted in changes to the way the second and third of these elements were calculated.

A2.7 The Technical Appendix to this Annex explains the technical detail of the valuation of wider economic benefits, and of the changes made in the 2010 assessment. It is worth noting that TfL have used London-specific assumptions for the value of workers' time and for the productivity per worker of producer services in the capital drawing on detailed evidence relating to the capital, rather than assumptions set nationally by the DfT. The results of the changes to the wider economic benefit figures are as follows:

Table A2.1: Wider Economic Benefit Values

Wider Economic Benefits	May 2007 (2009 Distribution analysis)	July 2010 (2010 Distribution analysis)
	GDP (£bn)	GDP (£bn)
Labour Force Participation	0.9	0.1
Move to More Productive Jobs	7.8	36.1
Pure Agglomeration	5.8	6.1
Imperfect Competition	0.5	0.0
Total	15.0	42.3

A2.8 The large increase in the Move to More Productive Jobs element is purely a result of adopting the DfT guidance approach to valuing the additional number of central London employees enabled by Crossrail. The 2007 estimate assumes 30,000 jobs by 2026, while the updated 2010 estimate assumes 27,000 jobs by 2026.

A2.9 There are, however, two aspects in which use of the national guidance means the benefits in Figure 1 may be conservative:

- Sector-by-sector employment forecasts are used to work out the "agglomerations" benefits, rather than total employment. Total employment projections for 2016 are 50% higher than the aggregate of the sectoral ones; by 2076 this rises to 59%.
- The estimate of the benefits from moving to more productive jobs is made based on the modelling assumption that Crossrail moves jobs from outer to central London. In fact it is likely that some or all of these jobs will be new to London.

Conclusions

A2.10 The Mayor is confident that the updated analysis gives a technically robust assessment of the likely distribution of the wider economic benefits of Crossrail across London boroughs. It is based on the most up-to-date methodological approaches and data. Use of TfL assumptions rather than national ones give a more accurate reflections of the likely outcome in the capital.

Wider economic benefits: Technical Appendix

A2.11 There are four elements to the Wider Economic Benefits:

- Move to More Productive Jobs (M2MPJ);
- Pure Agglomeration (PAg);
- Labour Force Participation (LFP); and
- Imperfect Competition (IC).

A2.12 The 2009 revised guidance resulted in changes to the estimation of the PAg and LFP elements, M2MPJ and IC remain unchanged. It should be noted that the revised guidance is currently in draft, and is liable to change.

A2.13 The (Pure) agglomeration metric, known as 'effective density', provides a measure of the mass economic activity across a modelled area (for Crossrail, this covers London Boroughs, Essex & Berkshire). This measure reflects the accessibility of firms and workers to each other, with the importance of one firm/worker to another declining over distance. One change in the revised guidance is within the calculation of 'effective density', which must be calculated individually for four employment sectors (Manufacturing, Construction, Consumer Services & Producer Services) and now includes a decay parameter (which reduces the importance of firms/workers the further away from the modelled area the effective density is being estimated for) within the calculation.

A2.14 The GDP estimates from PAg are calculated by applying an elasticity of productivity with respect to effective density to the change in effective density arising from Crossrail. These elasticities have been estimated for the four employment sectors and are consistent with the decay parameters used for each employment sector within the effective density calculations. All the required parameters (decay, elasticities) were provided by the DfT in an accompanying dataset to the guidance.

A2.15 The guidance for estimating the LFP has changed significantly since Crossrail's last estimation (2007), which estimated it as 21% of Commuting Time savings. The LFP now uses the annual change in commuting costs as a proxy for the change in (perceived) annual return from working, which in turn uses an elasticity with respect to wages to estimate the relative change in Labour supply. The change in the Labour supply is multiplied by the median wage of the marginal worker (who is less productive than the average worker) to estimate the GDP impacts. It is assumed that all savings are passed on to workers, and therefore that the firms do not appropriate any of them in the form of profits.

A2.16 The PAg and LFP elements use generalised costs of travel within their calculations, with both Public Transport and Highway being included. The cost of the journey (fare / fuel) is also included as part of the generalised costs. Crossrail's previous estimate of the WEBs only captured Public Transport generalised costs and excluded fares. Including these elements within the calculations will reduce Crossrail's impact on the overall generalised costs of travel (Public + Highway) thereby resulting in lower estimates.

A2.17 Highway generalised costs are taken from the LTS model (London Transportation Studies Model), a multi-modal model (Public Transport & Highway) and is the source of demand that is used within Railplan. The LTS highway generalised cost matrices are

converted into the Railplan zone format to allow the calculations to be undertaken. The Railplan model covers the whole of the UK (split into over 1,500 zones), although is less detailed outside of the South East. Crossrail should have a minimal impact on generalised costs the further you move away from the model zones that Crossrail passes through. For this reason the PAg and LFP have been limited to Railplan zones covering the London Boroughs, Essex and Berkshire (a total of 1,276 zones).

A2.18 Within the 2007 WEBs estimate of the M2MPJ there was a 30% cap on the output differential (GDP per worker) that could be claimed for the jobs moving from outer to central London. This cap has now been removed from the guidance. Crossrail's 2007 estimate derived the output per worker from the Annual Survey of Hourly Earnings (ASHE), whereas the DfT now provides GDP per worker values for four employment sectors (Manufacturing, Construction, Consumer & Producer services).

A2.19 IC values the efficiency benefits to firms from reduced transport costs, where these benefits are not passed on to customers due to the lack of competition. This is estimated as a fixed proportion (10%) of the total user benefits to business journeys. It is not possible to proportion this out by geographical area and will therefore be excluded from this piece of work.

Valuation of the WEBs

A2.20 The following table provides a summary of the proportion of the WEBs that can be considered as GDP benefits or welfare benefits. Standard transport appraisals measure welfare benefits. Some, such as in-work time savings, can be easily quantified and attributed to GDP but other aspects, such as crowding disbenefits, can only be captured in a non-GDP 'welfare' manner. The WEBs identifies the welfare benefits that are missed in the standard appraisal. Similarly, some of these are GDP attributable, and some are more abstract, but all are welfare.

Table A2.2: Wider Impacts proportions of GDP/Welfare

Wider Impact	GDP	Welfare
Pure Agglomeration	100%	100%
Labour Supply Impacts	100%	40%
Imperfect Competition		100%
Move to More Productive Jobs	100%	30%

A2.21 Under the new WEBs guidance a Central Estimate is presented which includes the Pure Agglomeration (PAg), Labour Force Participation and Imperfect Competition impacts. The Move to More Productive Jobs (M2MPJ) is not included within the Central Cast estimate. Under the M2MPJ's more passenger journeys are taking place into central London, which increases the journey time of those trips but also the crowding on existing trips and will affect the central estimate of the PAg benefits.

A2.22 As part of the sensitivity when including the M2MPJ's, we have to re-estimate the PAg impact. This means re-estimating effective density based on a trip distribution that captures the movement of jobs we are predicting from outer London Boroughs into central London employment areas (Canary Wharf, City & West End). An important point to note with the M2MPJ's approach is that the overall level of employment in London remains unchanged. There is no increase to employment levels in London as a result of

the introduction of Crossrail. Our M2MPJ estimate is based on around 8,800 jobs moving to central London in 2016, rising to around 27,000 by 2026.

A2.23 In valuing the M2MPJ element, the guidance uses a National average GDP per worker, adjusting to reflect a higher productivity in the central London areas the job is being relocated too. This produces a GDP per worker for each London borough that is an average across the 4 employment sectors (Construction, Manufacturing, Consumer & Producer Services). In the case of Crossrail, estimating the GDP impact in this way is significantly going to underestimate the impact on GDP. Crossrail is very unlikely to lead to manufacturing or construction jobs moving to either the City, Canary Wharf or West End, so using an average GDP per worker that captures these sectors will not fully reflect the amount of Tax (in particular Income Tax) that will be collected be government. For this reason, we have estimated the GDP impact using both the DfTs approach but also using London specific GDP per worker values.

A2.24 The following table summarises the valuation of the WEBs impacts between the DfT guidance and an alternative approach using TfL assumptions for VoT and a Producer (Financial) services GDP per worker for the M2MPJ element.

Table A2.3: WEBs Impact valuation assumptions

Wider Impact	DfT	TfL
Pure Agglomeration	GDP per Worker by employment sector DfT VoT	GDP per Worker by employment sector TfL VoT
Labour Supply Impacts	Average Workplace based Earnings DfT VoT	Average Workplace based Earnings TfL VoT
Imperfect Competition	10% of Business Time Savings	10% of Business Time Savings
Move to More Productive Jobs	National Average GDP per Worker	Producer Service GDP per Worker

All values of GDP per worker, average earnings were supplied by the DfT in an accompanying dataset to the WEBs guidance

A2.25 The following tables summarise the WEBs values produced using the assumptions from Tables 2 & 3. The values below are based on the sensitivity estimate (i.e the inclusion of the M2MPJs).

Table A2.4: WEBs GDP Impacts

Wider Impact (60yr Present Value, £bn 2010 Prices)	DfT	TfL
Pure Agglomeration	5.8	6.1
Labour Supply Impacts	0.07	0.1
Imperfect Competition	0.0	0.0
Move to More Productive Jobs	8.9	36.1
Total	14.7	42.3

Table A2.5: WEBs Welfare Impacts

Wider Impact (60yr Present Value, £bn 2010 Prices)	DfT	TfL
Pure Agglomeration	5.8	6.1
Labour Supply Impacts	0.03	0.04
Imperfect Competition	0.39	0.59
Move to More Productive Jobs	2.6	10.8
Total	8.8	17.5

Impact on Earnings

A2.26 Although the additional GDP arising from the WEBs is created largely in central London, earnings will be spread around London according to where central London employees live. The benefits of Crossrail will therefore be felt throughout London and not just by those areas that are directly served by Crossrail. This section will show how earnings from the PAg, LFP and M2MPJ impacts for a forecast year of 2026 will be distributed across London.

A2.27 Net earnings can be calculated from the GDP estimate by calculating the average earnings proportion and then applying the average tax rate on earnings (30%, provided by DfT). Average workplace based earnings by borough was supplied by the DfT and is consistent with the GDP per worker values used to estimate the impact on GDP.

A2.28 The net earnings from the PAg and LFP elements are estimated at Railplan Zone level, so can easily be aggregated to Boroughs. Net earnings from the M2MPJ is estimated as a London total, but has been distributed across London using the origin Borough of Central London (LU fare Zone 1) AM Peak destination trips. The following table presents the 2026 valuations of net earnings.

Table A2.6: 2026 WEBs Net Earnings

Wider Impact (£m, 2010 Prices)	2026 Net Earnings
Pure Agglomeration	127.3
Labour Supply Impacts	7.2
Move to More Productive Jobs	1,136.8
Total	1,271.1

Annex 3: Report on Consultation on preliminary draft Charging Schedule January-March 2011

A3.1 This annex outlines the arrangements made for consultation on the preliminary draft charging schedule and gives a detailed response to the principal points raised.

Consultation on the preliminary draft Charging Schedule

A3.2 The preliminary draft charging schedule and supporting consultation document was issued for public consultation on Monday 17th January 201. Six weeks were allowed for consultation, which ended on Wednesday, 1 March.

A3.3 As required by the CIL Regulations, the consultation document was sent to local planning authorities in, and adjacent to, Greater London. Representations were also sought from a range of organisations representing those living and carrying on business in London, voluntary bodies,

A3.3 During the consultation period, representative of the Mayor held meetings with a number of meetings with interested groups, or presented to conferences or seminars on the Mayor's proposals:

- Crossrail Boroughs Planning Forum: 20 January 2011
- London First consultation event: 28 January 2011
- Planning Officers' Society (London): 28 January 2011
- Crossrail Boroughs Planning Group: 2 February 2011
- Meeting with Consortium of London Developers: 24 February 2011
- Meeting with London Councils Leaders' Group: 28 February 2011

A3.4 In addition, the following events and meetings were held after the formal conclusion of the consultation period, but while issues raised were still under consideration:

- Association of London Borough Planning Officers' Development Plan Committee: 7 March 2011
- Meeting with LB Redbridge: 8 March 2011
- Meeting with LB Harrow: 9 March 2011
- City/Westminster Property Owners Seminar: 10 March 2011
- London Councils Seminar: 11 March 2011

Consultation responses

A3.5 Responses were received from 105 organisations, individuals and authorities. The principal areas of comment are as shown in Table A3.1:

Table A3.1: key issues arising from preliminary consultation	
Issue	**Respondent**
Do not receive (as much) benefit from Crossrail Direct/indirect benefit questionable	LB Bromley, Waltham Forest Business Board, Zac Goldsmith MP, Waltham Forest Business Board, LB of Richmond upon Thames, LB Merton, Malc McDonald, RB Kingston Upon Thames, LB Sutton, London Assembly Conservative Group, LB Harrow, Greenwich Peninsula, Conservative Group of LB Merton, Enfield Council, London Biggin Hill Airport, Wandsworth Borough Council
Disagree with allocated Zone	Haringey Business Board, LB Bromley, Waltham Forest Business Zone, LB of Lewisham, LB of Hammersmith and Fulham, LB Hillingdon, LB Greenwich
Disagree with charges based on house prices Should be linked to benefits from Crossrail instead	Zac Goldsmith MP, London Assembly, LB Richmond upon Thames, LB of Lewisham, LB Merton, Malc McDonald, RB Kingston Upon Thames, LB Croydon, London Assembly Conservative Group, Land Securities
Levy too high	Islington Chamber of Commerce, LB Croydon, London Newcastle, Addition Land and Network Rail, Canary Wharf Group, Haringey Council, LB Newham
Could make development unviable/ deter/limit/burden development	AMK Planning, London Councils, Berkeley Group Holdings, City of London, London Assembly, LB Lewisham, LB of Richmond upon Thames, RB Kingston Upon Thames, LB of Sutton, RICS, LB Hillingdon, LB Croydon, Bishopsgate Goods Yard Regeneration, London Assembly Conservative Group, Ealing Civic Society, Westminster and City Property Associations, Shell, LB Islington, London Newcastle, Tesco Stores Ltd, CBI, Southwark Liberal Democrats, LGIM, LB Havering, Ballymore, Lend Lease, GVA, Fairview New Homes, Exemplar Properties Holdings LLP, Land Securities, Cathedral Group plc, ExCeL, LB Brent, Southbank Employer's Group, Sainsbury's Supermarkets, RTPI, LB Hackney, Thames Gateway London Partnership, LB Hounslow, London Thames Gateway Development, CLS Holdings

Sheltered Housing for Elderly should be exempt	Churchill Retirement Living
Should receive nil rating/be removed from CIL/have exemption	NFU South East Region (Agricultural and horticultural developments), Waltham Forest Business Board, Berkeley Group Holdings (social housing), Brent Cross Cricklewood Development Partners, BAA
Reduction in s106/confusion with s106	London Assembly, London Councils, Home Builders Federation, McCarthy and Stone Retirement Lifestyles, LB Richmond upon Thames, LB Ealing, Firstplan, CBI
How will CIL be used after £300m?	London Councils, Land Securities
Should confirm cease collecting CIL once £300m	London First, Westminster and City Property Associations, LB Greenwich, Tesco Stores Ltd
Mayoral CIL v borough CIL	London Councils, London First, SEGRO, Ballymore, GVA, Enfield Council, Wandsworth Borough Council
Boroughs/Local Authorities outside of London area benefit from Crossrail but do not pay CIL	London Councils, LB of Richmond upon Thames, RB Kingston Upon Thames, London Assembly Conservative Group, LB Greenwich, Conservative Group of LB Merton, Thames Gateway London Partnership
Impact on local development priorities	LB of Richmond upon Thames, LB Lambeth, London Assembly Conservative Group, London Councils, West End Community Network, Southwark Liberal Democrats, Westminster City Council, LB Havering, Lend Lease
Should be an affordable cost in housing tool kit	Berkeley Group Holdings, Consortium of London Developers, Fairview New Homes
Extant planning permissions should be exempt from CIL as well as amendments to such permissions/ emerging developments long in preparation and subject of submitted, but not formally determined, planning applications should be excluded from CIL charge	Berkeley Group Holdings, Native Land, Bishopsgate Goods Yard Regeneration Ltd, LGIM, Consortium of London, Derwent London, Canary Wharf Group, Generation Estates, Englewood Ltd, European Land & Property, Capital and Counties
Should be flexibility of payment of CIL Phased payments Linked to occupation of development	City of London, Native Land, Covent Garden Marketing Authority, Bishopsgate Goods Yard Regeneration Ltd, Helical Bar plc, Project Blue Ltd, London First, Westminster and City Property Associations, Firstplan, Real Estate Opportunities, London Newcastle, Addition Land and Network Rail, Ballymore, VNEB OA

	Landowners, Consortium of London Developers, Derwent London, Canary Wharf Group, LB Waltham Forest, Exemplar Properties Holdings LLP, Cathedral Group plc, Generation Estates, Englewood Ltd, European Land & Property, Capital and Counties, Imperial College Healthcare NHS Trust, London Thames Gateway Development, LB Bexley, RB Kensington & Chelsea, Tesco Stores Ltd
Should be more/different charging bands	Berkeley Group Holdings, LB of Lewisham, RB Kingston Upon Thames, RICS, SEGRO
Other facilities should be exempt e.g. sports/recreational, libraries, community halls	LB of Lewisham, LB Hillingdon, LB Lambeth, LB Islington, LB Camden, UCL
Flat rate doesn't take into account variation within borough	LB Richmond upon Thames, Tottenham Hotspur FC, Southwark Liberal Democrats, LB Tower Hamlets, Lend Lease, LB Camden, European Land & Property, Southwark Council, Thames Gateway London Partnership, LB Hounslow
VNEB OA Excluded in SPG but not in CIL	Native Land, Covent Garden Market Authority, LB Lambeth, Real Estate Opportunities, Royal Mail Group, Addition Land and Network Rail, VNEB OA Landowners, Sainsbury's Supermarkets, CLS Holdings
Need viability testing	LB Merton, Helical Bar plc, Project Blue Ltd, Real Estate Opportunities, London Newcastle, Exemplar Properties Holdings LLP, Generation Estates, Englewood Ltd, European Land & Property, Capital and Counties, Imperial College Healthcare NHS Trust
Affordable housing should be exempt	LB of Hammersmith and Fulham, RB Kingston Upon Thames, Helical Bar plc, Project Blue Ltd, London Newcastle, Addition Land and Network Rail, Derwent London, Greenwich Peninsula, Exemplar Properties Holdings LLP
Should be an exceptions process	London First, Westminster and City Property Associations, Real Estate Opportunities, West End Community Network, Consortium of London Developers, Fairview New Homes, Cathedral Group plc, Generation Estates, Englewood Ltd, European Land & Property, London Thames Gateway Development

The Mayor's response to issues raised in preliminary consultation

A3.6 Table A3.2 sets out the Mayor's response to the points raised in consultation:

Table A3.22: Mayor's response to key issues arising from preliminary consultation	
Issue	**Response**
Do not receive (as much) benefit from Crossrail Direct/indirect benefit questionable	The extent of benefit a particular place gains from the infrastructure funded by CIL is not a valid ground for setting rates under the CIL Regulations. In any event, residents of every borough in London will receive annual benefits from Crossrail of between £15 – 115 million. **No change proposed**
Disagree with allocated Zone	Consideration has been given to adding zones, or changing the basis on which they are allocated (by using median home prices rather than averages), but none of these made a substantial difference. The points raised by those arguing for reallocation of particular boroughs are not supported by a compelling viability case, and the benefits of change are considered to be significantly outweighed by additional complexity. **No change proposed.**
Disagree with charges based on house prices Should be linked to benefits from Crossrail instead	CIL Regulations are clear that decisions on charging rates have to be based on development viability. Benefits from Crossrail are not a valid basis. **No change proposed.**
Levy too high	Viability evidence from the Mayor's consultants suggests the proposed charge rates should not have an unacceptable impact on development viability. **No change proposed**
Could make development unviable/ deter/limit/burden development	Viability evidence from the Mayor's consultants suggests the proposed charge rates should not have an unacceptable impact on development viability. **No change proposed**
Sheltered Housing for Elderly should be exempt	No viability-based case for a zero rate for this use has been made. Developments of this type undertaken by charities will benefit from the exemption from CIL under regulation 43; social housing will enjoy relief under regulation 49. **No change proposed.**
Should receive nil rating/be removed from CIL/have exemption	No viability-based case made for exemptions or zero rates. Some of the types of development raised are either unlikely to be buildings, or buildings to which people usually go other

	than for inspection purposes. **No change proposed**
Reduction in s106/confusion with s106	The relationship between the CIL and the Mayor's use of section 106 to help fund Crossrail is clear (where the s106 policy applies, the former will be a credit towards the latter). Otherwise, the position is as set out in national legislation. The position is made clearer by the Mayor's position regarding exceptional circumstances relief. **No change proposed**
How will CIL be used after £300m?	The Mayor has made clear that the current proposals will end once the £300 million has been raised for Crossrail. Decisions about future use of the CIL will be made at the appropriate time, in the light of infrastructure needs and availability of resources. **No change proposed.**
Should confirm cease collecting CIL once £300m	The Mayor has made clear that the current proposals will end once the £300 million has been raised for Crossrail. Decisions about future use of the CIL will be made at the appropriate time, in the light of infrastructure needs and availability of resources. **No change proposed.**
Mayoral CIL v borough CIL	The evidence available to the Mayor – confirmed by CIL proposals brought forward by two boroughs – suggest that the Mayoral CIL proposals will not prevent boroughs from raising resources from their own CILs. **No change proposed.**
Boroughs/Local Authorities outside of London area benefit from Crossrail but do not pay CIL	The Mayor agrees that it is inequitable that areas outside Greater London, but which will have the benefit of Crossrail in supporting their future growth and development , should not contribute. He has made representations to ministers, and has instructed his officers to make strong representations to any of those authorities that decide to levy a CIL to ensure that they include provision to help fund the project.
Impact on local development priorities	Based on the evidence available, the Mayor does not consider that his CIL proposals should have a significant effect on boroughs' local development priorities, particularly as the CIL applies to net increases in floorspace. **No change proposed.**
Should be an affordable cost in housing tool kit	This point will be addressed as part of a current review of the Three Dragons Affordable

	Housing Toolkit.
Extant planning permissions should be exempt from CIL as well as amendments to such permissions/ emerging developments long in preparation and subject of submitted, but not formally determined, planning applications should be excluded from CIL charge	These are matters beyond the Mayor's discretion. Regulation 128 of the CIL Regulations makes clear that CIL will not be payable in respect of development for which planning permission has been granted before a charging schedule comes into force (the same is not true of applications submitted before the schedule comes into force but is determined afterwards). The regulations are also clear about how amendments should be treated. **No change proposed.**
Should be flexibility of payment of CIL Phased payments Linked to occupation of development	The Mayor will be discussing a common Londonwide policy on instalments with boroughs and developers. The CIL Regulations link instalments to commencement of development, and probably do not allow for them to be fixed by reference to occupation.
Should be more/different charging bands	Additional/different bands have not been shown to be required by viability considerations. The benefits of change, if any, are considered not to outweigh the disadvantages of the additional complexity that might be involved. **No change proposed**
Other facilities should be exempt e.g. sports/recreational, libraries, community halls	The Mayor considers that the case for setting a zero rate for health and education is particularly strong in light of expected population growth and reduced funding (and therefore viability). He is also satisfied that as they represent only 5% of development in London, their exclusion should not have an unacceptable effect on viability of other uses – an issue that will be of increasing concern the more uses are considered for zero rates. On a practical level it will be difficult to define some of these proposed additional uses. **No change proposed.**
Flat rate doesn't take into account variation within borough	Borough-wide rates are set because of the substantial complexity and additional boundary effects of setting two or more zones within each borough. There is also a lack of consistent and robust data across London as a whole that could be used to identify and justify separate zones in this way. Boroughs will be able to discriminate more at local level when they overlay their own CIL. **No change proposed.**
VNEB OA Excluded in SPG but not in CIL	CIL operates on a different basis from s106 (the subject of the SPG referred to), and raises particular risks of challenge on State Aid

	grounds. In addition, no viability case shown for setting a lower/zero rate. **No change proposed.**
Need viability testing	Mayor's proposals are based on robust viability evidence appropriate to meet the test set in the CIL Regulations, using available data and judged on a basis which is practical to undertake across the whole of London. CIL operates differently from s106, where a development-by-development assessment of viability is appropriate. **No change proposed**
Affordable housing should be exempt	Social housing enjoys a statutory relief from CIL liability – see Regulation 49
Should be an exceptions process	The Mayor considers that given the potential caseload, and the potential administrative burden for borough collecting authorities in passing claims for exceptional circumstances relief to the Mayor, and Mayoral decisions back to the developer, the disbenefits outweigh the benefits of allowing this relief, particularly given the narrow basis on which it can be granted under the regulations. The Mayor considers it is better to deal with cases where there are potential viability issues because of the combined demands of CIL and a section 106 agreement through the usual planning decision-making system, not least as that allows developers a right of appeal. He will keep this matter under review, however, and will consider it again if experience suggests the need to. **No change proposed at this stage.**

A3.7 Further detailed commentary on the consultation response by Jones Lang LaSalle is given in section 4.8.

[i] HM Treasury and Infrastructure UK, the National Infrastructure Plan, October 2010.
[ii] London First, the Infrastructure Commission, World class infrastructure for a world city. November 2010.
[iii] Mayor of London, the Mayor's Transport Strategy. May 2010.
[iv] Draft Replacement London Plan. Draft Implementation Plan. Mayor of London. September 2010.
[v] The Community Infrastructure Levy, an Overview, Department of Communities and Local Government. November 2010

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