

Date: 8 July 2016

Item: Update on Planning Obligations

This paper will be considered in public

1 Summary

- 1.1 This paper provides the Committee with an end of year update on the Mayor's Community Infrastructure Levy (MCIL), borough CILs and section 106 funding that will contribute either to the funding of Crossrail or other transport infrastructure.

2 Recommendation

- 2.1 **The Committee is asked to note the report.**

3 Background

- 3.1 TfL is responsible for advising the Mayor on the transport issues associated with planning applications referred to him under the Greater London Authority Act 1999 (GLA Act). TfL Planning attend the weekly Mayoral Planning meetings and are responsible for negotiating appropriate transport mitigation with developers and boroughs to enable developments to function effectively. TfL Planning are also overseeing the collection of £600m towards Crossrail from developments across the capital.
- 3.2 As part of the funding arrangement with government, TfL is to raise £600m towards Crossrail through a combination of the Mayoral CIL and s106 contributions as defined in the Funding of Crossrail Supplementary Planning Guidance (SPG).
- 3.3 This annual report provides information on:
- (a) development activity trends;
 - (b) contributions for Crossrail – through the Mayoral CIL and the Crossrail SPG;
 - (c) borough CILs; and
 - (d) section 106 contributions for other transport projects, including the Northern Line Extension.

4 Development Activity

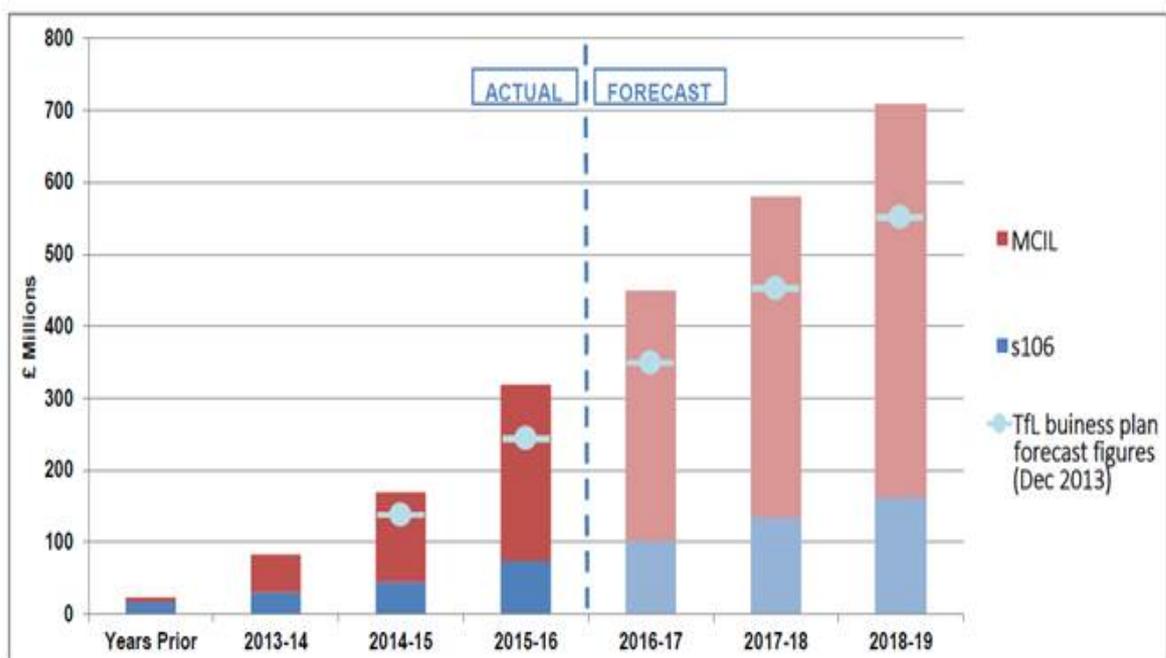
- 4.1 The development pipeline includes a number of key stages. These include:
- (a) securing Planning Permission;
 - (b) starting construction;

- (c) pre-letting, selling, letting buildings
 - (d) completing construction; and
 - (e) occupation.
- 4.2 Securing planning obligations is related to the level of development activity and, in particular, the implementation of relevant planning permissions. There are a number of sources that indicate that development activity in London reached a high point in 2015. Office starts reached a level of floorspace rarely seen over the last twenty years, whilst the residential sector continued to see strong growth in starts (see Appendix 1).
- 4.3 TfL actively considers the transport implications of major applications referred to the Mayor each year. There were more than 350 referable applications involving transport input during last year which was an increase of 30 percent on the year before. Following detailed appraisal it may be necessary to negotiate a package of transport measures when this is required to mitigate the impact of the proposed development. The introduction of CIL has increased the rigour applied to negotiating s106 contributions and their requirement to be necessary, directly related and reasonably related in scale.

5 Developer Contributions towards Crossrail

- 5.1 Figure 1 below shows the good progress being made towards reaching the target of £600m for Crossrail from developer contributions. The graphic shows actual receipts to the end of 2015/16, together with forecasts for the three years until March 2019 when Crossrail contributions are proposed to come to an end. Current average quarterly MCIL receipt is about £30m. The forecast figures are based on the cautious assumption that MCIL will produce £100m per year, whilst supposing that Crossrail s106 contributions will continue at last year's level of £30m. As shown in the graph, this would result in the target £600m developer contribution to Crossrail being secured slightly ahead of schedule.

Figure 1. Cumulative total of Crossrail funding – Actual & Forecast



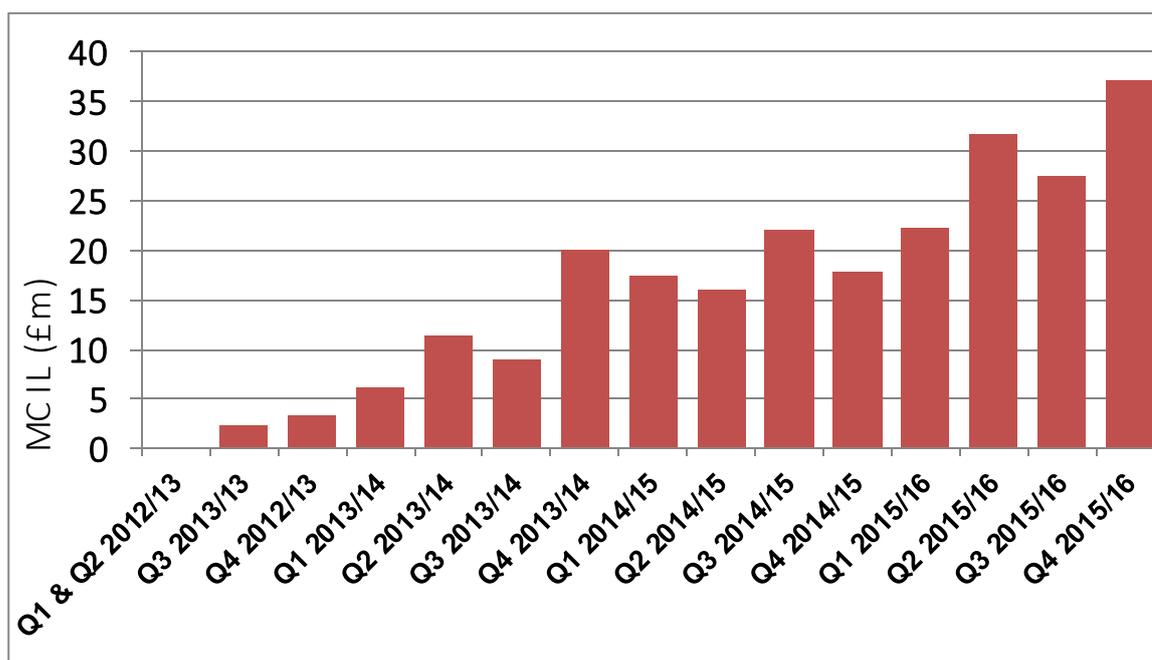
5.2 The position at the end of 2015/16 at £321m is somewhat ahead of the last TfL business plan (December 2014) forecast of £249m.

Mayoral Community Infrastructure Levy

5.3 The Mayoral CIL came into effect on 1 April 2012 and covers all development throughout London with a few exceptions (e.g. health and education facilities). Boroughs act as collecting authorities and are responsible for gathering the appropriate MCIL payments and transferring them to TfL, who administer the MCIL on the Mayor's behalf. TfL manages the borough collection of MCIL via a system of quarterly reporting and transfer of funds to a defined programme. This structure is established and is working well with TfL receiving all funds within a month of the quarter end.

5.4 At the time of the last annual report the total MCIL receipts after three years of MCIL operation was £126m. Figure 2 (below) highlights that the upward trend in MCIL receipts has continued with £119m being collected during the last year, bringing the total after four years to £245m on a cash basis. A record receipt of more than £37m was received in Quarter 4 2015/16 but it is not anticipated that this figure is likely to be replicated in the coming quarters.

Figure 2. Mayoral CIL Receipts – Actual (Cash)

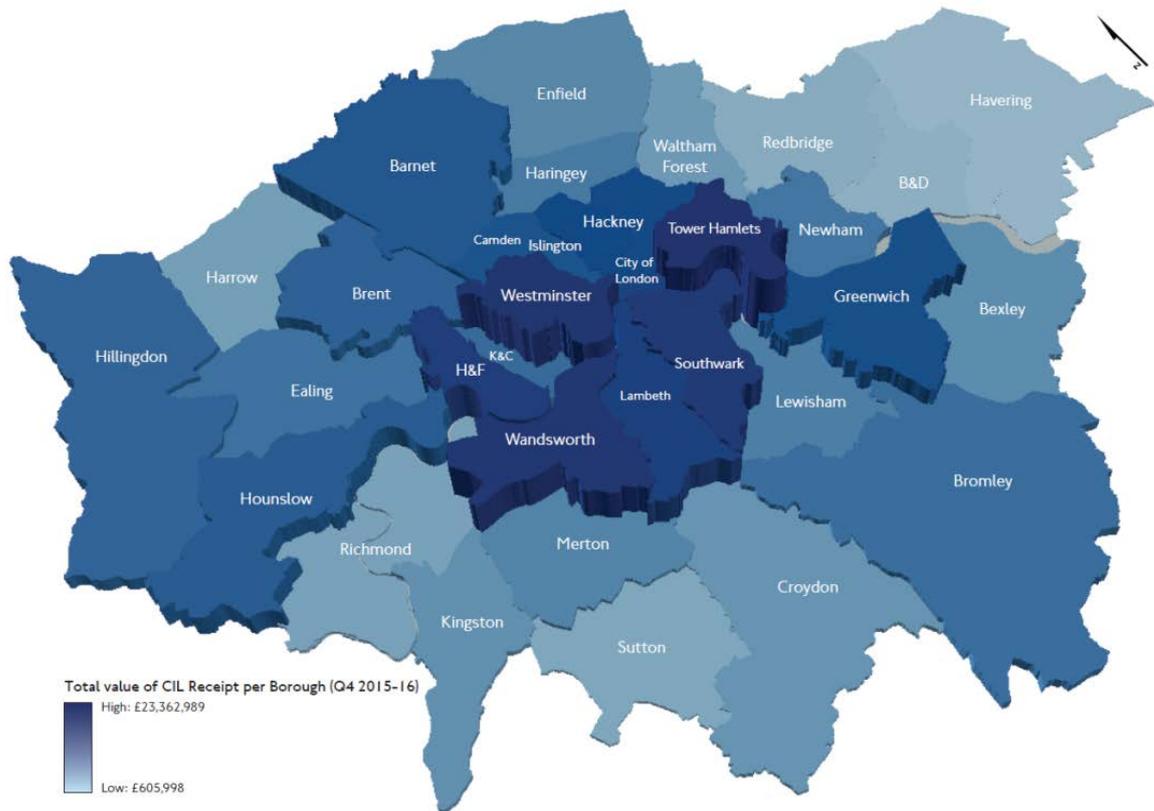


5.5 CILs are required to be reviewed on a regular basis and the Mayoral CIL is currently subject to reviews after two years of operation. The Biennial Review 2014 considered that there should be no revision to the current MCIL rates and instructed officers to undertake the next review, after a further two years, in 2016. This is likely to take place at the end of this year.

5.6 The increases in MCIL receipts during 2015/16 have provided confidence that the overall £600m target towards Crossrail from developer contributions should be reached. However, future MCIL (and s106) returns continue to be dependent on a stable property market related to economic activity, and could also be affected by any future revisions to the CIL regime or regulations.

5.7 The spatial distribution of CIL income highlights that eleven boroughs have each secured more than £10m to date for Crossrail via Mayoral CIL, with Tower Hamlets and Westminster leading the way with £23m and £21m respectively. Figure 3 shows the bias towards Central London in respect of MCIL funding generation, reflecting the level of development activity as well as the greater viability / higher MCIL rates charged.

Figure 3. Comparison of Mayoral CIL collected by boroughs



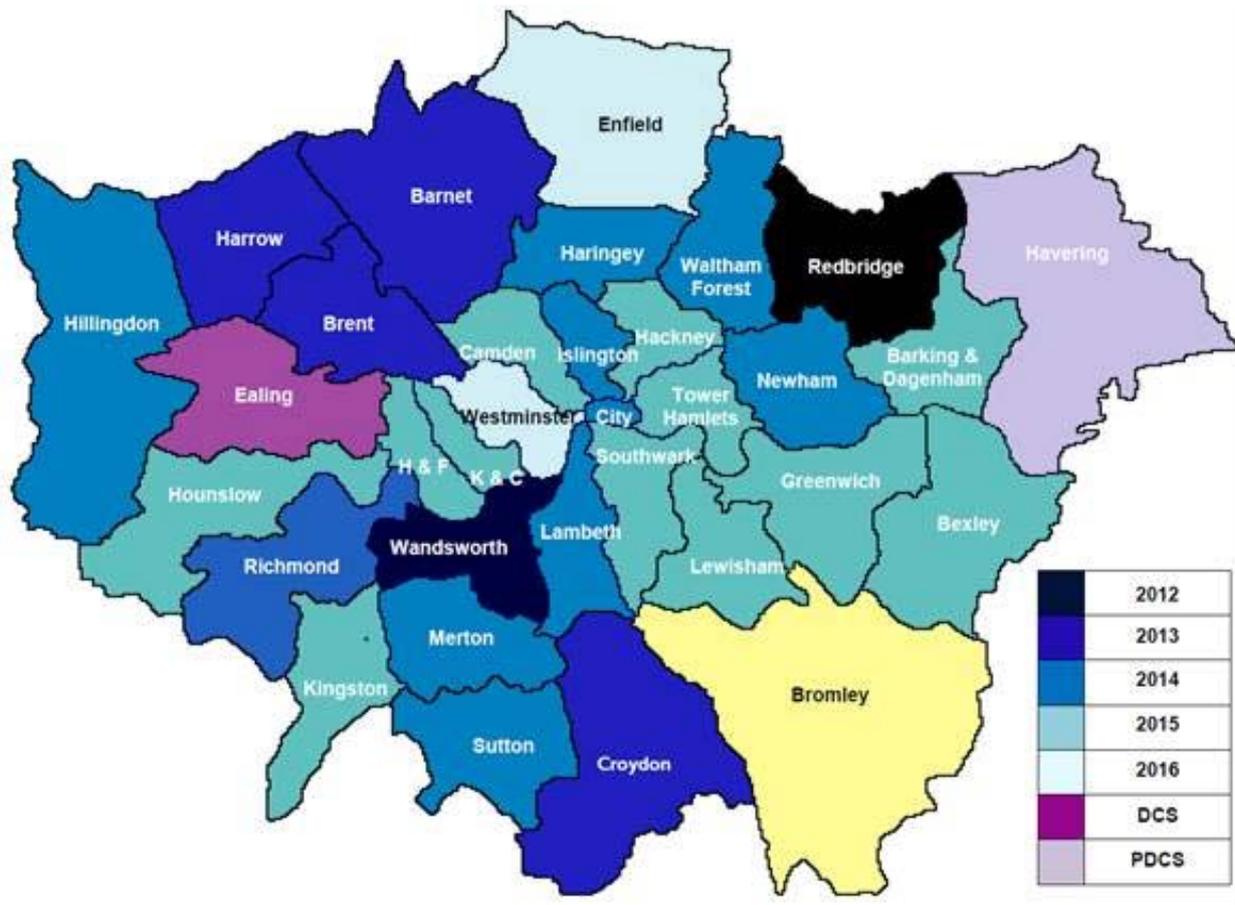
Crossrail Supplementary Planning Guidance (SPG)

- 5.8 The Crossrail SPG requires s106 funding to be secured for Crossrail from certain commercial developments in central London, the Isle of Dogs and around new Crossrail stations. The initial Crossrail Funding SPG was published in April 2010, and this was updated in March 2016. Section 106 funds collected in accordance with the Crossrail SPG during 2015/16 totalled £30m, bringing the total collected since its inception to £76m.
- 5.9 The policy was developed in advance of the Mayoral CIL. As previously reported the interaction between the MCIL and Crossrail s106 contributions is such that a significant part of what would have been s106 is now collected as CIL. A major contribution for Crossrail was expected to be the Wood Wharf development which is not anticipated to start flowing significantly before 2019.

6 Borough CILs

- 6.1 Borough CIL progress in London has been excellent and far ahead of the picture nationally. Excluding London, less than half of authorities nationally have their CILs in place whereas in London there are 31 CILs that have been approved and are currently charging. Figure 4 illustrates the current position with only Bromley yet to publish any CIL proposals.

Figure 4. Current Status of Borough CILs

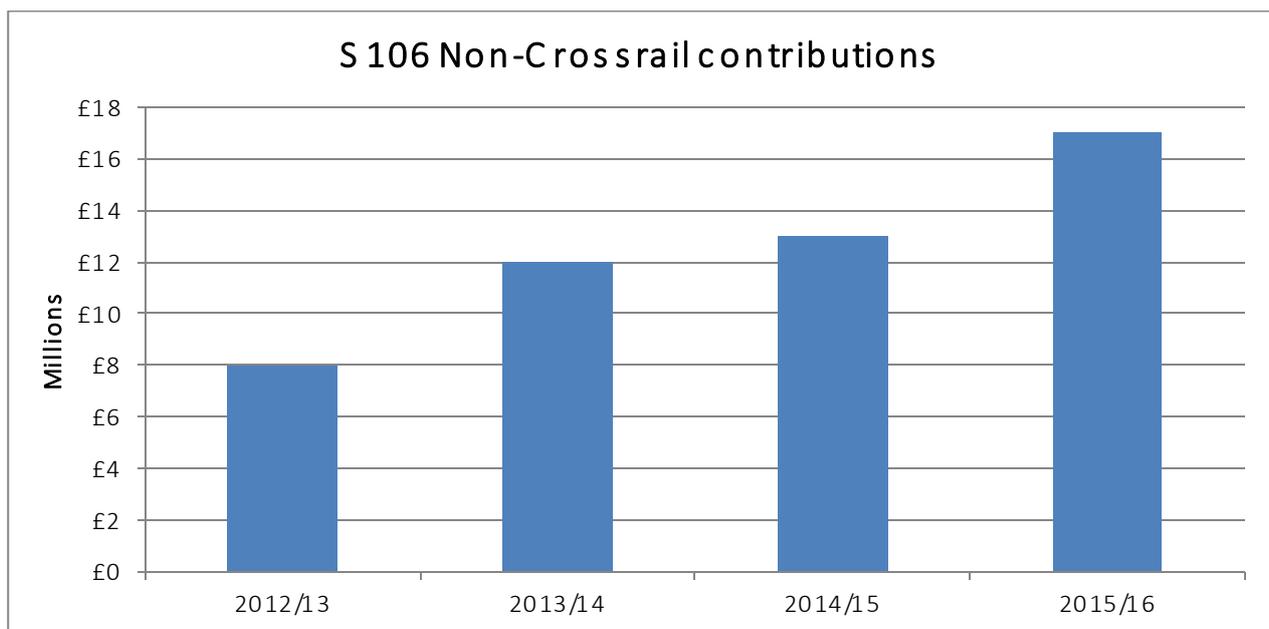


- 6.2 As part of developing their CILs boroughs have identified extensive infrastructure needs with funding gaps typically of £150m - £300m. Education is the area which dominates the boroughs' need for additional funding. There is a substantial variation across London in the level of annual Borough CIL receipts anticipated. For example, there are a number of boroughs expecting around £1m p.a. (e.g. Sutton) compared to more than ten times that amount anticipated in boroughs such as Islington. TfL continues to negotiate and secure Borough CIL income for transport infrastructure wherever possible such as at Elephant & Castle, the Northern Line extension, Woolwich Crossrail station, and Wandsworth gyratory.
- 6.3 The development of Vauxhall Nine Elms and Elephant & Castle are both subject to arrangements where significant contributions are to be raised towards strategic transport infrastructure. They are each subject to distinct arrangements to ensure money is received related to the delivery of agreed transport infrastructure, with income managed through separate funding agreements by the GLA.

7 Non-Crossrail Transport Mitigation

- 7.1 Planning applications that are referred to the Mayor are often approved subject to a package of mitigation measures, some of which may relate to transport in addition to Crossrail funding. The measures that are negotiated by TfL in respect of non-Crossrail transport obligations vary enormously in type and scale. They can include mega-projects such as Brent Cross and Earl's Court through to schemes involving minor works (for example bus stop improvements) which may cost as little as £5k. As well as transport infrastructure obligations defined in the s106 agreement, TfL often benefits from schemes which are delivered directly and do not involve funds being transferred to TfL. The most notable of these benefits in kind include the bus stations at Stratford and London Bridge.
- 7.2 The advent of CIL and the more defined relationship with s106 agreements will have an impact on the long-term trajectory of s106 funding. It is expected that there will be a reduced scale and number of section 106 agreements that TfL (and boroughs) are likely to be able agree with developers in future as s106 requirements must now be scaled back to directly related site specific issues.
- 7.3 Currently, there are about 500 s106 agreements being actively monitored on a quarterly basis which potentially may come forward for implementation by TfL. S106 delivery is complicated by issues of detail (TfL is only a signatory to less than a dozen of these agreements and is rarely involved in the final detailed provisions agreed between boroughs and developers), and timing (significant time-lag from the consideration of the planning application to the signing of the s106 and particularly to the trigger for delivery of defined mitigation measures).
- 7.4 Figure 5 shows the levels of s106 non-Crossrail contributions received by TfL since 2012/13.

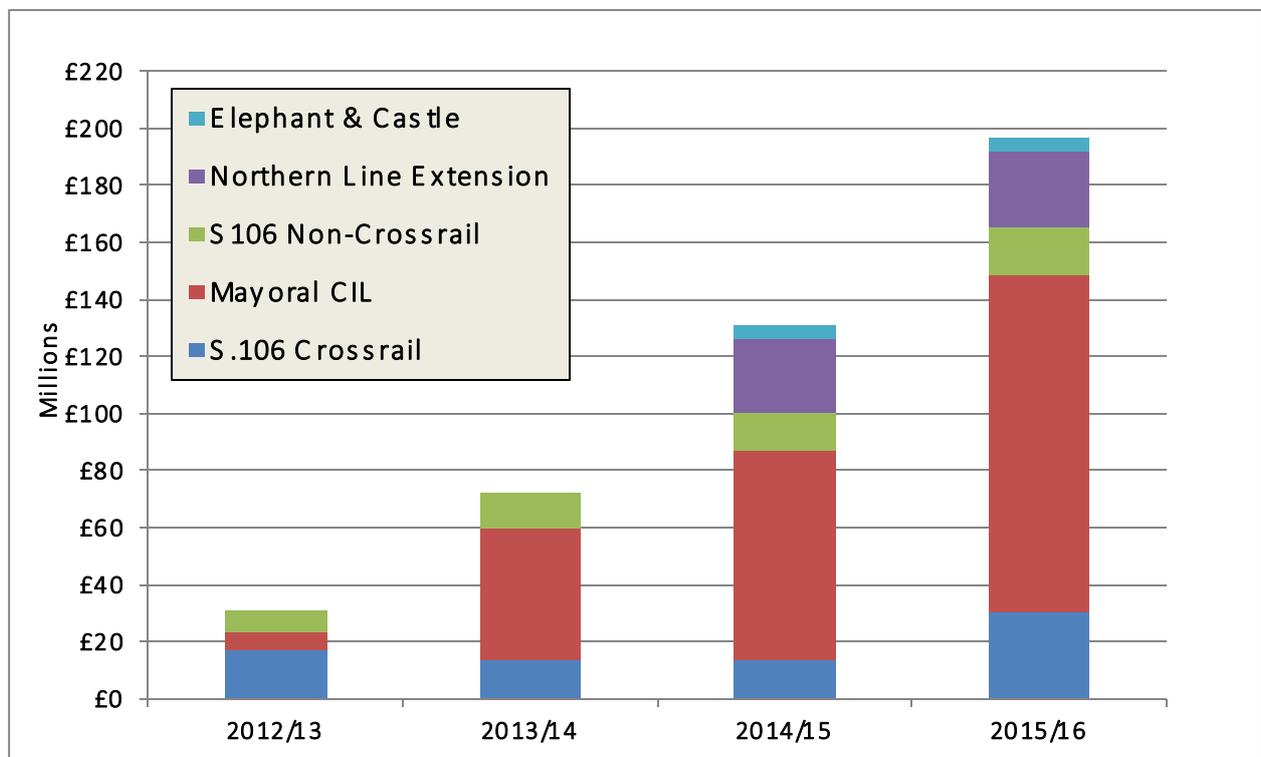
Figure 5. S106 Non-Crossrail contributions received by TfL



8 Summary and Looking Forward

- 8.1 Figure 6 illustrates the increasing level of transport contributions secured over recent years as a result of improved reporting by both boroughs, and within TfL, and a greater focus on identifying key payments and schemes to be delivered. In total £196m has been collected over the last year. This is up from £131m the previous year.
- 8.2 The last year has seen excellent capture of developer receipts for transport with record high annual returns in respect of MCIL, s106 Crossrail contributions as well as s106 transport mitigation. In respect of the £600m developer contribution to Crossrail, the receipts from 2015/16 provide increasing confidence that the target can be reached. However, as contributions are tied to development activity this view is based on positive future economic conditions.

Figure 6. Transport contributions received by TfL



- 8.3 There are two areas where change could occur. Firstly, there is an expectation that s106 contributions will decline as expected given that CIL was meant to significantly replace it in terms of funding infrastructure. The other potential influence is in respect of the CIL Review that has been undertaken by a government appointed taskforce. It is likely that the government will consider any changes to CIL later in the year.

List of Appendices:

Appendix 1: Economic Data

List of Background Papers:

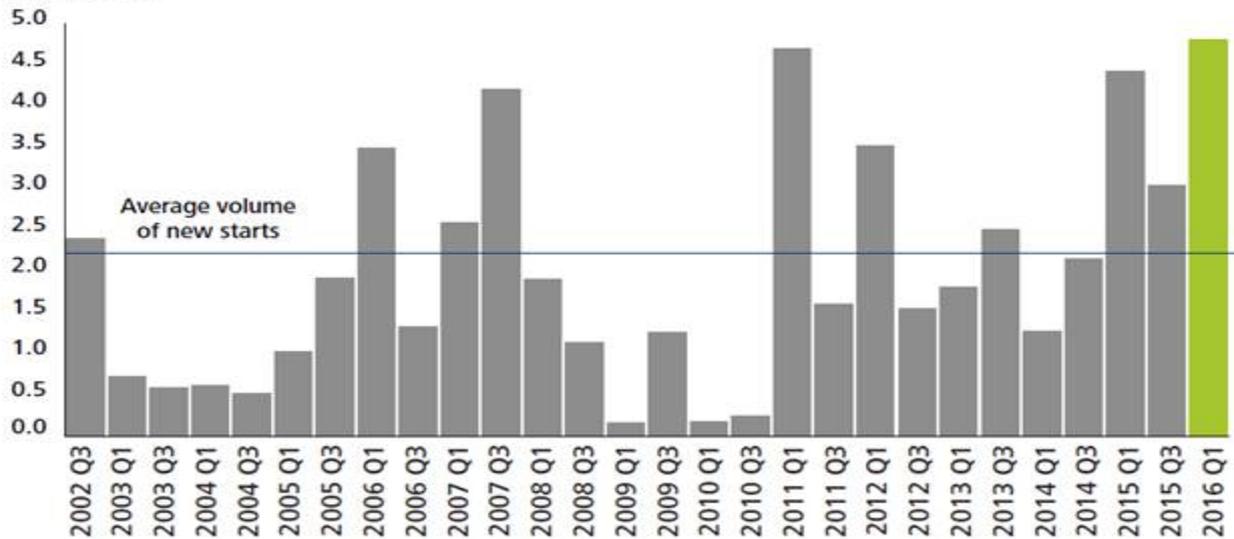
Supplementary Planning Guidance: Use of planning obligations in the funding of Crossrail and the Mayoral Community Infrastructure Levy (March 2016).
CIL Regulations 2010, as amended 2011, 2012, 2013, 2014, 2015.
Community Infrastructure Levy Guidance (February 2014)
Mayoral CIL Biennial Review (December 2014)

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Office

According to Deloitte¹ the volume of office floorspace under construction in London has been above average over the last few years. The figure below highlights the significant increase in office starts over the last year and a half.

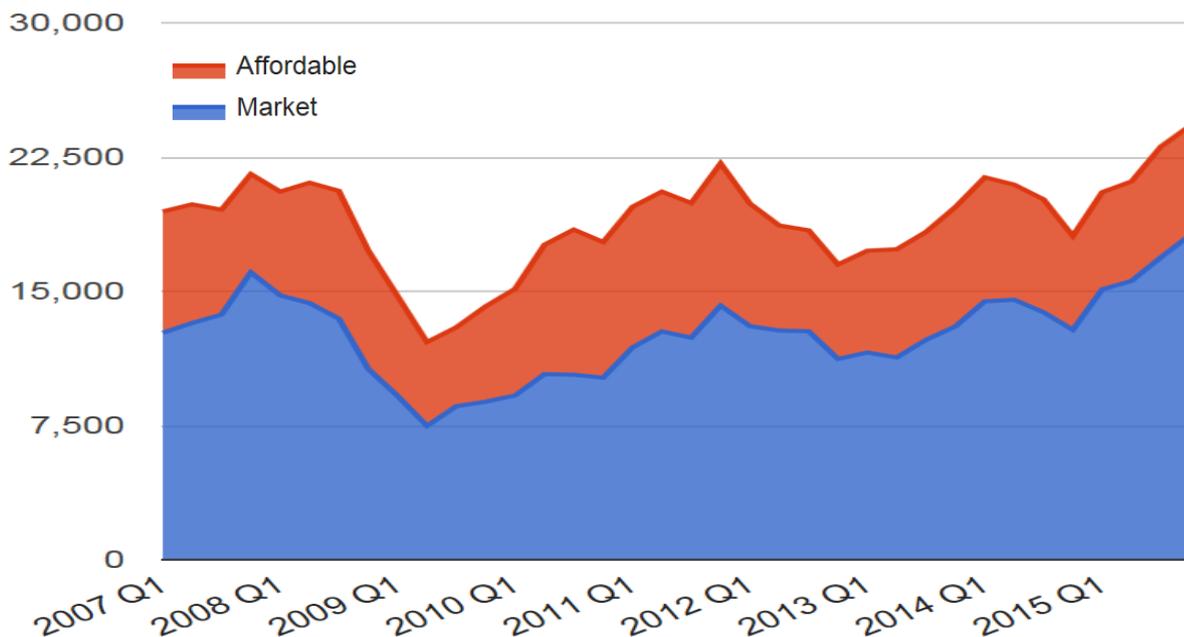
Volume of new starts per survey – central London
Million sq ft



Residential

In terms of the residential market, DCLG data² indicates an increase in house building in London. The graphic below shows the average number of residential starts at the end of 2015 was the highest it has been over at least the last two decades.

Housing delivery: New house building starts in London (Four quarter running total)



¹ London Office Crane Survey – Summer 2016.

² DCLG Housing Live Table 253a