



# **COMMUNITY INFRASTRUCTURE LEVY (CIL)**

## **PRELIMINARY DRAFT CHARGING SCHEDULE**

**November 2012**



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**APPENDIX 1: London Legacy Development Corporation area within Tower Hamlets**

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# 1. Introduction

1.0.1 This document is a consultation paper, issued as the first step in setting the London Borough of Tower Hamlets' (the Council) Community Infrastructure Levy (CIL). It contains the proposed CIL Charging Schedule and explains the general principles of CIL, as well as the method used to arrive at the proposed charging rates.

## 1.1 About CIL

1.1.1 CIL is introduced under Part 11 of the Planning Act 2008. It is a levy that allows the local authority to raise funds from new local development, to pay for the infrastructure needed as a result of that development. CIL is a standardised, non-negotiable charge. The rates are expressed as pounds per square metre, imposed upon the granting of planning permission and payable when development commences (subject to any future instalment policy).

1.1.2 CIL will be chargeable on the net additional floor space of all new development, apart from those exempt under Part 2 and Part 6 of the Community Levy Regulations 2010 (as amended by the Community Levy Regulations 2011). Those exempt from the charge can be summarised as:

- Non-residential buildings, or extensions to buildings, less than 100 square metres
- Buildings into which people do not normally go, or enter only intermittently for the purpose of inspecting or maintaining fixed plant or machinery
- Affordable housing
- Buildings owned by charities used for a charitable purpose

## 1.2 Why is the Council Adopting CIL?

1.2.1 The Council proposes to implement CIL for the following benefits:

- CIL will help fund the infrastructure needed to deliver the economic growth and regeneration planned in Tower Hamlets' Core Strategy.
- CIL will enable the Council to manage the flow of funding for infrastructure alongside funding sources such as the Capital Programme, New Homes Bonus and others.
- Almost all development has some impact on infrastructure, services and amenities, or benefits from them - CIL asks the majority of developments to make a contribution towards the additional infrastructure needed as a result of their manifestation.
- CIL is a modest, fixed, transparent charge that means developers have more certainty regarding what they have to contribute, from the very start of the development process.
- A proportion of CIL can be passed down to communities to make sure they benefit from development in their area.
- From April 2014, the Council will no longer be able to pool Section 106 contributions from more than 5 developments. This will have a significant impact on what S106 is able to fund.

### 1.3 The London Mayor's CIL

- 1.3.1 The Mayor of London is already charging his own CIL to help pay for Crossrail. The Council is designated as the 'Collecting Authority' for the Mayor of London's CIL. Mayoral CIL is payable on all developments that have received planning consent after 1<sup>st</sup> April 2012. Tower Hamlets falls within Zone 2, where a CIL of £35 per square metre will be levied for all eligible development (the Mayor has specifically excluded development used for health or education purposes, across London). The Council is required to have regard to the Mayoral CIL when setting its own CIL. The rates set out in this document are exclusive of the London Mayor's rate.

### 1.4 The London Legacy Development Corporation

- 1.4.1 The London Legacy Development Corporation (LLDC) is responsible for planning (plan making and decision making) in the Olympic Park and related area, from 1<sup>st</sup> October 2012. They have expressed an intention to charge CIL and they will produce a Charging Schedule for the area in due course. In the event that Tower Hamlets' CIL is in effect prior to the CIL of the LLDC then Tower Hamlets' CIL will apply across the area of the LLDC until the CIL of the LLDC comes into effect. CIL in Tower Hamlets has been considered with the LLDC area in mind, in order to consider the borough as a whole entity. A map showing the LLDC area is attached in Appendix 1.

### 1.5 CIL Preliminary Draft Charging Schedule

- 1.5.1 The proposed levy rates are set out in Figure 5 below. Representations on the Preliminary Draft Charging Schedule are invited between **5pm 16<sup>th</sup> November 2012 and 5pm 2<sup>nd</sup> January 2013** to:

Email: [cil@towerhamlets.gov.uk](mailto:cil@towerhamlets.gov.uk)

Post: Infrastructure Planning Team  
London Borough of Tower Hamlets  
Mulberry Place  
PO Box 55739  
5 Clove Crescent  
London  
E14 1BY

Alternatively, responses can be sent through the Consultation Portal on the Council's website at: [http://www.towerhamlets.gov.uk/lgs/501-550/516\\_register\\_of\\_planning\\_decis/section\\_106\\_planning\\_obligatio/communitiy\\_infrastructure\\_levy.aspx](http://www.towerhamlets.gov.uk/lgs/501-550/516_register_of_planning_decis/section_106_planning_obligatio/communitiy_infrastructure_levy.aspx)

- 1.5.2 Once the Council has considered all the representations received, it will produce a Draft Charging Schedule which will be subject to a further round of consultation. Consultation on the Draft Charging Schedule is expected to take place in April 2013 and an examination in public is anticipated later in 2013, to ensure Tower Hamlets Council meets the April 2014 deadline, when S106 will be less available.

## 2. Evidence

- 2.0.1 The Government's guidance requires that the CIL rates be informed by appropriate available evidence, which encompasses information on the infrastructure funding gap and development viability.
- 2.0.2 Preparation of the Council's Preliminary Draft Charging Schedule has been based on the proposed levels of growth and development set out in Tower Hamlets' Local Development Framework Core Strategy (adopted in September 2010). In particular, the LDF Core Strategy plans to accommodate an additional 43,275 dwellings in the Borough, from 2010 to 2025, and to stimulate local economic development and job creation (Policy SP02).

### 2.1 Tower Hamlets' Infrastructure and Funding Needs

- 2.1.1 The Council has developed an Infrastructure Delivery Plan (IDP) to accompany the Core Strategy. That IDP was assessed as part of the recent Core Strategy examination in 2010. Paragraph 18 of the Department for Communities and Local Government's Statutory Guidance entitled *Charge Setting and Charging Schedule Procedures (2010)* states "*the CIL examination should not re-open infrastructure planning that has already been submitted in support of a sound core strategy DPD or LDP. It is not the role of the CIL examination to challenge the soundness of an adopted development plan*".
- 2.1.2 For the purposes of proving an infrastructure funding gap, the Council has relied on its Infrastructure Delivery Plan, augmented by additional evidence of infrastructure costs and income where the information is appropriate and available. The additional evidence for infrastructure costs includes:
- Tower Hamlets Council's Transport Planning Strategy 2011-2031;
  - Local Implementation Plan 2 – Corridors and Neighbourhoods;
  - Local Investment Plan 2 – Major Schemes 2012; and
  - School Site Allocation Evidence Base for EIP by Tower Hamlets Education Department (as approved by Tower Hamlets Cabinet 5<sup>th</sup> September 2012).

Additional evidence of income for infrastructure from other sources is identified in the Tower Hamlets Capital Programme for 2011-2014. Figure 1 overleaf summarises the total costs and funding gap.

- 2.1.3 The residual funding gap is calculated by subtracting the projected CIL income from the aggregate funding gap and is required for a Charging Authority to be able to charge CIL:

Aggregate funding gap – Projected CIL income = Residual funding gap
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<b>£317.3m - £12.1m = c £305.2m</b>
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2.1.4 The residual funding gap, after accounting for anticipated CIL income, is estimated at £305.2m for the period to 2017 and therefore Tower Hamlets is justifiably able to charge a CIL.

**Figure 1: CIL Eligible Infrastructure Requirements**

<b>Infrastructure Category</b>	<b>Total Cost of Infrastructure 2011-2017</b>	<b>% of total</b>
Education	£91,480,000	13%
BSF	£213,550,000	31%
Health	£14,500,000	2%
Open Space	£39,250,000	6%
Swimming Pools	£19,735,000	3%
Sports Halls	£27,600,000	4%
Idea Stores	£4,200,000	1%
Waste	£60,000,000	9%
Transport	£141,073,500	20%
Public Realm	£83,983,000	12%
<b>Total cost of infrastructure</b>	<b>£695,371,500</b>	<b>100%</b>

**Figure 2: Summary of Funding Available from Other Sources**

<b>Total Funding Gap for LB Tower Hamlets 2011/12 to 2016/17</b>	
<b>Funding Available</b>	<b>Total</b>
DfE	£57,000,000
TfL	£15,750,000
Supported Capital Borrowing	£6,000,000
Capital Receipts	£4,500,000
Borrowing	£10,000,000
S106	£71,270,000
BSF	£213,550,000
<b>Total Funding Available</b>	<b>£378,070,000</b>
<b>Total Infrastructure Costs</b>	<b>£695,371,500</b>
<b>Funding Gap</b>	<b>£317,301,500</b>
<b>Projected CIL income</b>	<b>£12,151,453</b>
<b>Residual Funding Gap</b>	<b>£305,150,047</b>

**Figure 3: Projected CIL Income**

<b>Period</b>	<b>Total Income</b>	<b>Annual Income</b>
<b>2014/15-2016/17</b>	£12,151,453	£4,050,484
<b>2017/18-2021/22</b>	£100,492,386	£20,098,477
<b>2022/23-2026/27</b>	£65,548,416	£13,109,683

2.1.5 The projected CIL income in Figure 3 above is based on the development pipeline as set out in the Council's Planning for Population Change and Growth Model (PPCGM) and the proposed CIL rates set out in this document. The model used future (non-consented) schemes to reach these assumptions on income.

## 2.2 Explanation of Rates & the Viability Assessment

### Factors to Consider When Setting Rates

- 2.2.1 In setting rates the Council must seek to strike a balance between, on the one hand, the need for CIL to fund the infrastructure necessary to support the sustainable development of its area, and on the other hand, the potential effects of the imposition of CIL on the economic viability of development taken as a whole across the borough.
- 2.2.2 For Tower Hamlets, supporting the sustainable development of the area specifically includes ensuring that sufficient affordable housing can be brought forward through the development process, as well as the necessary social, physical and green infrastructure required to enable development. Consequently, all of the rates below have been designed to facilitate the delivery of the Council's Core Strategy's affordable housing policy.
- 2.2.3 The Council must also take account of the Department for Communities and Local Government's Statutory Guidance entitled *Charge Setting and Charging Schedule Procedures (2010)* which directs that:
- a) recognises that CIL may potentially make some developments non-viable but requires the Council to consider economic viability as a whole across the area
  - b) advises authorities do not set their CIL at the margins of viability; so authorities tend to set a buffer (generally 30-50% or more to account for individual site circumstances)
- 2.2.4 In order to respond to the diverse nature of the borough, the Council proposes a variable CIL rate. However, the Council has sought to strike a balance between generating an overly complex set of rates and overly simplistic single rate which is again in accordance with the above mentioned guidance which states "*Charging authorities that plan to set differential CIL rates should seek to avoid undue complexity, and limit the permutations of different charges that they set within their area.*".

### Explanation of Rates by Development Type

#### RESIDENTIAL DEVELOPMENT

- 2.2.5 The ability of residential schemes to make CIL contributions varies depending on area and the current use of the site. Having regard to these variations and typical development scenarios in Tower Hamlets, residential schemes should be able to absorb a maximum CIL rate of between £80 to £300 per square metre.
- 2.2.6 The Council must take account of the London Mayor's CIL and, as noted above, DCLG guidance advises that charging authorities do not set their CIL at the margins of viability. The Council considers that setting the rates at a discount to the maximum rate, ranging from circa 30% to 50% as a buffer will help mitigate a number of risk factors (primarily the potentially adverse impact on land supply of setting the rates at a high level and 'shocking' the market).

- 2.2.7 It should be noted that the proposed rates are generally not more than 5% of typically new build residential sales in Tower Hamlets and it is considered that the application of CIL is unlikely to be the overriding factor in determining whether or not a scheme is viable. It should also be noted that buildings that are in lawful use (as defined by the CIL Regulations) that will be re-used or demolished as part of a development are deducted when determining the amount of floorspace that will be charged. Due to the densely populated nature of the Tower Hamlets, a significant proportion of floorspace in new development will replace existing floorspace. This together with the affordable housing exemption will mean that CIL will not apply to a proportion of new residential floorspace in the Borough.

## **OFFICE DEVELOPMENT**

- 2.2.8 Office development in the City Fringe and North Docklands has the potential to generate residual values that would support a CIL rate based on higher rents and yields. At current rent and yield levels, office development elsewhere in the Borough is unlikely to come forward in the short to medium term, as the capital values generated are insufficient to cover development costs.
- 2.2.9 Taking this into consideration, office development in City Fringe locations should be able to viably absorb a maximum CIL of £352 per square metre (inclusive of Mayoral CIL). In the north Docklands area, we consider that there is scope for office development to support a maximum CIL rate of £212. After allowing a buffer for site-specific issues, changes in values over time and the aim to establish a simple set of CIL rates the Council suggests a CIL of £125 per square metre could be levied without adversely impacting on development viability.
- 2.2.10 At current rent levels, base appraisals indicate that no CIL could be levied on office development in the south Docklands area and elsewhere in the Borough and therefore a nil rate is proposed for these areas. It is unlikely that office space will come forward in the short to medium term in these areas, as the capital values generated are insufficient to cover development costs.

## **RETAIL DEVELOPMENT**

- 2.2.11 Residual values generated by retail developments are higher than current use values to varying degrees across the Borough. Residual values generated by small retail developments in City Fringe and north Docklands locations are sufficiently higher than current use values to absorb a CIL of up to £150 per square metre. Allowing a buffer for site-specific issues and changes in values over time, the Council recommends a CIL of £100 per square metre.
- 2.2.12 Elsewhere in the Borough, rents for retail development are considerably lower and appraisals identify that developments are unable to viably support and absorb CIL. Therefore the Council considers a nil rate on small retail development outside the City Fringe and north Docklands locations is appropriate.



- 2.2.13 Large retail (which for the purposes of CIL is defined using the Sunday Trading law threshold of 280 square metres) is likely to be viable across the Borough with a maximum CIL rate of £300 per square metre (including Mayoral CIL). After allowing a buffer for site-specific issues, the Council proposes setting a CIL of £200 per square metre.

### **INDUSTRIAL & WAREHOUSE**

- 2.2.14 Appraisals of developments of industrial and warehousing floor space indicate that these uses are likely to generate negative residual land values. Therefore, a zero rate for industrial floor space is recommended.

### **STUDENT HOUSING**

- 2.2.15 Student housing in the Borough generates sufficient surplus residual values to absorb a CIL of up to a maximum of £692 per square metre. This rate needs to account for the Council seeking to ensure Affordable Housing contributions from Student Housing developments, and a buffer allowing for site-specific factors, as well as the London Mayor's CIL, so a rate of £425 per square metre is proposed.

### **HOTEL DEVELOPMENTS**

- 2.2.16 Hotels are able to absorb a maximum CIL (inclusive of Mayoral CIL) of between £0 to £1,364 per square metre including Mayoral CIL. The Council recognises hotel development viability trends over the last 5 years may well have been skewed by applications driven by the Olympics (or even applications seeking to establish the principle of a change of use, from industrial land, on the back of the Olympic hotel demand). It is therefore prudent to exercise some caution about the on-going viability of hotels; hence the discounts applied are higher than for some other uses. After allowing a buffer, the Mayor's CIL and accounting for the need to keep rates simple, a rate of £425 per square metres is proposed.

### **LEISURE AND COMMUNITY USES**

- 2.2.17 D1 and D2 uses often do not generate sufficient income streams to cover their costs. Consequently, they require some form of subsidy to operate. This type of facility is very unlikely to be built by the private sector. The Council therefore suggests that a nil rate of CIL be set for D1 and D2 uses.

### **Conclusion**

- 2.2.18 With these factors in mind, the rates proposed for Tower Hamlets are deemed to be appropriate and within the scope of the CIL Regulations. This PDCS has sought to ensure that rates are set in a way as to not make development unviable.

### 3. Proposed CIL Rates & Charging Area

#### 3.1 Discussion on the Findings and Proposed Overall CIL Rate

3.1.1 The Council has considered these findings alongside spatial planning principles and development priorities for the area. These considerations informed the final proposed CIL rates set out below. There has been a conscious effort to keep the rates relatively simple whilst securing an appropriate contribution of funding for local infrastructure, in order to mitigate the impact from new and proposed new development. The Council proposes the following rate(s):

**Figure 5: Preliminary Draft Charging Schedule**

Development type	Proposed CIL rate		
	Zone 1	Zone 2	Zone 3
Residential	£200	£65	£35
	£425		
Student Housing and Hotel	£425		
Offices	<i>Elsewhere in Borough</i>	<i>City Fringe and North Docklands</i>	
	Nil	£125	
Small Retail (280 sq m or less)	<i>Elsewhere in Borough</i>	<i>City Fringe and North Docklands</i>	
	Nil	£100	
Large Retail (above 280 sq m)	£200		
All other uses	Nil		

3.1.2 Maps indicating the above zones can be found in Appendix 2.

## **3.2 Calculating CIL**

- 3.2.1 CIL will be calculated on the basis set out in Part 5 of the Community Infrastructure Levy Regulations 2010 (as amended 2011).
- 3.2.2 For ease of interpretation, this shall mean that CIL will be charged on the total net additional floor space created (measured as Gross Internal Area).
- 3.2.3 The CIL rates shall be tied to the Royal Institute of Chartered Surveyors' *All In Tender Price Index*; the rate of CIL charged will therefore alter depending on the year planning permission for the chargeable development is first granted.

## **3.3 Conclusions**

- 3.3.1 The Council considers that it has used appropriate available evidence in setting the proposed rates of CIL in this document, striking an appropriate balance between using CIL to fund the infrastructure required to support development and the potential effects of its proposed CIL charge, on economic viability across the borough as a whole.

## **4. Monitoring Arrangements and Review**

- 4.0.1 To ensure that CIL revenues will deliver Tower Hamlets' infrastructure requirements there will be regular reviews of both the Charging Schedule and the infrastructure proposed for delivery. The Council is conscious that CIL will be part of the long term financial planning for developments as well as infrastructure investment, so reviews of the charging rates must respect the need for a level of certainty and stability for all. Nevertheless, the CIL is being set at a time of economic uncertainty so the rates have been set at a modest level and may need to be modified should the circumstances change. Consequently, the council proposes an initial review in 2015/16 then further review as is necessary.
- 4.0.2 The Council is committed to ensuring the use of CIL is open and transparent and will therefore closely align CIL reporting with its Annual Monitoring Report. The report will clearly set out how much money has been received and what infrastructure has been delivered using CIL.

## **5. Planning Obligations**

- 5.0.1 Once the CIL Charging Schedule is adopted, the scope for pooling section 106 contributions is limited to contributions from no more than five developments for each infrastructure project. CIL will therefore become the main source of infrastructure funding available, through development management decisions, other than for affordable housing, which currently lies outside of the remit of CIL and will continue to be secured through Section 106 agreements. This is subject to the Government's amendments to the CIL Regulations.
- 5.0.2 The Council will publish on its website a 'Regulation 123' list of infrastructure projects or types of infrastructure that it intends will be, or may be, wholly or partly funded by CIL. These types of infrastructure or projects can therefore

not be funded through s106 planning obligations, to prevent double charging, in accordance with the CIL Regulations 2010 (as amended 2011).

- 5.0.3 Whilst CIL will therefore replace section 106 agreements in many cases, Section 106 could still be used for those items which sit outside the Regulation 123 list.

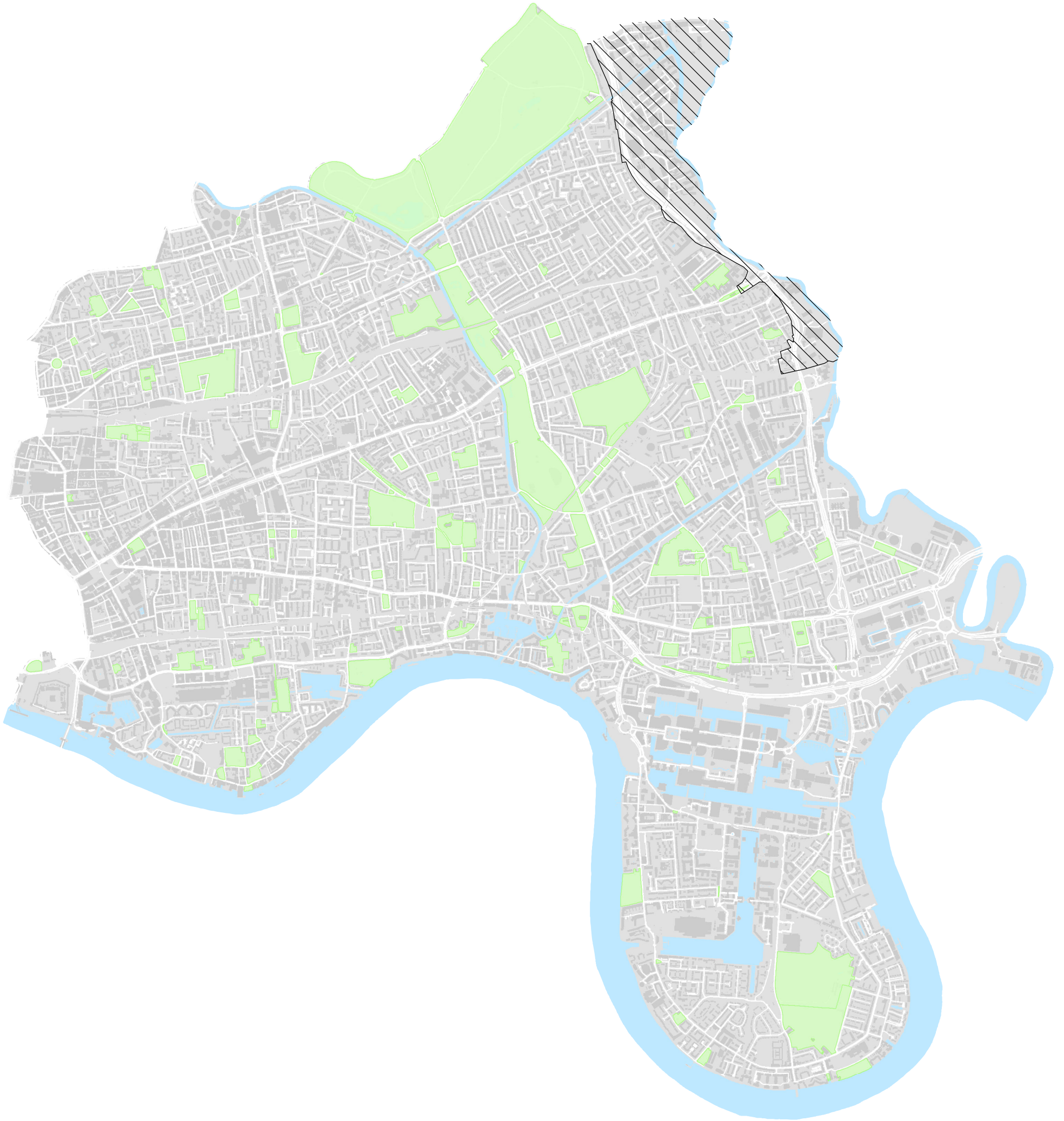
## 6. Next Steps

- 6.0.1 In line with the CIL Regulations the Council will undertake two rounds of consultation for this process. First, is this Preliminary Draft Charging Schedule and having considered the comments made on this, the Council will consult again on a Draft Charging Schedule. Any person who makes comments at the Draft Charging Schedule stage will have the right to be heard at the subsequent CIL public examination.

Step	When
Consultation on Preliminary Draft Charging Schedule	16 <sup>th</sup> November 2012 to 2 <sup>nd</sup> January 2013
Consultation on Draft Charging Schedule	March/April 2013
Submission of Charging Schedule to the Planning Inspectorate (PINS)	June 2013
CIL Examination	July 2013
CIL Adoption	October 2013

- 6.0.2 Following all consultations an independent examiner will be appointed and will conduct a public examination. During the hearing the examiner will consider whether the Charging Schedule meets the requirements of the Planning Act 2008 and CIL Regulations, that it is supported by appropriate evidence, and that the rate would not put at serious risk economic viability of development across the charging area as a whole.

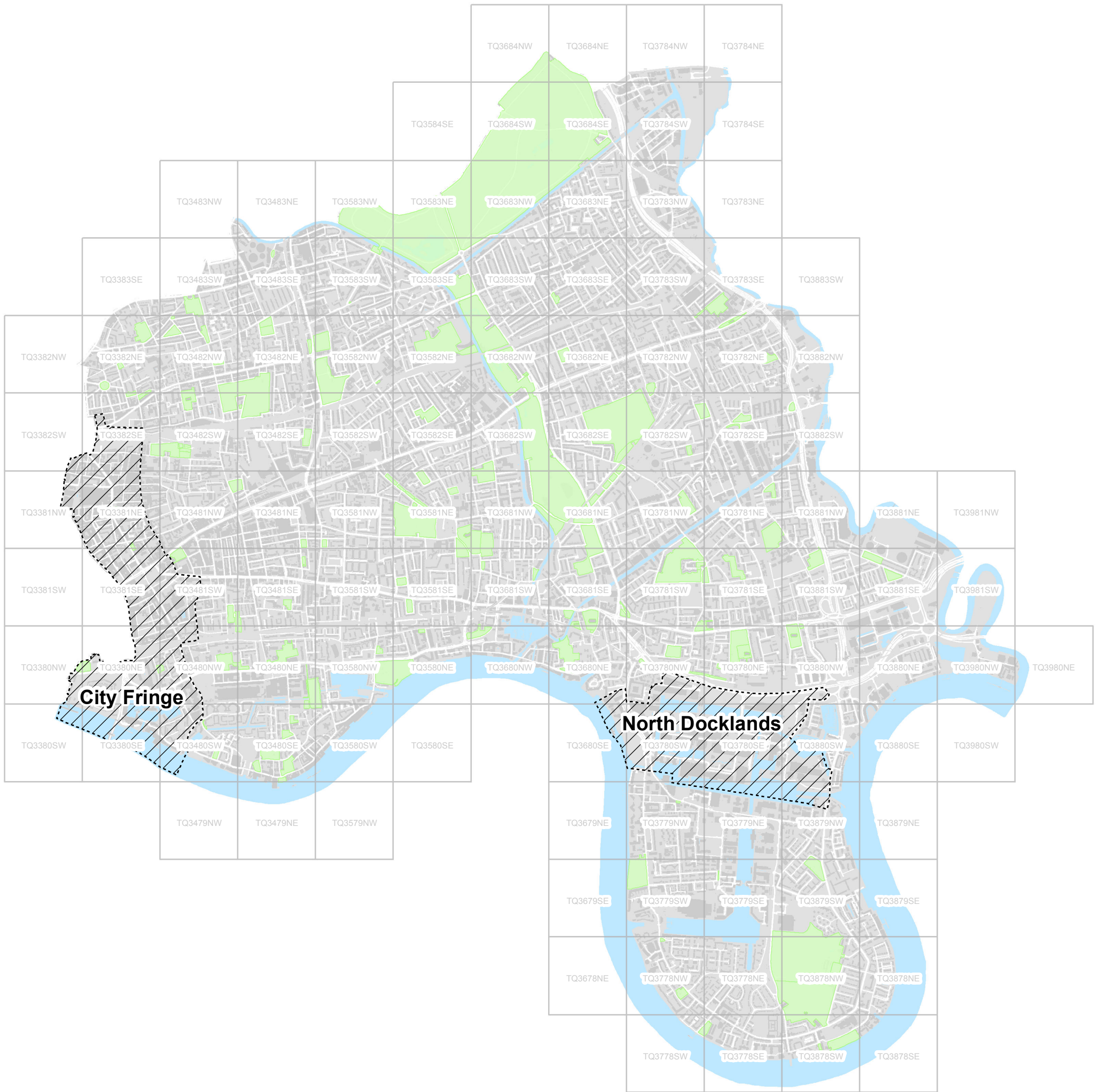
**Appendix 1: London Legacy Development Corporation area within Tower Hamlets**





 London Legacy Development Corporation Area



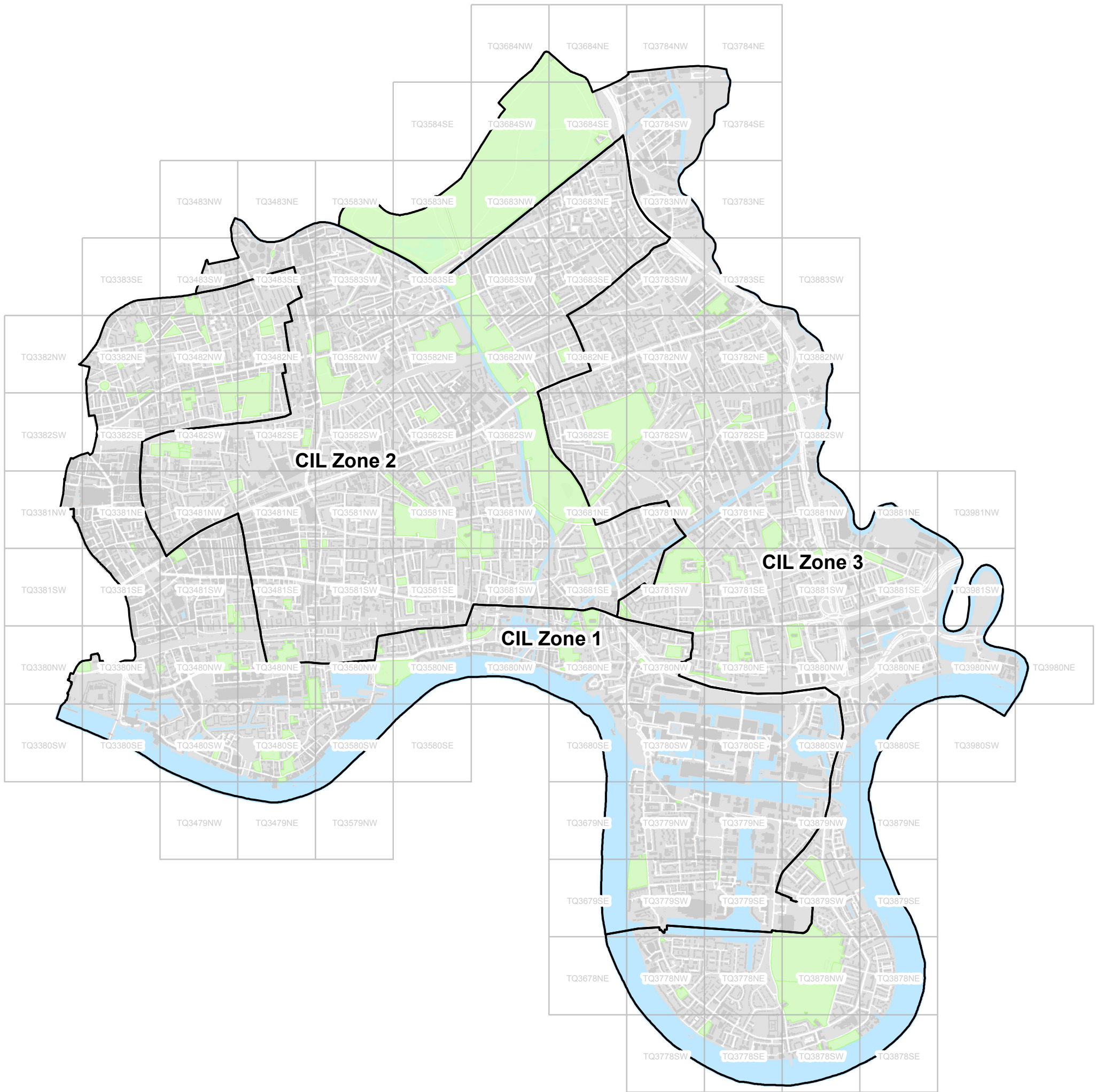
## Appendix 2: Draft Charging Zones Maps





 Draft Office & Small Retail Charging Zones  
 Ordnance Survey Grid (Labels represent grid reference)







-  Draft Residential Charging Zone Boundaries
-  Ordnance Survey Grid (*Labels represent grid reference*)



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