

Consultation Response

Mayoral Community Infrastructure Levy 2 (MCIL2) Consultation

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Introduction

1. London Councils welcomes the opportunity to comment on Mayoral Community Infrastructure Levy 2 (MCIL2) preliminary draft charging schedule (PDCS). However, it is inappropriate to launch this consultation with such short notice and during parliamentary recess with only the minimum statutory consultation period.

Summary

2. London Councils supports and actively seeks the delivery of Crossrail2 (CR2) and recognises that this is a vital piece of strategic infrastructure for the future economy of the capital as well as the wider UK economy. This will be of increasing importance to accommodate the continued rapid growth of London's population over the next 20 years. We also recognise that the current MCIL1 has been a success in raising revenue for Crossrail1 and is generally well understood by developers and planners. We therefore principally support the continuation of MCIL to part fund CR2.
3. However, we have a number of concerns regarding the Preliminary Draft Charging Schedule that we hope the Mayor will consider as the proposals for MCIL2 are further developed. Broadly, these are:
 - the impact that the proposed rate increases in bands 1 and 2 will have on development viability and on certain boroughs' ability to secure funding for other local and sub-regional priorities (this is particularly the case for those facing increases of 31 per cent such as the boroughs of Enfield and Waltham Forest);
 - as there is still a degree of uncertainty around the future of the CR2 project, there should be full accountability for any other uses to which this funding might be put in future years. Boroughs should therefore be involved in the decision making process for any infrastructure projects that will be funded by this mechanism, were CR2 not to go ahead; and
 - the proposed commitment to review the MCIL every two years is too long given the period of economic uncertainty and instability that lies ahead. We believe that annual reviews, at least in the first few years, should be undertaken to ensure that the MCIL rates are not negatively impacting on local infrastructure projects or affordable housing delivery.

The potential impact of MCIL2 on London boroughs

4. London Councils is concerned that the increased rates for MCIL2 will have on boroughs' ability to secure funding for other local and sub-regional priorities that are currently funded through developer contributions through local CILs.
5. The proposed Mayoral CIL could have a significant impact on boroughs' ability to fund local improvements or the provision of onsite measures necessary to allow development to go ahead through developer contributions, particularly in the case of those boroughs that would be most adversely affected by the proposed rate changes such as Enfield and Waltham Forest that face a 31 per cent rise in MCIL levels from 2019. There is a risk that lack of investment in other infrastructure could actually undermine some of the benefits to be generated from MCIL2 and it is essential that the different priorities are carefully balanced.
6. Individual boroughs will submit their own consultation responses and we urge the GLA to look at these case by case and ensure that their individual concerns are heard and addressed.
7. Some Boroughs are concerned that the proposed higher levels of MCIL contributions will adversely impact the provision of affordable housing and local infrastructure improvements, particularly in lower value areas. Higher levels of MCIL contributions will impact upon the viability of development schemes. In many cases there will be less money left available for Section 106 contributions to provide affordable housing and for funding local infrastructure. The responses of individual boroughs will provide the necessary evidence to highlight the potential adverse impacts that MCIL2 can have on lower value areas. In the context of a slowing housing market, rising inflation and construction costs, due to the current and foreseeable period of economic uncertainty, there is a danger of development occurring across London without satisfactory local infrastructure in place to support it and mitigate its impact on local communities.
8. From a technical perspective, we are not convinced that the supporting evidence sufficiently justifies why the rates will increase for boroughs in Bands 1 and 2 by £15 above current rates of indexation i.e. from £50/sqm to £80/sqm (Band 1) and from £35/sqm to £60/sqm (Band 2) compared with £65/sqm and £45/sqm respectively if they were simply updated by inflation (the index used is the BCIS All-in tender price index). The supporting evidence seems to justify the new rates by suggesting that as a proportion of average house prices they will remain in line with the existing rates. There are serious problems with using London house price inflation as a benchmark for normal or sustainable cost rises. Using house price indexation to justify the higher rates within these bands, purely because residential remains the dominant development type in London in 2015-16 (p.10-11 of the Viability Evidence Base), seems to be too simplistic and warrants further analysis.
9. Furthermore, outer London boroughs will be competing with places outside London where the Mayoral CIL charge does not apply. There is a risk that developers will choose surrounding areas of the South East in preference to the capital particularly in places where they can benefit from the improved accessibility of Crossrail without being charged CIL. Given that around 40% of the transport benefits and more than 30% of the new housing as a result of CR2 will be realised in areas outside London, we believe that consideration should be given to how local authorities surrounding London in the Greater South East could contribute to the scheme.

Clarity around what MCIL will be spent on

10. London Councils wishes to see CR2 fully funded; however, there remains uncertainty regarding how the project will be funded and, as such, it is still unclear as to whether the project will actually go ahead. Given this uncertainty, London Boroughs believe there should be greater clarity about which projects the levy would fund were CR2 not to go ahead. As mentioned above, the current MCIL has been successful partly because it has a clear purpose and is simple to understand. Any tax or revenue raising mechanism that

does not have a clear purpose faces questions over its legitimacy and buy-in by those paying and administering it.

11. If the CR2 project does not go ahead, then a mechanism must be created to ensure that boroughs are part of the decision making process regarding any other infrastructure projects that will be funded by this mechanism.
12. London Councils also encourages further exploration of alternative funding models, such as tax increment financing (TIF) and would like to see a renewed commitment from the government to give the power to London to raise a business rates infrastructure supplement as part of the previous governments' plans for 100 per cent business rates retention.

More frequent impact reviews

13. Given the uncertainty over the wider economy and the potential risks for local developments as a result of the proposed rate increases, we believe that if MCIL2 is introduced the impact of the charge should be carefully monitored and revisions made to it if it proves to be having unacceptable impacts on either the level of developer contributions secured by boroughs or the amount of development that is coming forward in London. There is a commitment to review the impact of MCIL2 every two years. However, we believe it would be more appropriate to undertake annual reviews – at least in the first few years of the CIL - so levy rates can be amended if necessary.