Our ref: Q220969
Your ref: Draft CIL Charging Schedule
Email: Sasha.Gordon@quod.com
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CIL Consultation
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By email: planning.policy@royalgreenwich.gov.uk

Dear Madam/Sir,

Greenwich Draft Charging Schedule – Representations on behalf of Knight Dragon

This letter is in response to the Draft Charging Schedule Consultation on behalf of Knight Dragon. Firstly, we welcome the opportunity to comment and we, along with Knight Dragon, would be happy to take part in any further discussions or reviews that would be useful.

Context

Knight Dragon is leading the regeneration of the Greenwich Peninsula (ref: 19/2733/O and 15/0716/O), which is delivering over 17,000 homes, including over two and a half thousand affordable homes (37% Affordable delivered to date) in a large mixed-use development, bringing substantial public benefits through the provision of new public spaces and community facilities, employment and jobs, and facilities for health, education and sport.

Whilst development has commenced on a number of Plots and significant infrastructure (including an all-through school) have been delivered to date, there are still significant parts of this strategic development that could be affected by increases in rates, including in the event of Section 73 Applications or phases that are yet to reach the time at which planning permission first permits development[1]. Based on the current planning position, this could potentially affect at least 17 plots of the current permissions affecting 15,000 homes.

This means that, while Knight Dragon's Section 106, including its affordable housing provision, is fixed (or only subject to potential *increases* through the review mechanism[2]), the CIL rate per sqm could

1 E.g. Outline permissions granted pre September 2019 with RMAs not yet approved.
2 See Part 5 of the Section 106 signed 2022 for details on the review mechanism

significantly increase with the proposed CIL rate changes. This proposed increase in CIL could affect the development and Knight Dragon's ability to ensure it remains deliverable and viable.

Knight Dragon recognises the importance of funds to deliver infrastructure and has therefore committed to £980m of infrastructure investment outside of on-plot works common to all sites). More detail is presented on this in the sections that follow, but it is clear that mitigation for infrastructure is an inherent part of the Knight Dragon planning permissions and additional burden is neither justified (on impact grounds) nor insignificant (in the context of the already very challenging viability position).

Knight Dragon is concerned that substantial rises to the CIL chargeable rates are being proposed at a time when viability of all housing-led development is deeply challenging due to the current interest rate, regulatory and inflation environment. Transaction volumes and values have decreased while financing costs and construction costs have risen. There is currently deep uncertainty around if and when inflation (and therefore base rates on which mortgages are based) will stabilise. More detail on market challenges and uncertainty is presented below.

In this climate, Knight Dragon would welcome an approach that recognises both the importance and the challenges for them in delivering the borough's strategic development locations. We encourage both prudence and rigour in setting rates, specifically with respect to Planning Practice Guidance requirements for strategic development locations to be assessed for viability on a site-by-site basis, reflecting their unique challenges and abnormal costs.

The sections that follow present more detail on our specific concerns regarding:

- Adherence to Planning Practice Guidance on charge setting

- Assumptions in the viability assessment regarding:

    - costs
    - infrastructure delivery
    - values.

Guidance on CIL Setting

Planning Practice Guidance sets out how Local Authorities should go through the process of setting their proposed rates for the Community Infrastructure Levy in their 'Charging Schedule'. This expands on the statutory requirements set out in the Planning Act (2008), Localism Act (2011) and CIL Regulations (2010) as amended.

As a starting point Charging Schedules should:

> *"be consistent with, and support the implementation of,* ***up-to-date*** *relevant plans." (PPG Ref: 25-011-20190901).*

The Royal Greenwich Local Plan: Core Strategy with Detailed Policies was adopted in 2014. It is not therefore up to date. However, it does confirm that Knight Dragon's land falls within Significant Housing Sites and Strategic Development Locations, stating that, "*This area will provide a significant proportion of Royal Greenwich's new housing, as well as providing a wide range of jobs and other facilities (Para 3.3.18).*" It goes on to emphasise the importance of on-site facilities and integration with transport networks, open space, employment and entertainment.

The London Plan (2021) is also a relevant plan for these purposes, and identifies Opportunity Areas, including Greenwich Peninsula confirming the strategic importance of this site, and the significant growth required here. In total, the Opportunity Area is intended to deliver 17,000 new homes and 15,000 new jobs, given the majority will be delivered within Knight Dragon's masterplan boundary, this demonstrates how critical this permission is to the delivery and success of this area.

In setting its CIL charge an Authority should use appropriate available evidence involving a broad test of viability across the area. (PPG Ref: 25-020-20190901).

However, where there are significant strategic sites which are important to delivery of the 'Relevant Plan' these should be dealt with separately. This can include setting differential rates for development including low or zero rates for sites with low viability (PPG Ref: 25-022-20230104). In particular:

> *Differential rates for geographic zones can be used across a charging authority's area. Authorities may wish to align zonal rates for strategic development sites. Viability guidance sets out the importance of considering the specific circumstances of strategic sites ('Why should strategic sites be assessed for viability in plan making?'). This includes the potential to undertake site specific viability assessments of sites that are critical to delivering the strategic priorities of the plan.*
>
> *Charging authorities may want to consider how zonal rates can ensure that the levy compliments plan policies for strategic sites. This may include setting specific rates for strategic sites that reflect the land value uplift their development creates. Low or zero rates may be appropriate where plan policies require significant contributions towards housing or infrastructure through planning obligations and this is evidenced by an assessment of viability. (PPG Ref: 25-026-20190901)*

As set out in more detail below, Knight Dragon is concerned that there has been insufficient consideration of the specific circumstances of their remaining phases in setting the proposed charges.

Assumptions in the viability assessment

Development Costs & infrastructure

The Consultation for the Revised Draft Charging Schedule includes the schedule itself and a Viability Study Update. Proposed residential rates are based on two Zones. Zone 1 is non-contiguous and covers Greenwich Peninsula and Woolwich Town Centre. Zone 2 covers the rest of the Borough.

The Viability Study, which provides the Evidence Base for these rates, identifies the strategic development locations in the Borough (Paragraphs 2.58 to 2.64) including the Peninsula site SO1 (Para 2.59).

This is not, however, carried forward into the viability assessment itself and the summary of the requirements for assessment set out in paragraph 6.3 does not refer to strategic sites and how their specific costs or challenges are dealt with in the assessment as required by the PPG. Instead, the assessment sets out sales values across broad value zones (Figure 4.3.1) and then applies generic assessments to these areas. It does not include any exceptional costs and Section 106 assumptions are de minimis. Developer profit assumptions are based on relatively low profit margins, particularly given the current position in the market.

The Greenwich Peninsula site is substantially different in its approach to infrastructure when compared to other schemes within RBG. The site is delivering its own new road network, utilities, public realm and social infrastructure. Detailed costs for this infrastructure have been agreed with RBG as part of the development planning process. The borough's consultants, BPS, reviewed the costs of infrastructure at the time of the application and more recently in March 2023 when the first submissions under the scheme review mechanism were made. The infrastructure cost (outside of on-plot works common to all sites) currently stands at c.£980m.

The BNP Paribas Viability Assessment includes assumptions about benchmark land values. Historic costs incurred for enabling this to come forward for development at Greenwich Peninsula represent a higher land cost per sqft than the BLV used in the assessment and there is now no opportunity for the adjustments described in the BNP Paribas viability assessment to take place.

Given the infrastructure costs noted above, viability of the Greenwich Peninsula site is inevitably challenging. RBG's consultants, BPS, confirmed this in its November 2020 report ahead of the scheme planning committee. BPS advised that the scheme is ***reliant on securing growth in sales values well in excess of cost growth in order to return a reasonable minimum developer return***. BPS identified that sustained real terms growth over the life of the scheme is required and that the prospects of this achieving any surplus profit were minimal. Whilst it was considered that the scheme was deliverable at the current viability output, this required Knight Dragon to take substantial risk and achieve future targets to moderate costs whilst achieving value growth. All of this was agreed on the basis of the currently adopted RBG CIL rates – to materially increase these clearly risks deliverability of the masterplan and the associated affordable homes and infrastructure.

The importance of the viability challenges and costs associated with strategic sites are such that they are often recognised in other authorities through nil rated or low rated zones. Examples of this include Woodberry Down in Hackney, Meridian Water in Enfield, and Earls Court in Hammersmith and Fulham and Kensington and Chelsea. We suggest RBG should consider adopting a similar approach for strategic sites in their borough, like Greenwich Peninsula.

None of the typologies in the assessment make appropriate assumptions about large scale, strategic, multi-phased development with significant infrastructure costs. As indicted above, the total infrastructure cost for Greenwich Peninsula is c.£980m including, for example:

- Energy Centre
- Two primary schools on-site and £24m (+indexation) for off-site secondary provision (in addition to 1 all-through school delivered to date)
- Swimming pool and all-weather pitch
- The Tide
- The Waste Transfer Centre
- The Design District.

Large scale development therefore has demonstrably different characteristics from the typologies assessed in the viability study, and therefore RBG has not provided 'appropriate available evidence' that proposed CIL rates are appropriate for this location.

Reviewing the infrastructure delivery plan provided in support of the Draft CIL Charging schedule, there is a significant overlap when the infrastructure identified as needed to support growth and the investment already secured through the Knight Dragon S106. This could lead to "double dipping" with Greenwich Peninsula effectively mitigating any impacts of their development twice and liable for a more than proportionate share of the borough's infrastructure programme.

Infrastructure Identified in IDP	**Summary of S106 already secured for Greenwich Peninsula**
Digital connectivity	All required servicing provided on-site
Energy	Carbon off-set contribution Energy centre Decarbonisation strategy and monitoring Heating distribution pipework Battery storage network infrastructure

Infrastructure Identified in IDP	**Summary of S106 already secured for Greenwich Peninsula**
	Power supply improvements /diversions etc.
Transport	The Tide, highway junctions and highway improvements, Thames Path improvements, Riverside Walkway, Bus Station and service improvement contribution, car club. Wayfinding, signage etc. Feasibility studies for/consultancy frees for/ contributions to coach parking, Riverside Transit, New River Pier, Port of London Authority, Blackwall Tunnel Build over, Silvertown Tunnel, LUL,
Waste	Full waste disposal strategy inc. refuse centre
Water and Drainage	All required upgrades and diversions
Community facilities	Schools – two schools on-site plus £24m of off-site contributions, construction of St Mary Magdalene school Nursery provision Community Fund Prayer centre Affordable Commercial Space Fund
Cultural facilities	Delivery of Design District providing a cluster of small scale buildings, predominately for the creative industries at the heart of the Peninsula.
Education	Two on-site primary schools; off-site contributions to secondary school; employment and training; delivery of St Mary Magdalene; Site servicing for Ravensbourne University
Emergency services	n/a
Health and social care	Health centre on-site capital funded
Sport and leisure	Swimming pool, all weather pitch, open space
Green infrastructure	On-site open space and public realm

Value and market prospects

As of writing this report (September 2023) values are currently down -5.3%[3] on a year ago according to Nationwide, with the possibility that prices will decrease further. Given that the actual course of 2023 is more challenging than in the projected "Downside" envisaged in the Viability Update Study (downside of -5% in 2023 following by stabilisation and growth in years to come), the outlook for price growth and cost inflation could be significantly more challenging than this "worst case" scenario envisages.

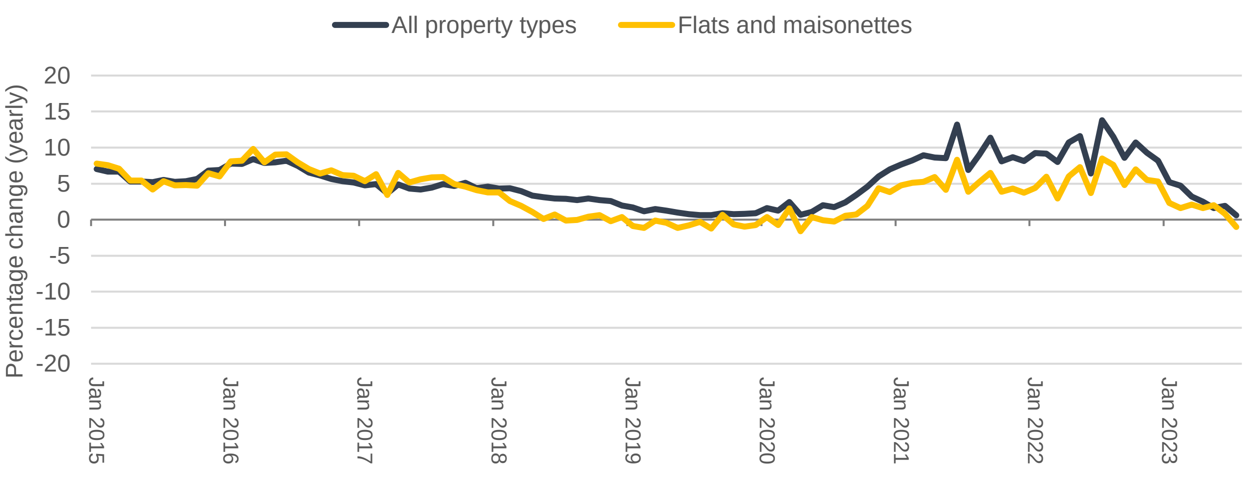
As set out by Nationwide Chief Economist, last month:

> "The softening [to -5.3%] is not surprising, given the extent of the rise in borrowing costs in recent months, which has resulted in activity in the housing market running well below pre-pandemic levels. For example, mortgage approvals have been around 20% below the 2019 average in recent months and mortgage application data suggests the weakness has been maintained more recently.

The year-on-year average property price change and House Price Index (Land Registry Jan 2015 – August 2023) demonstrate:

- value growth is back to rates seen in early 2020 which supports a cautious outlook and
- All-in-TPI growth rates have well exceeded the HPI since 2017 which shows that indexation is already more than proportionately increasing CIL rates when pegged against the HPI for flats and maisonettes.

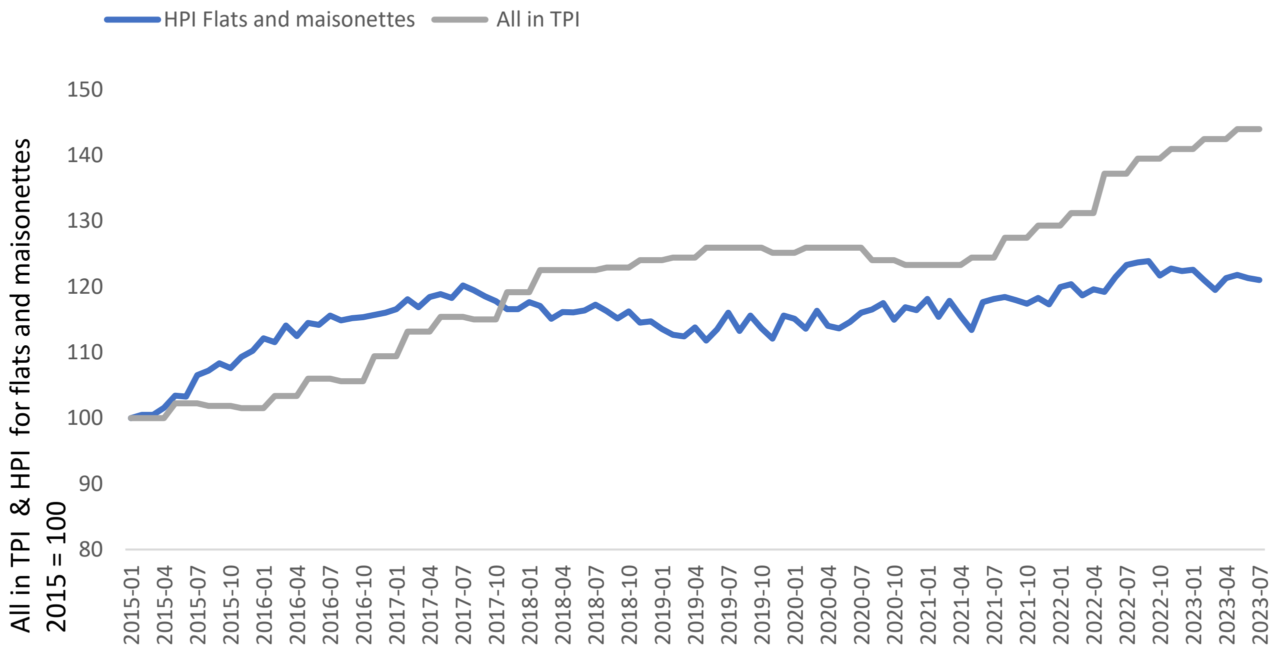
Property price: percentage change year on year – London – January 2015 to August 2023



Source: Land Registry

[3] https://www.nationwidehousepriceindex.co.uk/reports/august-sees-further-weakness-in-house-prices

HPI for London and All in TPI for January 2015 - August 2023



Source: Land Registry and BCIS

Next steps

Given current market uncertainty and delays, we recommend that the Council consider taking into account further site specific evidence, which we can provide if helpful, to ensure that development on these critical sites is still viable.

As set out above the viability for Greenwich Peninsula was agreed based on existing CIL rates, increasing the amount of CIL due will therefore challenge the viability and deliverability of this key strategic site. We would welcome RBG to review its viability on a site-by-site basis for such strategic sites, especially considering the recent changes to the macroeconomic environment.

Knight Dragon would like to reserve its position to appear at any Examination into the Draft Charging Schedule but would welcome engagement on this matter in the meantime.

Yours faithfully,

Phil Murphy pp Sasha Gordon
Director
cc. Marie-Claire Marsh <mmarsh@knightdragon.com>