

Budget analysis

23 March 2011



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The Budget documents are available at http://www.hm-treasury.gov.uk/2011budget_documents.htm
Numbers in brackets [xx] refer to paragraph numbers in the Budget documents. Information provided by the Government (which may have been edited for length) is shown in normal type. Our analysis is given in italics.

1. PLANNING

1.1 Planning reform

[1.82] The Government believes the planning system has held back investment and created distortions in the way that businesses compete, deterring development and growth. So the Government will:

- introduce a new presumption in favour of sustainable development, so that the default answer to development is 'yes' – *however this must not be hedged around with so many restrictions as to be meaningless in practice*
- localise choice about the use of previously developed land, removing nationally imposed targets while retaining existing controls on greenbelt land – *the green belt should be an additional hurdle, not an insuperable barrier. Removing the targets for the proportion of new development on brownfield land should inject more flexibility, allowing much needed housing and new development to take place where brownfield land is scarce.*
- pilot a land auction model, starting with public sector land – *we have serious doubts about the practicality of land auctions, and how they can be compatible with the current planning system or the localism agenda*
- introduce a number of measures to streamline the planning applications and related consents regimes removing bureaucracy from the system and speeding it up. This will include a 12 month guarantee for the processing of all planning applications, including any appeals – *we welcome these measures, but are concerned that the additional pressure the guarantee will bring might result in unnecessary rejections*
- consult on proposals to make it easier to convert commercial premises to residential – *we hope councils will view this very positively; they should, as they will gain from the New Homes Bonus and will gain council tax receipts, while local jobs will be created and run down areas will be revitalised.*

1.2 Enterprise Zones

[1.101-1.104] The Government has announced that 21 new Enterprise Zones will be established – ten in key urban areas, mainly in the north; one in London in a location to be decided by the Mayor; a further 10 to be bid for by interested Local Enterprise Partnerships (LEPs). In each zone, the following will be available:

- a 100 per cent business rate discount worth up to £275,000 over a five year period for businesses that move into an Enterprise Zone during the course of this Parliament
- all business rates growth within the zone for a period of at least 25 years will be retained and shared by the local authorities in the LEP area to support their economic priorities
- Government and local authority help to develop radically simplified planning approaches in the zone, and
- Government support to ensure superfast broadband is rolled out in the zone. This will be achieved through guaranteeing the most supportive planning environment and, if necessary, public funding.

[1.105] The Government will work with individual LEPs to consider:

- the scope for introducing enhanced capital allowances to support zones in assisted areas where there is a strong focus on high value manufacturing
- the use of Tax Incremental Finance to support the long-term viability of the zone, in tandem with the Local Government Resource Review, and

- UKTI support on inward investment and trade opportunities.

We support the setting up of new Enterprise Zones, but believe that the experience of previous Enterprise Zones should be used in drawing up proposals for the new ones, particularly:

- *the focus should be on stimulating new businesses, business growth and job creation, so the zones should be chosen based on their potential for development and growth, and not purely on the basis of social or economic deprivation*
- *infrastructure provision and accessibility are critical for success of an EZ, and particularly the capacity provided and the timing of its provision*
- *the nature of incentives on offer should be adjusted to take account of the requirements and characteristics of different areas, and any tax incentives should be carefully targeted*
- *business rate relief should be available not only for occupied premises, but also for empty premises so that development in anticipation of demand is not deterred*
- *any package of measures must include a simplified planning regime to speed up development.*

2. REITs

[3.22] The Government is going to begin an informal consultation with the industry and the representative body on the REITs legislation shortly after the Budget. Subject to the responses, the Government will make changes both to reduce the barriers to entry and investment, and to reduce the regulatory burden for existing and future REITs, in the Finance Bill 2012. The consultation will seek views on:

- the introduction of a diverse ownership rule for institutional investors which will enable them to meet the non-close company rule; this will enable institutional investors to set up UK-REITs
- allowing cash to be a “good” asset for the purpose of the REIT balance of business asset test: this will allow UK REITs to make investment decisions on a commercial basis
- extending the time limit for complying with the distribution requirement in particular circumstances involving stock dividends: this will reduce the administrative burden on those REITs that pay out dividends on a six monthly basis
- redefining “financing costs” for the REIT interest cover test to give certainty regarding this requirement
- abolishing the conversion charge for companies joining the REIT regime
- introducing a fixed grace period for new REITs to meet the non close company requirement; this will enable start up UK-REITs to build sufficient reputation to attract shareholders
- relaxing the requirement for a UK-REIT to be listed on a recognised stock exchange; this will encourage entry into the REITs regime, particularly for start-up property investment companies; and
- making technical changes to the REITs legislation.

We are delighted that the Government has grasped this opportunity both to make the UK REIT regime more attractive for new entrants, and to make it work better for the UK's REITs. The forthcoming informal consultation covers many of the issues we have lobbied Government on in recent years, and in some respects goes even further, with the mooted abolition of the 2% conversion charge that is such a barrier for offshore funds tempted to come back to the UK. We are optimistic that, taken together, these proposals could have a real impact on boosting investment in UK property, and in the scale and health of the UK's REIT sector, and look forward to participating in the consultation.

3. RESIDENTIAL

3.1 Stamp Duty Land Tax

[2.155] The Government announced that it will strengthen demand for residential property by introducing changes to the SDLT rules for bulk purchases of residential properties. If the buyer chooses, the rate of SDLT on purchases of multiple residential properties will be determined by the mean value of the dwellings purchased (subject to a minimum rate of 1 per cent), rather than their aggregate value as is currently the case. The changes will be made via primary legislation in a Finance Bill 2011.

We have long campaigned for this change, arguing that it will remove a major barrier to large scale investment in residential by institutions such as pension funds. It is also good news for smaller scale residential landlords. Most importantly, we hope it will tip the balance in encouraging institutional funds to invest in residential property at scale. Using the average price is fairer and a welcome measure of support for those in need of rented housing.

3.2 FirstBuy programme

[1.121] The Government will provide £250 million to support first time buyers to purchase a new build property, which the Government claims will assist over 10,000 households, with equity investments jointly funded with house builders' and Government assistance. This is intended to work as follows: first time buyers earning less than £66,000 and with a 5% deposit value, will be able to access an interest free loan (for five years) of up to 20% of the cost of the property that will be provided from the Government and the house builder. A mortgage will cover the rest of the cost of the property.

This package broadly makes sense, because it targets home deposits, and is about as much as the Government could realistically do in the current circumstances. It is important that any Government spending at this juncture is also supporting growth and jobs. However, we would rather have seen a refined policy that targets such aid at homes yet to be built or completed, instead of a means of helping house builders sell their unsold stock.

3.3 Use of surplus military land and other public sites

[1.83] The Government intends to expedite planning decisions for surplus military land and other public sites suitable for housing, and also to test 'build now, pay later' techniques in order to quicken delivery.

We are unsure exactly what 'build now, pay later' techniques are, and will not speculate further. We welcome the intention to expedite planning decisions for housing development, though, as we know, location of this land is very much key. However, if 20,000 new homes can be delivered through this means, this would be great news, as building levels remain acutely low at present.

3.4 Support for Mortgage Interest (SMI) scheme

[1.121] The Government will help homeowners facing difficulties by extending, for a further year, temporary changes to the Support for Mortgage Interest (SMI) scheme. The 13 week waiting period and £200,000 limit on eligible mortgage capital will now remain in force for new working age SMI claimants until January 2013.

This makes sense giving the ongoing recession, and is something we support.

3.5 Housing Benefit and Jobseeker's Allowance

[2.61] As announced as part of the Welfare Reform Bill 2011, the Government will not take forward the planned 10 per cent reduction in Housing Benefit for long term JSA claimants.

This is something we have campaigned for in the past year, and are pleased to see it happen. However, we have many other deep seated concerns with the Welfare Reform Bill, which we are lobbying on directly as the bill progresses through Parliament.

4. SUSTAINABILITY

In addition to its Budget 2011 document, the Government also published its [Plan for Growth](#) today. Some of the measures that follow come from the Plan for Growth, and have been identified with the letter 'G' before the paragraph number.

4.1 Carbon Taxes and Incentives

[1.110-1.111] The Government says that it "is committed to being the greenest Government ever. A simple, efficient and cost effective policy framework will meet environmental objectives while supporting growth and maintaining a sound fiscal position. Market-based solutions to price carbon are at the heart of this approach, achieving objectives at the lowest possible cost."

The Government will increase the proportion of tax revenue accounted for by environmental taxes. Tax policy will be developed in the context of wider Government levers (such as voluntary agreements and regulation) and overlap of policy instruments will be avoided. It announced that:

- following consultation, a carbon price floor for electricity generation will be introduced from 1 April 2013. The carbon price floor will start at around £16 per tonne of carbon dioxide and follow a linear path to £30 per tonne in 2020 to drive investment in the low-carbon power sector. The carbon price support rates for 2013-14 will be equivalent to £4.94 per tonne of carbon dioxide.
- Climate Change Agreements (CCAs) will be extended to 2023. The climate change levy discount on electricity for CCA participants will be increased from 65 to 80 per cent from April 2013 to continue to support energy intensive businesses exposed to international competition. A consultation on proposals to simplify the agreements will be published by summer 2011.
- It remains committed to providing public funding for four Carbon Capture and Storage (CCS) demonstration plants. However, consistent with its objectives for tax simplification, it will not proceed with the CCS levy. It will instead fund its commitments to CCS demonstrations from general taxation.

In the discussion papers issued in January, the Government suggested that it might issue a blanket exclusion from the CRCEES for organisations covered by Climate Change Agreements. Government's extension of Climate Change Agreements until at least 2023 and an increased discount on the Climate Change Levy by those organisations that are covered is a hallmark of the Chancellor's support for manufacturing. However, many owners will be caught by the CRCEES, and occupiers caught by potentially both the CRCEES and the CCL in relation to their premises. If the cost of carbon rises sharply (the starting price under the carbon floor price will be £16 per tonne of carbon dioxide), both owners and occupiers will be subject to increased costs while heavier emitters are afforded a more cost effective way of participating in a carbon incentive scheme. We hope that the Government will rectify this disparity as part of its review of Simplification of the CRCEES.

4.2 Green Investment Bank

[1.112] The Government is committed to ensuring that the Green Investment Bank (GIB) has the resources to help the UK to move towards a low-carbon economy. The Government announces

that the initial capitalisation of the GIB will be £3 billion and that the GIB will begin operation in 2012-13, a year earlier than previously anticipated.

Government investment alongside private finance should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014-15 as a result of the GIB. The Spending Review allocated £1 billion for the GIB and the Government is aiming for the remaining £2 billion to be funded from the sale of assets. This will include the £775 million net proceeds already received from the sale of High Speed 1, ensuring that funding is in place to allow GIB investments from 2012-13. The Government will enable the GIB to have borrowing powers from 2015-16 and once the target for debt to be falling as a percentage of GDP has been met.

We believe that the most effective function of a Green Investment Bank would be to help to finance the transition from an electrical grid that is dependent upon fossil fuels, to one that relies on greener sources of energy in greater proportions. The decision to curtail the powers of the Green Investment Bank to borrow is disappointing, but understandable. A report by the Environmental Audit Committee last week emphasised the need for the GIB to raise its own finance and bring in banking expertise to offer loans, equity and risk reduction finance. Ernst and Young has warned that a GIB without the power to borrow could lead to a massive shortfall in spending on vital energy infrastructure.

4.3 Cap on the cost of policies funded via the Energy Bill

[G2.159] To ensure that costs to energy consumers of climate and energy policies continue to be controlled in the future, the Government is introducing a new framework to cap the impact of levy-funded support on energy bills. This will cover policies such as feed-in tariffs which the Office of National Statistics defines as tax and public spending.

4.4 Green Deal

[1.113] The Government is committed to the success of the Green Deal and will act to encourage and incentivise take up so that the Green Deal will appeal to households, businesses and prospective providers alike, before it is introduced in 2012.

We are represented on the official fora that are advising the Government on the Domestic Green Deal. We are also setting up a Green Deal Commercial Property Group to advise Government and the main industry fora on specific issues concerning the non-domestic Green Deal.

4.5 Reliefs and incentives

[2.148-2.153] Allowances under the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) will be priced at £12 per tonne of carbon dioxide. The Government will publish draft regulations to implement allowance sales later in 2011 (see our comment above).

The Government is legislating for an increase in the standard rate of landfill tax by £8 per tonne to £64 per tonne on 1 April 2012, as announced in the June 2010 Budget, and will continue to freeze the lower rate of landfill tax at £2.50 per tonne in 2012-13. (Finance Bill 2011)

The value of the landfill communities fund will rise in line with inflation in 2011-12 to £78.1 million. Future decisions on the value of the fund will take into account the success of environmental bodies in reducing the level of unspent funds that they hold.

Following the suspension of the aggregates levy credit scheme in Northern Ireland, the increase in the aggregates levy rate from £2.00 to £2.10 scheduled for 1 April 2011 will not go ahead. The Government is legislating to enable the operation of the scheme until 2021, pending EU State aid approval. (Finance Bill 2011)

The Government intends that the aggregates levy rate will increase to £2.10 in April 2012. (Finance Bill 2012)

[2.75-2.76] The Government will consult in May 2011 on the appropriate capital allowances treatment of expenditure on plant and machinery that attracts tariffs under the feed-in tariffs or Renewable Heating Incentives schemes. (Finance Bill 2012)

The list of designated energy saving technologies qualifying for enhanced capital allowances will be updated during summer 2011, subject to agreement with the European Commission.

4.6 A Roadmap to a Green Economy

[G2.155] The Government has set up a Green Economy Council to advise on transitional costs involved in adapting to a greener economy (such as lower carbon technologies in energy production and consumption) which is expected to increase the average non-domestic energy bill by around 11 per cent by 2015 and 26% by 2020. In order to minimise these transitional costs, the Green Economy Council will take soundings from business about how Government can facilitate the investment and business environment needed for the transition to a green economy. A Roadmap to a Green Economy will be published shortly setting out recommendations.

4.7 Zero Carbon for Homes

[2.297] The Government has announced the regulatory requirements for zero carbon homes, to apply from 2016. To ensure that it remains viable to build new houses, the Government will hold house builders accountable only for those carbon dioxide emissions that are covered by Building Regulations (heating, fixed lighting, hot water and building services), and will provide cost-effective means through which they can do this.

The Government intends to consult on requirements for on-site carbon reductions, following recommendations by the Zero Carbon Hub (although the extent to which they will be taken forward is debatable and there seems to be some confusion in press commentary as to the outcome of announcements). The approach will be complemented by cost-effective options for off-site carbon reductions relative to the Government's pricing of carbon.

Today's Budget also signalled that the Government will continue to work with industry on how the principle of its Green Deal scheme can be extended to new homes, enabling house builders to offset the upfront costs of building to more challenging carbon reduction standards.

Further changes to the definition of zero carbon and further consultation take us even closer to 2016. It is difficult to see at present how the changes to the definition of zero carbon will interface with requirements under the recast Energy Performance of Buildings Directive for national plans designed to increase the number of nearly zero energy buildings and we presume today's announcements will have implications for the definition of zero carbon non-domestic buildings too.

5. FINANCE

5.1 Land Remediation Relief

[2.173] The Government intends to abolish Land Remediation Relief after 2012.

We are disappointed to see land remediation relief abolished. As we told the OTS in January, we believe that the policy rationale for it – essentially to promote brownfield development over greenfield by reducing the economic barrier posed by contamination – remains as valid today as it ever was. Maintaining a focus on brownfield development is valuable in environmental terms and enhances communities by removing urban blight. There is industry support (particularly among volume house builders) for LRR to incentivise the remediation of brownfield land and make its use more economically viable, and the loss of this relief (particularly at this time) is likely to reduce investment, particularly in more marginal brownfield sites. It is however some comfort that the abolition of the relief is deferred for a year to give businesses time to react.

5.2 Business Premises Renovation Allowances

[1.95] The Government will extend the Business Premises Renovation Allowance for a further five years from 2012, providing relief on renovation of business premises in assisted areas.

We are delighted that the Chancellor decided to extend BPPRA for another five years. As the expected end of this relief approached, widespread concern was emerging, particularly in Scotland and other assisted areas, that the end of this relief would have stymied otherwise unviable brownfield development in some of the UK's most disadvantaged areas.

5.3 Anti-avoidance

[2.174-2.191] The Budget contains a whole raft of anti-avoidance measures.

We support the Government's efforts to close the tax gap both by clamping down on illegal tax evasion and fraud, and through sensible measures designed to close down loopholes and stop avoidance (which, while legal, is often distortive and unattractive). The important thing – and the consultative nature of the new approach to tax policy making can really help here – is to get anti-avoidance measures right so they achieve their objectives without causing unnecessary problems or uncertainty for taxpayers who aren't using aggressive tax planning.

5.4 Deregulation

The main tax area affecting real estate is SDLT, and we are disappointed to see no suggestion of the government really grasping the nettle to simplify aspects of a hideously (and often pointlessly) complex regime. Uncertainty and complexity in a transactional tax like SDLT increases frictional costs and discourage transactional activity – whereas what both the business community and the government really want to see is more transactional activity.

In the light of the Chancellor's strong focus on deregulation in the Budget, we hope to see a greater commitment to remove and simplify some of the parts of the SDLT regime that cause headaches for business without generating revenue for the Exchequer.

5.5 Empty rates

While the extension of small business relief from business rates will no doubt be very welcome, it is very disappointing that those with unproductive property – including low rateable value property – will not be similarly benefited, with even the limited relief from empty property rates that has been available for the last two years disappearing at the end of this month. This is an unfair anomaly and the Government really should think again.