# British Property Federation analysis of Autumn Statement 2012

**05 December 2012**

**Contents**



Budget documents are available at http://www.hm-treasury.gov.uk/as2012_index.htm. Numbers in brackets [xx] below refer to paragraph numbers in Autumn Statement 2012. Information provided by the Government (which may have been edited for length) is shown in normal type. BPF analysis is given in italics.

# 1. TAX AND FINANCE

### 1.1 Empty property rates

**[1.135]** To promote further private investment, the Government will exempt all newly built commercial property completed between 1 October 2013 and 30 September 2016 from empty property rates for the first 18 months, up to the state aids limit subject to consultation.

*This is a good result, and we intend to engage further with officials and through the formal consultation process. Tricky areas will be the treatment of empty rates costs as old buildings are emptied ahead of redevelopment; how new build is actually defined (especially in a world where, outside central London, most commercial development activity is refurbishment and redevelopment rather than completely new development); and how the state aid cap on relief applies in the context of new build intended for multiple occupation. The measure is fairly limited – the extended grace period is only 18 months, and applies only to new build completed between October 2013 and September 2016, but it is certainly very much to be welcomed. DCLG will consult on the detail in spring 2013.*

### 1.2 Support for business

**[1.136]** The Government will extend the temporary doubling of the Small Business Rate Relief scheme for a further 12 months from 1 April 2013. Over half a million small businesses will benefit from this extension, with 350,000 not paying any business rates until April 2014.

**[1.77]** The Government will equip the UK to succeed in the global race by... creating one of the most competitive tax systems in the world, including a further 1 per cent cut in the main rate of corporation tax from April 2014 to 21 per cent and, to support small and medium sized businesses in particular, a significant temporary increase in the Annual Investment Allowance, from £25,000 to £250,000 for two years from 1 January 2013.

### 1.3 Tax avoidance

**[1.178]** Autumn Statement 2012 confirms significant new developments to help prevent, detect and tackle tax avoidance and evasion in the future through:

- the introduction of the UK's first ever General Anti-Abuse Rule (GAAR) to provide a significant new deterrent to abusive avoidance schemes and strengthen HMRC's means of tackling them. Guidance and draft legislation on the GAAR will be published later in December 2012
- consulting on the introduction of significant new information disclosure and penalty powers to target the promoters of aggressive tax avoidance schemes;
- closing down with immediate effect four loopholes associated with tax avoidance schemes to protect hundreds of millions of pounds over the next five years; and
- building on existing work, HMRC is conducting a review of offshore employment intermediaries being used to avoid tax and NICs and will provide an update on this work at Budget 2013.

### 1.4 Real Estate Investment Trusts (REITs) and the taxation of residential property

*These areas were both absent from Autumn Statement 2012. We expect to see the Government's responses to their consultations following Budget 2012 on 11 December next week, when Finance Bill clauses are due to be published for consultation. We are hoping that:*

- *The Government will make changes to the REIT rules to facilitate tax efficient investment in one REIT by another;*
- *The Government will commit to carrying out further work on how REITs and private sector investment more generally might support investment in social housing and the delivery of more new homes;*
- *The package of measures comprising the Government's proposals for the fair taxation of high value residential property (the 15% SDLT rate, the annual charge and the extension of CGT)*

*will be tightened up to make it clear that it will not affect genuine business investment in high value residential property – which was never the intended target in the first place.*

# 2. SUSTAINABILITY

### 2.1 Carbon Reduction Commitment (CRC) energy efficiency scheme

**[1.127]** The Government will simplify the Carbon Reduction Commitment (CRC) energy efficiency scheme from 2013, providing very significant administrative savings for businesses in the scheme. The CRC's Performance League Table will be abolished, to simplify the scheme further. A full review of the effectiveness of the CRC will be held in 2016 and the tax will be a high priority for removal when the public finances allow.

**[2.87]** The Government will simplify the CRC energy efficiency scheme from 2013 and the Performance League Table will be abolished. The Department of Energy and Climate Change will publish details of these simplifications. The Government will review the effectiveness of the CRC in 2016. This review will consider whether the CRC remains the appropriate policy to meet industrial energy efficiency and carbon reduction objectives, and will consider alternative approaches that could achieve the same objectives. The tax element of the CRC introduced at Spending Review 2010 will be a high priority for removal when the public finances allow.

**[2.88]** The forecast allowance price remains unchanged at £12 per tonne of carbon dioxide in 2013-14 and £16 per tonne of carbon dioxide in 2014-15. From 2015-16 onwards, the allowance price will increase in line with the RPI.

*Our preliminary view, having not seen the DECC Consultation outcomes as yet (at time of writing they are not published, but the DECC website confirms they will be published "shortly") is that there appears to be an acceptance that there are deep issues with the CRCEES, as industry has long-maintained, so the effective postponement of a full review is disappointing.*

*The removal of the performance league table is to be welcomed in that its metrics were not effective in their incentivisation of performance improvement. Whilst the PLT performed an important function in elevating energy efficiency decision making to board level, we think that mandatory emissions reporting could perform this function amply. We welcome the Government's current approach in respect of emissions reporting of starting with listed companies before extending requirements more widely.*

*Linking the allowance price to the retail price index leaves some question marks around the carbon floor price mechanism HM Treasury intends to introduce.*

*We will respond with more when DECC releases the findings from its consultation, which we hear is likely to be on 6 December.*

# 3. PLANNING AND GROWTH

### 3.1 Reform of the planning system

**[2.147]** The Government introduced legislation in October 2012, including new powers to appeal the affordable element of unviable section 106 agreements and tackle poorly performing planning authorities. The Government will shortly set out its response to Lord Matthew Taylor's review of planning practice guidance.

**[2.148]** Streamlining planning consents – The Government published a consultation in November 2012 on streamlining the list of planning consents which sit outside the Development Consent Order process, amending secondary legislation to update and streamline the list of prescribed consultees, and establishing new arrangements to improve coordination and communication between the Planning Inspectorate, applicants and other consenting bodies in order to make the overall consents process more efficient.

**[2.149]** Environmental impact assessments – The Government will consult on updated guidance on conducting environmental impact assessments by Budget 2013, and will consult on raising screening thresholds set out in the Town and Country Planning (Environmental Impact Assessment) Regulations 2011 later in 2013.

**[2.162]** Local Development Orders – To ensure local areas can implement development as efficiently as possible, the Government will continue to support local authorities across the country to implement Local Development Orders, and to set up locally funded enterprise zones.

**[2.163]** Public land – Lord Heseltine recommended that the Government Property Unit (GPU) should work with local authorities to identify and publish details of surplus and derelict public land in ePIMS so the land can be brought back into use for local growth. The Department for Communities and Local Government and the GPU will work with the wider public sector to identify the best way of publishing open data in a single database, using the local authority Transparency Code, which the Government is currently consulting on, which will require local authorities to publish their data on land and assets.

*Proposals to raise screening thresholds for the purpose of environmental impact assessments would be very welcome as this should reduce the likelihood of onerous requirements for complex environmental impact being imposed on comparatively minor schemes.*

*Unfortunately, moves currently afoot in the EU to introduce changes to the environmental impact regime could actually have the opposite effect and slow down development, deterring investors from investing in property altogether due to the additional cost and regulatory burden of complying with the Directive. If current EU proposals were taken forward then virtually any planning application or permitted development would require a screening exercise to determine whether an EIA is even required. This would add an immense burden to the applicant, particularly smaller and individual developers, and also to local authorities. The BPF will be working closely with the Government to resist such proposals.*

### 3.2 Lord Heseltine's Review

**[1.107]** Following a commission from the Prime Minister, Lord Heseltine presented his report No Stone Unturned to the Chancellor and Secretary of State for Business, Innovation and Skills on 31 October 2012. Lord Heseltine makes a series of recommendations in all aspects of government policy that affect economic growth. The Government welcomes this report and will seek to implement as many of the recommendations as possible.

**[1.108]** The review makes a powerful case for increased devolution of economic powers from central government, in particular for a transfer of funding and responsibilities to Local Enterprise Partnerships (LEPs), and for a stronger voice and role for the private sector in promoting growth through local and overseas chambers of commerce and national industry representatives.

**[1.109]** This Autumn Statement sets out the first stage of the Government's response, particularly focused on local economic growth but also announcing implementation of other parts of the report. A full response will follow in the spring.

**[1.110]** The Government agrees with Lord Heseltine that local leaders and businesses are best placed to set the strategic direction for an area. The success of the first round of city deals, where LEPs and local authorities work together to reinvigorate local economies, demonstrates the benefits of this approach. For example, Manchester's 'earn back' agreement with the Government will unlock over £2 billion of investment in transport infrastructure. LEPs, which bring together local leaders and businesses, will be asked by the Government to lead the development of new strategic plans for local growth consistent with national priorities. In developing the plans, LEPs will be expected to consult with all relevant local partners, including the local chambers of commerce and other business bodies. These multi-year plans will build on any existing plans and include coordination with ongoing public programmes. It is expected that local authorities or other bodies, and not LEPs, will deliver programmes and projects, ensuring that there are proper accountability structures in place.

**[1.111]** Through this strategic plan the LEPs will have an increasingly important role, and the Government is keen to ensure that all LEPs are able to fulfil this strategic function. The Government believes that LEPs should remain small, responsive, business-led organisations and avoid creating a local bureaucracy. Not all LEPs are providing the local leadership that is needed. The Government will provide £10 million per year for capacity building within LEPs. Each LEP will be able to apply for up to £250,000 additional funding per year to support the development and delivery of their strategic plan.

**[1.112]** The Government agrees with Lord Heseltine that local business leaders need to have the tools and levers to drive investment and growth in their area and that means truly devolving funding and powers from central government. The Government will devolve a greater proportion of growth-related spending on the basis of these strategic plans developed by LEPs by creating a single funding pot for local areas from April 2015. Funding will reflect the quality of strategic proposals put forward by LEPs, as well as local need. When developing the plans, LEPs will be expected to seek to leverage funding, including from local authorities and the wider public and private sector.

**[1.113]** The Government will seek to increase the proportion of spending that is awarded through the single funding pot based on Lord Heseltine's recommendations. This is likely to include some of the funding for local transport, housing, schemes to get people back into work, skills and any additional local growth funding. Further details will be set out in the Spending Review.

**[1.114]** In line with Lord Heseltine's recommendation, the Government will take the opportunity to streamline its management of the EU Common Strategic Framework funds in England, aligning priorities on the basis of the plans led by LEPs.

**[1.115]** This will build on the Government's existing commitment to empower local areas. LEPs already have strategic oversight of over £1 billion of local economic funding in this Parliament. In implementing Lord Heseltine's proposals the Government will apply lessons learned from the existing city deals, which have already seen devolution of significant responsibilities. In addition to Lord Heseltine's recommendations, the Government will make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding London), with the total borrowing capped at £1.5 billion.

**[1.116]** The Government will also provide a further £350 million towards the Regional Growth Fund, to provide support for jobs and growth across England until the end of this Parliament. In order to maximise the number of private sector jobs created, the Government will look to reflect on the successes of the previous rounds and will confirm how applicants can apply for funding in due course.

**[1.117]** In recognition of the importance of partnership across a functional economic area the Government will support local authorities that wish to create a combined authority or implement other forms of collaboration (for example, shared management), including ensuring that the existing legislation is fit for purpose.

*The Heseltine review pressed many of the right buttons and the positive response of the Government is welcome.*

*There is a growing realisation that handing down one-size-fits-all policies for stimulating growth and regeneration is an outdated and inefficient approach. All places are different and require packages of support tailored to their needs. It is therefore good news that the Government is supporting greater local control over issues such as skills, housing and transport. At a time when public sector budgets are severely constrained it makes sense to combine the available spending available to local authorities into a single pot so that maximum value can be achieved.*

*We are pleased, too, that the Government has recognised that local Enterprise Partnerships will need greater support if they are to fulfil their role as generators of local growth. The lack of resources available to LEPs has been a major constraint on their effectiveness.*

*In its fuller response to the Heseltine Report the BPF will be looking for the Government to roll out to other areas the sort of local devolution being offered to major cities through 'City Deals'. This should involve allowing all areas with a robust growth proposition to benefit from those aspects of the City Deals that can easily be replicated elsewhere. This would give all local authorities the opportunity to bring all of their disparate sources of funding together and create Local Investment Frameworks capable of driving growth.*

### 3.3 Industry Partnerships

**[2.159]** The Government will work with individual sectors to develop approaches that best suit the needs of each industry. Over the next year the Government will set out the details of the approach for the professional and business services, information economy, oil and gas, offshore wind, civil nuclear, life sciences (agri-tech), life sciences (health), higher and further education, automotive, construction and aerospace sectors. This will bring together all relevant parts of government in partnership with business to set a long-term vision for the sector, and to provide confidence for business investment.

*It is not clear whether Government understands the relevance of property developers for any attempt "to set a long-term vision for the [construction] sector, and to provide confidence for business investment", but we will endeavour to ensure that the property industry is central to these discussions.*

# 4. WELFARE

### 4.1 Universal Credit

**[2.63]** Parameters for Universal Credit have been set. These parameters will be confirmed in regulations on 10 December 2012. The earnings disregards will be set for April 2013 and increased by 1 per cent in April 2014 and April 2015.

*We have been involved with officials in the development of the details for Universal Credit relating to housing benefit and submitted evidence to the Social Security Advisory Committee in aid of its review of the DWP's draft Universal Credit regulations. We will be reading the final text of the regulations with interest on 10 December. However, many of the key issues for landlords that centre around the payment of the housing benefit element of Universal Credit and the provisions for when such payments should be made direct to landlords will be set out in guidance, and not the regulations, in the New Year. We are continuing to work with officials on this critical element of Universal Credit.*

### 4.2 Housing Benefit

**[2.64]** In April 2013 Local Housing Allowance rates will be uprated as previously announced. In April 2014 and April 2015 Local Housing Allowance rates will be uprated by current policy, subject to a 1 per cent cap, with exemptions for rates in those areas in which rent increases are highest. 30 per cent of the potential savings from this measure will be reserved to fund the exemptions in these two years.

*We were anticipating additional reductions to welfare spending with the likely inclusion of new housing benefit cuts. The proposal to remove housing benefit for under 25 year olds was raised by Number 10 as a possibility ahead of the Autumn Statement but is likely to have been vetoed by the Liberal Democrats, and thus does not feature in this Autumn Statement. However, instead the government has chosen to apply a measure designed to seek further reductions spread across all LHA rates with a new cap of a 1% uplift from April 2014. The CPI cap previously announced will limit LHA increases to a maximum of a 2.2% uplift from April 2013. We remain concerned that such caps on LHA are unlikely to result in reduced market rents as the government hopes and will instead increase shortfalls in claimant's rent payments.*

*The exemption for "those areas in which rent increases are highest" suggests that there will be a carve out for areas of high housing demand such as London where existing housing benefit cuts are being felt most acutely. However it is not clear which areas will qualify for an exemption or the basis on which such areas will be identified. We will be engaging with officials on this to understand the detail.*

### 4.3 Household benefit cap exemption

**[2.66]** Housing payments for those in supported exempt accommodation will be disregarded for the purpose of the benefit cap. Funds available for Discretionary Housing Payments will be reduced by £10 million in 2013-14 and 2014-15, and by £5 million in 2015-16 and 2016-17, to fund this measure.

*The government had previously announced increases to the budget for Discretionary Housing Payments to help with the transition to lower levels of support for housing costs though its benefit reforms. Such increases are welcome. However, many commentators including the National Audit Office have warned the government that there is not enough understanding as to whether DHP will be sufficient or targeted at those in most need. The announcement that there will be some top slicing of the DHP budget whilst many of the cuts have only just begun to take affect is therefore concerning.*

# 5. HOUSING AND DEVELOPMENT

**[2.32]** FirstBuy – As announced on 6 September, the Government will provide an additional £280 million for the FirstBuy equity loan scheme to help a further 16,500 first-time buyers in England.

**[2.33]** Affordable housing – As announced on 6 September, the Government will invest £300 million in the Affordable Homes Programme which, alongside the debt guarantees, will deliver 15,000 affordable homes and bring 5,000 empty homes back into use in England.

**[2.34]** Debt guarantees for housing – The Infrastructure (Financial Assistance) Bill, enabling the private and affordable rent housing guarantee schemes, received Royal Assent on 31 October. The Department for Communities and Local Government has received almost 60 formal 'Expressions of Interest' detailing potential sites that the guarantees could support. In response to this demand, the Government has issued a Prior Information Notice (which starts an EU procurement process) in December 2012.

**[2.35]** Private rented housing – As announced on 6 September 2012, the Government will introduce a £200 million fund to provide equity finance to support the building of private rented sector homes as recommended by Sir Adrian Montague.

**[2.36]** Local infrastructure – To support both housing and commercial development and support growth and jobs, the Government is providing £683 million through capital grant and financial transactions. In England, the Government will invest £474 million in local infrastructure on a recoverable basis. Around £60 million of this will be made available to support infrastructure in a limited number of Enterprise Zones. Around £225 million of the funding will be used to accelerate delivery of large housing sites, supporting around 50,000 homes. Around £190 million of the funding will be used to prepare public sector land, enabling the quicker disposal of surplus sites for new homes. Alongside this, the Government will provide £100 million to bring forward surplus public land for development.

**[2.37]** High Income Social Tenants – The Government has consulted on proposals to introduce an income threshold for social housing above which tenants would be expected to pay full market rents. The Government will respond to this consultation by Budget 2013.

*Most of today's housing announcements were rehashed from September, so there was not a lot new for the residential sector in Autumn Statement 2012. We suspect however that we will get more news in the coming days via various departmental announcements, on Montague, high value residential taxation, social housing REITs, a first anniversary update on the Government's housing strategy, and the housing red tape challenge, which are the areas that we anticipate will be of greatest interest to members.*

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