Budget Analysis
20 March 2013

BRITISH PROPERTY FEDERATION

Contents

The Budget documents are available at http://www.hm-treasury.gov.uk/budget2013.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. TAX AND FINANCE

1.1 Real Estate Investment Trusts

[2.190] As announced in December 2012, the Government will legislate to allow a UK REIT to treat income from another UK REIT as income of its tax exempt property rental business. (Finance Bill 2013) The Government is further considering the case for REITs being included within the definition of "institutional investor".

The announcement of an informal consultation on the potential inclusion of REITs in the "institutional investor" definition is very welcome, as this is something we have been asking for. If the Government can be persuaded to make this change, that will ensure that the UK REIT sector can get the greatest value from the "institutional investor" relaxation of the diverse ownership rule last year and the "REITs investing in REITs" rule change being made this year.

2. PLANNING AND DEVELOPMENT

2.1 Planning guidance on shale gas

[1.93] The Government will produce technical planning guidance on shale gas by July 2013 to provide clarity around planning for shale gas during the important exploration phase for the industry. As the shale gas industry develops the Government will ensure an effective planning system is in place and by the end of the year will produce guidance for the industry to ensure the planning system is properly aligned with the licensing regime and regulatory regimes principally: health and safety; and environmental protection. The Government will keep under review whether the largest shale gas projects should have the option to apply to the major infrastructure regime;

We welcome the provision of guidance for such new and technical areas. Following Lord Matthew Taylor's recommendations, it is crucial that the guidance is accessible, simple and regularly updated. We welcome the assurances that the shale gas industry should be properly aligned with the regulatory and environmental protections.

2.2 Reform of the planning system

[1.115]The Government will:

- publish significantly reduced planning guidance by this summer, in line with Lord Matthew Taylor's recommendations, providing much needed simplicity and clarity. The Government will make greater use of information on prices to ensure that sufficient land is allocated to meet housing and employment need;

- ask local areas to put in place bespoke pro-growth planning policies and delivery arrangements, as part of new Local Growth Deals, pursued in response to Lord Heseltine's review, and through City Deals; and

- consult on allowing further flexibilities between use classes to support change of use from certain agricultural and retail uses to residential use to increase responsiveness within the planning system.

We are delighted to see that Lord Taylor's recommendations are being put into action so soon. We are fully supportive of the reduction and simplification of planning guidance to create an accessible, streamlined system in place of the complicated reams of documents currently in place.

Local Growth Deals and City Deals are also to be welcomed; however, it is crucial that each area can create the deal that is best for them without having to take part in too many national bidding rounds. Local authorities should be encouraged to take the initiative and, with strong local leadership, grasp the freedoms that are on offer.

We welcome the proposal to consult further on change of use from agricultural and retail to residential. It is crucial that the countryside remains a place of growth, industry and business rather than an enclave of the retired and wealthy. When considering retail to residential conversions, we very much encourage a flexible approach, particularly in areas with increasingly obsolescent retail stock that is unlikely to be brought back into retail use.

2.3 Land auctions feasibility study

[1.116] [2.244] DCLG is progressing the public sector land auctions model and will work with HM Treasury to conduct a feasibility study into wider use of the model.

We continue to be very sceptical about the workability of land auctions with the current planning system; however, we look forward to the feasibility study later in the year.

2.4 Judicial review

[1.117] The Government believes judicial reviews have created unacceptable delays to the development of crucial infrastructure and housing projects. The Ministry of Justice has already consulted on shortening the time limits for bringing a planning judicial review and will set out its plans in the spring. The Government will also develop further measures to streamline the process for planning judicial reviews by summer 2013.

We are pleased that the Government are beginning to develop measures to streamline the process for planning judicial reviews. It is crucial that the lack of adequate court resources, both in terms of administrative and judicial capacity is addressed. There is insufficient judicial capacity with London particularly badly affected. We understand there is more capacity in the regional courts but the administrative resources required to deal with transferring claims to the regions (where such claims are appropriate for transfer) is limited, resulting in a delay with dealing with any applications to transfer.

2.5 Heseltine Review

[1.148] The Government welcomes Lord Heseltine’s review on economic growth, No Stone Unturned, which reported on 31 October 2012. His review makes a powerful case for increasing the devolution of economic powers from central government to LEPs, and for a stronger voice and role for the private sector in promoting growth. Autumn Statement 2012 set out the Government’s initial response to the review. The Government can confirm that the overwhelming majority of his recommendations have been accepted.

[1.149] Building on announcements made at Autumn Statement 2012, the Government confirms its endorsement of Lord Heseltine’s recommendation on the creation of a Single Local Growth Fund, devolved to the local level through new Local Growth Deals. This represents a step-change in decentralisation, so that the responsibility for decisions on how funding should be spent is taken by those with knowledge of, and a stake in, the local area. Funding will be allocated to LEPs on the basis of strategic multi-year plans for local growth. In developing these plans, LEPs and their partners will be challenged by government to leverage private and local funding and commit to governance reform – those that offer the most will be more likely to benefit in terms of funding and flexibilities. The competitive tension in this something-for-something approach will incentivise LEPs to offer more, and drive improvements in local areas. The Single Local Growth Fund will be operational by April 2015 and further detail will be set out at the 2015-16 Spending Round.

We strongly support the creation of a Single Local Growth Fund, a key feature of the BPF /LGA report [Unlocking Growth Through Partnership](). We welcome the additional support for LEPs, there is some concern, even with the additional money available, whether they will have the resources and authority to play the role the Government envisages. In many of the larger urban areas the combined authority approach may have more traction than the LEP and should be the focus for pushing forward local growth.

3. INFRASTRUCTURE

3.1 Infrastructure planning and delivery

[1.96] Following Lord Deighton's assessment of Whitehall's ability to deliver infrastructure, which was announced at Autumn Statement 2012 and undertaken with Infrastructure UK (IUK) and the Major Projects Authority, the Government will implement a series of reforms to effect a step change in its approach to infrastructure delivery. Using the experience of delivering the Olympic and Paralympic Games and drawing on private sector best practice, these reforms include creating an enhanced central cadre of commercial infrastructure specialists in IUK who will be deployed into infrastructure projects across government, and the establishment by the summer of tough new Infrastructure Capacity Plans to drive forward progress in key government departments. These reforms will be undertaken in conjunction with Cabinet Office led efforts to strengthen Whitehall's commercial capability and Lord Browne's work to improve the Government's management of major projects including through an enhanced Major Projects Authority.

[1.97] The Government is committed to ensuring that investors have the confidence to make long-term decisions on major infrastructure projects, based on a policy framework that is informed by an objective and evidence-based assessment of the UK's infrastructure needs and priorities. The Government will therefore consider options for making more use of independent expertise in shaping its infrastructure strategy.

Today's announcements on infrastructure are broadly positive, but continue this Government's practice of delivery paralysis through excessive caution; £3bn a year starting at the end of this Parliament is very marginal. It is unfortunate that the Government keeps fixating on nationally significant economic infrastructure projects, which inevitably involve a long, slow decision making process and very large numbers – and that a lack of decisiveness has led to the disappointment of a decision on London airport capacity being pushed back beyond 2015.

Instead, the Government should be using tax increment finance (TIF), a policy instrument already on the statute book, to unlock resources for infrastructure investment at the local level – and with it commercial investment – much more quickly and at marginal additional cost to the Exchequer.

We welcome the planned changes in infrastructure delivery, particularly the creation of more infrastructure specialists in Infrastructure UK to help drive projects forward. We look forward to further information on what this will amount to in practice. It is however, important that this process does not get bogged down in too much navel gazing and that schemes are able to be started as soon as possible.

4. SUSTAINABILITY

4.1 Zero Carbon Homes

[1.109] The Government is committed to implementing 'zero carbon homes' from 2016. The Department for Communities and Local Government (DCLG) will publish a detailed plan, setting out its response to the 2012 consultation on the energy efficiency requirements in building regulations, by May 2013. The Government will then consult on next steps, including on the means of delivering allowable solutions, by Summer Recess.

We welcome the commitment to providing clarity on zero carbon homes by 2016. We hope that the Government will also extend its considerations to its plans for new non-domestic buildings, which were the subject of a similar policy aspiration for 2019. The commercial developments of 2019 are being planned today and clarity on the energy efficiency standards to which the industry will be required to build is urgently required, as well as the mechanism by which they will be expected to contribute to local renewable energy development.

4.2 VAT: charitable buildings

[2.174] As announced at Budget 2012, the Government will withdraw charitable buildings from the scope of the VAT reduced rate for the supply and installation of energy-saving materials, with effect from 1 August 2013. (Finance Bill 2013)

The EU Commission considers that the UK Government does not have sufficient authority under the VAT Directive to offer reduced VAT for the installation of energy saving materials. While the UK Government is conceding charitable buildings, removing them from scope of the reduced rate policy from August 2013, the Government is maintaining the policy for residential property. Consequently the Government will be facing the Commission at the European Court this autumn.

5. RESIDENTIAL

5.1 Support for Home Ownership

[1.101] From 1 April 2013, building on the success of First Buy, Help to Buy: equity loan will be opened up to all those who aspire to own a new build home. The Government will: provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold; significantly widen the eligibility criteria to ensure as many people as possible are able to benefit. The maximum home value will be £600,000 and there will be no income cap constraint; and ensure that the scheme is open not only to first-time buyers but also to all those looking to move up the housing ladder.

[1.103] The Government will create a major new Help to Buy: mortgage guarantee to increase the availability of mortgages on new or existing properties for those with small deposits. The Help to Buy: mortgage guarantee, a temporary scheme that will run for three years from January 2014, will: increase the supply of high loan-to-value mortgages by offering a government guarantee to lenders who offer mortgages to people with a deposit of between 5 per cent and 20 per cent; be open not only to first-time buyers but also to existing homeowners; have no income cap constraint; and be available on homes with a value of up to £600,000.

We welcome the package of help for housing. Annual transactions are half what they were (down from 1.6m to 0.8m) and that has a knock on consequences for all those parts of the economy that rely on people moving home. Helping people needing a deposit is also the missing piece of a coherent housing policy and both are therefore welcome.

5.2 Support for New Development

[1.108] The £200 million Build to Rent fund announced at Autumn Statement 2012 was significantly oversubscribed. Budget 2013 announces that this fund will be expanded to £1 billion to support the development of more homes in England. The fund will provide equity or loan finance to support the development finance stage of building new homes for private rent.

[1.110] In London, the Mayor will work with the Homes and Communities Agency to support new build home purchases through Help to Buy: equity loan and new private rented homes through Build to Rent. This will involve a minimum of £750 million of funding up to 2015-16.

We are delighted to see the extension of the Build to Rent fund from its original £200 million to £1 billion to support the development of further housing in England. The extension of the fund, which had originally been recommended by Sir Adrian Montague, has clearly recognised the requirement for additional housing within the rental market and which we believe will further underpin the importance of the rented sector in meeting the UK's housing needs.

5.3 Support for affordable housing

[1.111] Affordable housing plays an important part in the Government's overall drive to boost housing supply and stimulate economic growth. The Government has recently issued a prospectus to support affordable homes delivered through the guarantee programme. The Government now wants to go further and will double the existing affordable homes guarantee programme, providing up to an additional £225 million to support a further 15,000 affordable homes starting in England by 2015.

Although 15,000 affordable homes is a step forward, this is nowhere near the number of homes that many estimate we need. We welcome these good intentions, but the reality is that a far greater number of units need to be provided.

5.4 An Affordable Welfare System

[1.201] By the end of April 2013, the Government will have implemented measures to deliver over 90 per cent of the total savings expected from reforms to the welfare system announced to date. As set out earlier in this chapter, to help manage spending pressures the Government will strengthen the spending framework to improve control of AME, including areas of welfare expenditure.

There were no surprise further cuts to housing benefit, with the Government sticking to its previously announced plans, most of which have already been implemented.