British Property Federation Analysis of Budget 2014

19 March 2014

Contents

Budget documents are available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf. Numbers in brackets **[xx]** below refer to paragraph numbers in the Budget 2014 Red Book. 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 HMRC resourcing

[Budget speech] I am increasing HMRC's budget to tackle non-compliance.

We support the Chancellor's pledge to increase HMRC's budget and had highlighted this issue in representations we made earlier this year. Although the increased resourcing seems limited to a particular area of HMRC's work, we hope that the measure will lead to HMRC being better equipped to assist businesses with additional support and guidance on tax matters.

1.2 Taxation of high-value homes

[1.193] ATED has raised 5 times the amount forecast for 2013-14, with significantly more properties above £2 million in envelopes than expected. As well as discouraging SDLT avoidance, ATED incentivises commercial activities by providing relief where, for example, a property is rented out.

[1.194] The government believes that ATED and the associated measures can discourage the use of corporate envelopes to invest in high value UK housing which is left empty or underused while avoiding paying tax. The Budget therefore announces 2 new bands for ATED, to bring properties worth £500,000 to £1 million and £1 million to £2 million into the charge. The ATED-related capital gains tax charge will apply to properties in the new ATED bands. The 15% rate of SDLT that applies to acquisitions of properties by corporate envelopes will also be applied to properties valued above £500,000 with effect from 20 March 2014.

In developing its proposals last year the government was clear it wanted to distinguish between people using companies simply to avoid paying tax, and bona fide investment companies providing accommodation to rent. That recognition was welcome and we trust will be maintained with these proposals. We want to ensure that the UK has a thriving rental sector that provides rented accommodation for families relocating, and in other circumstances, and welcome the fact Government does too. Clearly at a threshold of property above £500k the measures will bring into scope a possible far greater proportion of homes being let out and thus the importance of the distinctions that the Government supported, and continues to support, in the legislation.

[1.195] The government recognises that the structure of ATED can create some administrative burdens for genuine property rental, trading and development companies. The government will therefore stagger the introduction of the new ATED bands, with the £1 million to £2 million band coming into effect from April 2015, and the £500,000 to £1 million band coming into effect from April 2016. The government will also consult on possible simplifications to ATED administration to reduce compliance burdens for genuine businesses.

We very much welcome the commitment to review the administration of ATED, as claiming the property investor relief is at the moment administratively challenging for businesses. For instance, current legislation requires that companies file separate returns for each individual high-value property that they own and for businesses with large portfolios this can be very time consuming.

1.3 Base Erosion and Profit Shifting publication

[2.200] The government published a position paper which sets out the UK's ongoing work with G20 and OECD partners in taking forward the 15 point Action Plan to counter Base Erosion and Profit Shifting on 19 March 2014.

The BPF commends the government in its support of the OECD and the G20's efforts to tackle tax avoidance on a global level. We are keen to engage in the BEPS consultations to ensure that any new measures introduced are proportionate and recognise the particularities of the real estate industry.

1.4 Capital gains tax (CGT): non-residents

[2.81] As announced at Autumn Statement 2013, the government will introduce CGT on future gains made by non-residents disposing of UK residential property from April 2015. A consultation on how best to introduce the charge will be published shortly.

We are supportive of the government's intention to promote a fair tax system. However, we should be cautious of a tax policy which has the potential to make investment in UK residential property less appealing, particularly given the current housing crisis. We are therefore keen to work with government to ensure that the extension of CGT is introduced in a way that does not deter investment in UK residential property at a time when we really need it.

[2.185] Application of SDLT on certain authorised property funds – As part of the Investment Management Strategy, the government will consult on the SDLT treatment of the seeding of property authorised investment funds and the wider SDLT treatment of co-ownership authorised contractual schemes.

After considerable lobbying from the BPF and other industry bodies, we are delighted that the government has committed to consult on the SDLT treatment of Property Authorised Investment Funds ("PAIFs") and Tax Transparent Funds ("TTFs"). The introduction of an SDLT seeding relief for PAIFs and clarification of the SDLT treatment for TTFs would provide investors with additional options for structuring their investments. TTFs could potentially provide an attractive investment structure for many institutional investors in real estate due in particular to their direct tax treatment, which mimics that of direct investment in property.

2. HOUSING AND PLANNING

2.1 Infrastructure

[1.137] In 2012 the government introduced the UK Guarantees scheme, to avoid delays to investment in UK infrastructure projects by providing a government backed guarantee to investors. The Budget announces approval of a guarantee of up to £270 million to support the Mersey Gateway Bridge. Work can now begin on this critical infrastructure project which will help relieve traffic congestion across the Mersey and promote regeneration in the area.

The government has now committed most of the £40 billion of guarantees available under the scheme. We supported the scheme, which uses the strength of the government's balance sheet to facilitate infrastructure projects and enables viable projects to secure finance in difficult market conditions. The mere offer of a guarantee may be enough to help some projects access alternative sources of funding.

2.2 New garden city

[1.145] The government will support a new Garden City at Ebbsfleet. Ebbsfleet has capacity for up to 15,000 new homes, based on existing brownfield land. To date, under 150 homes have been built on the largest site. The government will form a dedicated Urban Development Corporation for the area, in consultation with local MPs, councils and residents, to drive forward the creation of Ebbsfleet Garden City, and will make up to £200 million of infrastructure funding available to kick start development. This will represent the first new garden city since Welwyn Garden City in 1920.

[1.146] The government will also publish a prospectus by Easter 2014, setting out how local authorities could develop their own, locally-led proposals for bringing forward new garden cities.

We welcome this announcement and have always supported the principle of New Towns and Garden Cities, and believe that they have the potential – in the longer term – to contribute significantly to the desired housing figures. However, we have to remember that the Garden Cites and New Towns of old were built on land bought at agricultural prices and construction funded by central government loans. We are going to have to be equally inventive in the 21st century if Garden Cities are to deliver a similar outcome to those in the 20th century.

We support the introduction of an Urban Development Corporation, and believe that this represents a good opportunity to reconsider the exclusion of residential sites – and therefore Garden Cities or urban extensions – from the Nationally Significant Infrastructure Regime. The exclusion is so wide that it covers large commercial projects that may have a very small amount of on-site residential accommodation. Indeed, planning policy actively advocates mixed use development that brings these elements together. The exclusion of projects with any element of housing (or retail) means that the schemes that have the greatest potential to stimulate growth lose out on the benefits of the NSIP regime. Further, most of the largest mixed use schemes that are nationally significant in the ordinary sense are likely to have a significant amount of residential and retail development included. To exclude these could have the effect of making the largest commercial developments less viable since they might take longer to be consented, and this would have a consequent impact on growth.

2.3 Reform of the planning system

[1.147] The government has taken decisive steps to improve and streamline the planning system. To support businesses and households further, the government will review the General Permitted Development Order. The refreshed approach is based on a three-tier system to decide the appropriate level of permission, using permitted development rights for small-scale changes, prior approval rights for development requiring consideration of specific issues, and planning permission for the largest scale development. As part of this, the government will consult on specific change of use measures, including greater flexibilities for change to residential use, for example from warehouses and light industry structures, and allowing businesses greater flexibilities to expand facilities such as car parks and loading bays within existing boundaries, where there is little impact on local communities.

We are delighted to see the creation of a 'Planning Pyramid' through a review of the GPDO. This should speed up the planning application decision process and deregulate at the same time. This will, if the pyramid is properly constructed, free up local authority planning departments to concentrate on the bits that really matter – such as the creation of local plans, the plans around strategic sites, infrastructure and regeneration.

We also welcome the proposed consultation on change of use from warehouses and light industry to residential; however, the practicalities of achieving this may be more difficult. In many cases, this sort of change of use will simply not be appropriate, or there will be structural changes needed that may require planning permission.

2.4 Local growth

[1.148] Enterprise Zones are a key part of the government's strategy for enabling growth in local areas. The government will continue to support Enterprise Zones to create even more new jobs and attract private investment to local areas. Availability of business rate discounts and Enhanced Capital Allowances will each be extended by 3 years as an incentive for new and expanding businesses to locate in Enterprise Zones.

Many in the development industry felt that the long term aim of Enterprise Zones to attract investment and jobs was being hindered by short-term nature of the financial incentives on offer and that the government simply had an unrealistic view of the time it takes to get regeneration projects underway. The Chancellor's decision to extend business rate discounts and enhanced capital allowances in Enterprise Zones for a further three years is, therefore, very welcome. It will mean that any company setting up in an EZ before 2018 will now benefit from the rating discount. However, the BPF believes that government is likely to have to come up with more substantial incentives if growth is to take off in the more challenging EZs where demand remains very subdued.

[1.149] The government will shortly take forward a Wales Bill that will devolve new tax and borrowing powers to Wales, enabling the Welsh government to raise more of the money it spends and providing it with further tools to support growth in the Welsh economy. In advance of implementing these new powers, the government has also agreed that the Welsh government can use existing borrowing powers to begin investing in improvements to the M4.

[1.150] The government will commit £100 million to Greater Cambridge until 2019-20 to support their ambitious transport and infrastructure proposals through a Gain Share mechanism. This agreement could be worth up to £500 million over 15 to 20 years, dependent on the economic impact of their investments and, in addition to Greater Cambridge's own plans, could deliver over £1 billion of infrastructure investment in the Greater Cambridge area.

[1.151] Following the announcement at Autumn Statement 2013, the government is in detailed discussion with Glasgow to develop a city deal that will drive employment and economic development across the city region. Glasgow has identified infrastructure, strengthening the local labour market, and support for business growth as priorities, and good progress is being made in determining how best the government can support Glasgow to take forward this ambitious plan.

We have been advocates of City Deals from the start of the process, and are delighted to see that they are becoming increasingly widespread and that so many places are able to take advantage of *these bespoke creations. We have long maintained that every area should have the opportunity to make its case and, if it stacks up, to have the opportunity to take forward its own tailor-made deal. City Deals can transform local skills development by allowing areas to focus much more sharply on their distinctive needs as well as allowing much greater local involvement in the setting of infrastructure priorities. The net result of unleashing these areas to innovate and take on new responsibility should be increased investment activity and economic growth. However, this increased freedom comes at a time of major cuts to local government budgets which, although providing a strong incentive for local authorities to innovate and to pool resources with neighbours, also restrict their capacity to deliver Deals.*

2.5 Efficiency and Reform

[1.74] Budget 2014 announces the Government Property Unit will increase its work with local areas on better use of public sector assets, linking in with Growth Deals and building on the Strategic Land and Property Review. As with the One Public Estate pilots already taking place, this work will focus on opportunities for cross public sector working, efficiency and growth.

There work of the Government Property Unit in releasing public land for housing and other projects is very welcome – we have worked with the GPU on the One Public Estate pilots over the last year or so, and are delighted to see that this valuable work will be continued. If we are to deliver the housing the nation needs, however, we also need to be more creative at local level. The best local authorities are inventive in using their land, for example as partners in projects deriving income, rather than simply selling off land for instant profit.

2.6 Other Housing Announcements - Summary

[2.15] Help to Buy: equity loan scheme – The Help to Buy: equity loan scheme will be extended to March 2020 to help a further 120,000 households to buy a new-build home.

[2.17] Barking Riverside – The government will work with the Greater London Authority (GLA) to develop proposals for extending the Gospel Oak to Barking line to Barking Riverside to unlock up to 11,000 new homes.

[2.18] Brent Cross regeneration scheme – The government will work with the London Borough of Barnet and the GLA to look at proposals for the Brent Cross regeneration scheme, subject to value for money and affordability.

[2.19] Estate regeneration – The government will introduce a £150 million fund to kick start regeneration of social housing estates.

[2.20] Builders' Finance Fund – To support SME access to finance, the government will create a £500 million Builders' Finance Fund, which will provide loans to developers to unlock 15,000 housing units stalled due to difficulty in accessing finance.

[2.21] Custom build – The government will consult on a new Right to Build giving custom builders a right to a plot from councils and test the operation of this approach with vanguard local authorities. The government will also create a £150 million repayable loan scheme to provide up to 10,000 serviced plots, and will look to extend the Help to Buy: equity loan scheme to cover custom build.

[2.24] Right to Move – The government will shortly consult on the design of a priority 'Right to Move' for social tenants to increase their mobility for work-related reasons. Options will include giving such tenants priority when a new social home becomes available, and setting aside a pool of vacant lets to enable them to move across local authority boundaries.

Taken together, today's housing package is welcome further recognition that there is much to do. There is no silver bullet that will instantly deliver housing supply. Previous budgets have been very supportive of housing and what is important is that government keeps focusing on a range of measures that will unlock housing in sufficient numbers. Help to unlock some large development sites in and around London, at places like Barking and Ebbsfleet, is important recognition that whilst Government can't build the homes, it can deliver the structures and infrastructure that will make these big schemes happen.

2.7 Development benefits

[2.25] The government will launch a government-funded staged pilot for passing a share of the benefits of development directly to individual households, including further research and evaluation of the approach.

Following from the Autumn Statement, this is the much discussed pilot. It is unclear whether this is to be a publicly funded project or private, or indeed whether it applies to a specific scheme or in fact a zone or whole local authority area. We have some reservations about whether this is the right way forward, and whether it undermines the fundamental principles of the planning system.

2.8 Commercial permitted development and retail

[2.249] In order to support businesses, the government's review of the General Permitted Development Order will include consultation on creating a much wider 'retail' use class, excluding betting shops and payday loan shops. The government will also consult on introducing greater flexibilities for businesses seeking to expand, including allowing changes to car parks, loading bays and non-retail facilities within existing boundaries, where there is little impact on the environment and local communities.

2.9 Change of use (planning)

[2.250] The government has made changes to the General Permitted Development Order to allow more flexibility between use classes. The government will consult on further changes to allow more commercial uses, such as warehouses, light industrial or certain sui generis buildings, to become homes.

These proposals would allow local authorities more resource (both in time and money) to deal with the large, strategic or difficult planning decisions. However, we would question whether this really would make a significant difference to declining town centres or retail parks. The practicalities of turning warehouses into homes will be more difficult. In many cases, this sort of change of use will simply not be appropriate, or there will be structural changes needed that may require planning permission.

2.10 Judicial Review reform

[2.251] The government, working closely with the judiciary, will launch a new Planning Court on 6 April 2014 to fast-track disputes, including big construction projects.

We are delighted to see the Judicial Review reforms being taken forward with such speed and dedication. The new proposals should make all the difference, and will hopefully remove some of the hurdles to growth that currently have to be overcome.

2.11 Nationally Significant Infrastructure Planning Regime Review

[2.252] The government is committed to making the planning system work for major infrastructure projects and will shortly publish the outcomes of its consultation on the Nationally Significant Infrastructure Planning Regime, including a series of measures to streamline and improve the process.

We welcomed the review of the NSIP process, and the considered way in which it was approached. We recommend that the Government pay heed to the success of this method, and perhaps apply it to the 2015 review of the Community Infrastructure Levy. A structured, strategic review will result in a quicker, more streamlined review process itself.

3. **ENERGY EFFICIENCY AND SUSTAINABILITY**

You will note that there is no entry on the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES). This is because the CRCEES allowance price for 2014-2015 was already confirmed at Chancellor's Autumn Statement (£15.60 a tonne of CO2 in the forecast sale and £16.40 in the buy to comply sale). From 2015-2016 onwards, the cost of CRCEES allowances will rise in line with RPI. However, as we registered at Autumn Statement, there has been no further reference in today's Red Book to the Government commitment to remove the Scheme as soon as the Government's finances allow or to the scheduled review of the Scheme in 2016. We will be seeking urgent clarification from officials on this matter.

3.1 Carbon Price Floor Reform

[1.106, 2.162] The UK's Carbon Price Floor (CPF), introduced a year ago, sets a rising trajectory for the carbon tax paid by electricity generators. The intention of the CPF is to remove the natural hedge which fossil fuel generators have over greener energy generators, so as to incentivise the proliferation of renewable energy schemes.

As had been rumoured in the run-up to the Budget, the Chancellor has today capped the CPF support rate at £18.00 from 2016-2017 to 2019-2020 to limit any potential competitive disadvantage British companies face in the global race. The government will review the CPF trajectory for the 2020s, including whether a continued cap on the CPF support rate might be necessary, once the direction of reform of the EU Emissions Trading System is clearer.

This reaction to the volatility of the EU Emissions Trading System is understandable but ultimately it is unhelpful in that it undermines the credibility of Government policies intended to support future investment in renewable energy, with a concomitant effect on investor certainty in general. Diversification of energy generation sources is vital for future security of energy supply and therefore the UK economy – a credible carbon price is key to the delivery of a balanced energy mix.

3.2 CPF: exemption for Combined Heat and Power (CHP)

[2.163] The government will exempt fuels used to generate good quality electricity by CHP plants for onsite purposes from the Carbon Price Floor, from 1 April 2015. (Finance Bill 2015)

This is a potentially helpful step since it maximises the benefits of CHP through collocation onsite (thereby minimising distribution losses associated with long transit from plant to consumer).

3.3 Climate Change Levy (CCL) main rates

[2.166] CCL main rates will increase in line with RPI from 1 April 2015. (Finance Bill 2014)

3.4 Coalition commitment to increase the proportion of revenue from environmental taxes

[2.173] Measures announced at this Budget will result in the proportion of revenue from environmental taxes increasing from 0.5% to 0.8% over this Parliament, in accordance with the coalition commitment.

This is the Government reporting against a commitment in 'The Coalition: our programme for government' issued after the last General Election. The original Coalition plan did not contain a benchmark or target for the proposed increase in revenue drawn from environmental taxes.

3.5 Aggregates levy exemption suspensions

[2.169] As confirmed at Autumn Statement 2013, legislation will be introduced to suspend elements of the aggregates levy that are subject to a formal state aid investigation by the European Commission, from 1 April 2014. The legislation will make provision for the suspended elements to be reinstated should the Commission decision allow, and to enable revenue received as a result of the suspensions to be repaid where practicable. (Finance Bill 2014)

3.6 Landfill tax rates

[2.170] The standard and lower rates of landfill tax will increase in line with the RPI, rounded to the nearest 5 pence, from 1 April 2015. Following industry engagement to address compliance, the government will introduce a loss on ignition testing regime on fines (residual waste from waste processing) from waste transfer stations by April 2015. Only fines below a 10% threshold would be considered eligible for the lower rate. Full proposals will be set out in a consultation document later in 2014. The government intends to provide further longer term certainty about the future level of landfill tax rates once the consultation process on testing regime has concluded, but in the mean time is committed to ensuring that the rates are not eroded in real terms. (Finance Bill 2014)

3.7 Zero carbon homes

[2.23] At Budget 2013 the government committed to implement 'zero carbon homes' from 2016. The government will shortly publish its response to last year's consultation.

The BPF welcomes the commitment to providing clarity on zero carbon homes by 2016, particularly now that the Housing Standards Review has been completed. 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.

3.8 Flood defences

[2.27] The government will increase funding by £140 million over 2014-15 and 2015-16 to repair and maintain flood defences.

We are pleased to see that the Government is committed to spending on flood defences and helping those that have been hardest hit by the recent storms. We would, however, like to see complimentary changes to the proposed flood insurance initiatives which seek to exclude large swathes of the property industry including leasehold, the private rented sector and SMEs to ensure that where defences do fail, they still have the security blanket of flood insurance to help them on the road to recovery.

4. WELFARE AND HOUSING BENEFIT

4.1 Tackling Fuel Poverty

[1.185] The government is committed to helping households with their energy bills and reducing fuel poverty. The government will shortly be publishing its proposals for a new fuel poverty target and strategy and as part of this will consider the particular challenges faced by those households that are not connected to the gas grid.

This is a slightly odd announcement given the government is currently proposing to dramatically reduce the ambition of the Energy Company Obligation, the only scheme succeeding in tackling the cost of energy by increasing energy efficiency. A £15 reduction in energy bills per household for a year will not deliver a long-term reduction in energy costs or improve housing stocks. We would encourage the government to offer greater help to households who want to reduce their bills and increase the comfort of their homes.

4.2 Welfare cap

[2.98] Budget 2014 caps welfare spending in scope for the years 2015-16 to 2018-19 at the level of the OBR forecast. The forecast margin will be 2% of the underlying cap in each year that the cap applies. More information regarding the welfare cap can be found in Chapter 1 and Annex A.

Capping welfare spending at £119 billion leaves the government very little room to manoeuvre and react to unexpected benefit bill increases. With the current pressure on social housing it is vital that all housing benefit payments to those in the private rented sector are protected by the government, especially in areas of high demand.